Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development **01-Oct-2002**
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English - Or. English

PUBLIC GOVERNANCE AND TERRITORIAL DEVELOPMENT DIRECTORATE
PUBLIC MANAGEMENT COMMITTEE

PUBLIC SECTOR MODERNISATION: A NEW AGENDA

26th Session of the Public Management Committee
Paris, 30-31 October 2002

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JT00132395

PUBLIC SECTOR MODERNISATION: A NEW AGENDA

EXECUTIVE SUMMARY

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

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

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

4.   Moreover, it appears that governments now face new pressures that require quite fundamental *systemic* adaptations. A concern for efficiency is being supplanted by problems of governance, strategy, risk management, adaptivity, collaborative action and the need to understand the impact of policies on society.

5.   This paper describes this new modernisation agenda, and suggests that new capacities need to be developed in Member countries, and on their behalf in OECD/GOV, for addressing this agenda. A key issue is the need for improved capacity to reflect on government as a total system, which would require:

−   better **diagnostic and risk analysis tools** (recognising the important differences between one governmental situation and another)

−   deeper understanding of **civil service culture and leadership** and its critical place in good governance

−   more empirical **research and data on behavioural or attitudinal change** (recognising the prevalence of empty rhetoric and superficial action in this area)

−   **improved intervention and change strategies --** which recognise both the difficulty of achieving sustained behavioural change, and the fact it must proceed in a managed sequence.

6.   The paper suggests that experience in the last two decades shows that there are seven key "levers" for changing the deeper incentives in any public management system. These levers are major changes in:

−   the budgeting and financial management process;

−   the civil service system;

−   public transparency and accountability;

− decision-rights between central agencies and departments;

− creation and closure of organisations;

− use of private sector providers;

− devolution of decision-making to agencies, authorities and other governmental bodies.

7. It is argued that because these levers can indeed change behaviour, they need to be operated with a clear sense of the problem being addressed, and an understanding of their dynamic, longer-term and cultural consequences.

8. The paper sets out the work programme for 2003-04, which aims to strengthen capacity in the areas indicated. It is proposed that the five main components of the modernisation programme be: Governing for Performance, What is Happening in OECD Civil Services, Institutional Design, Governing By Contract, and the Changing Role of Central Agencies.

Question for discussion

− How can we balance strategic management with flexibility and innovation at the operational level?

Introduction

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

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

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

Public management in flux

12.   The conditions under which OECD governments operate are changing fundamentally. There are shifting relationships among state, market, and civil society institutions, requiring "governance"[1] as well as management changes. With these new challenges, a government's stance towards the nature of the public service is becoming a major policy issue across the OECD. Ten years ago only a few countries were seriously involved in public sector reform; now, the public sectors of all countries are having to be re-configured. Public management is receiving an unprecedented level of attention, and these pressures for change will not ease off in the next ten years.

First-generation reforms -- efficient but insufficient

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

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

15.   The flowering of public sector reform efforts in some English speaking and Scandinavian countries in the late 1908s and 1990s brought new thinking and processes into public services to make them more efficient and more responsive to clients. The main policy differences amongst the countries

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

[2] Schick, *The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change*, 1996: 87.

involved were not in their goals, but in the degree to which the government did or did not seek consensus amongst those involved in the reforms.

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

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

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

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

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

- Decentralisation in some continental European countries contributed to renewed local democracy, but also increased problems of financial management and corruption at the local level.

- New Zealand's tight output specification and accountability reduced unit costs for many services, but had perverse systemic effects on investment in future organisational capacity and attention to the outcomes of policies.

- In Australia, the deregulation of the public service and the adoption of an arm's-length posture by the central agencies allowed management freedom but is currently considered to have deprived the Finance Ministry of the information necessary for it to adequately advise the Minister.

  − Privatisation of UK railway services reduced costs, but also public confidence in service quality.

  − In the USA the capacity to contract in expertise provided flexibility in personnel policies but is considered by many to have had the perverse effect of running down the overall human capital of the federal public service (Paul Light, *The troubled state of federal public service*, 2002)

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

  − In the United Kingdom, the creation of Next Steps agencies gave rise to public concern about the relative responsibilities of ministers and chief executives

  − In the Netherlands, at the beginning of the 1990s, the use of independent administrative bodies (ZBOs) was criticised by the National Chamber of Audit for limiting ministerial responsibility and allowing a differentiation of management rules and administrative controls for unjustified reasons.

  − In New Zealand, the creation of arm's-length non-commercial public bodies under decision-making boards raised public concerns about their accountability.

  − In Canada, the use of one arm's-length organisational form had the unforeseen effect of removing some aspects of public expenditure from scrutiny by the Auditor–General's Office.

  − In a few countries, the movement of public accounts to accruals has so complicated the accounts that many parliamentarians feel their capacity to monitor public expenditure has been impaired.

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

23.   The first was the uptake of management ideas without sufficient attention to their inherent limitations. There has been a tendency towards reborn "scientific management", with a strong emphasis on formal systems of tight specification and measurement. It is important to have better goals, targets and measures in government. However, the mensuration movement needs to be tempered by the fact that for complex activities -- many of which are at the heart of what it is to be the public sector -- a highly formalised approach to management has severe limitations. This approach failed decades ago in the private sector and in the public sector in command economies because it could not address problems of complexity and change, and because there are limits to how much information human beings can or do take into account when making decisions.

24.   The second problem was failure to appreciate that, despite its size and complexity, government remains a single enterprise. Governments operate in a unified constitutional setting and coherent body of administrative law, and their performance is determined by the interaction of a few crucial whole-of-government levers such as the policy process, the budget process, the civil service management process and the accountability process, all within the ambient political/administrative culture. Because of that, a reform of one of these levers inevitably involves the others.

25.   The third problem was a failure to understand that public management arrangements not only deliver public services, but also "institutionalise" deeper governance values and are therefore in some

respects inseparable from the constitutional arrangements in which they are imbedded. For example, the idea of professional independence of the civil service, to ensure non-partisan continuity of policies, is most effectively expressed in the culture of the public service. Changing the incentive systems for senior civil servants may inadvertently undermine that professional independence, or some other important governance value such as the disposition of the civil service to work collectively.

Table 1 -- A Changing Perspective in Modernising Government

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

The need for improved reflective capacity

26.   The capacity of countries (and international organisations) to understand the dynamics of public sector modernisation, and its impact on public governance and management in the longer term, is still at an

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

Taking a whole-of-government perspective

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

Strengthened professional scrutiny

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

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

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

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

29.   Focusing on reality, not rhetoric or aspirations, presents a considerable professional challenge for OECD/PUMA and its partner Member countries. The solution must lie:

  − In developing a stronger capacity to reflect on governance and management issues from a whole-of-government and systemic point of view.

  − Better empirical information on whether interventions are producing the desired behavioural change. Measurement is difficult in the complexity of public management, yet without it, or some valid form of evaluation, we are slaves to theory, management fads and rhetoric. Upgrading professionalism requires collaborative work on how to identify, track and compare key behavioural changes.

- Acquiring a better understanding of the time required for serious public management interventions.

- Strengthening mutual assistance by putting relatively more effort into peer review and independent observation than country self-attestation, and by encouraging post evaluations of major initiatives.

Diagnosis and risk analysis tools

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

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

32. **Contextual variables** of economic pressures, the influence of unionised labour, public attitudes to government, constitutional arrangements, vested interests, and national culture mean that societies have different public sector reform priorities and different areas where, for historical and cultural reasons, it is or is not possible for assertive action to be taken. We need to develop a stronger sense of the different contextual constraints within which different countries operate. For instance, those countries where agreement with organised labour is a **sine qua non** of civil service reform will have more to learn from each other than from countries where unions have much less influence.

33. Countries differ widely too in their **systemic characteristics**. Interventions that will work in one country may not work in another because, for example, of major differences in the public transparency of government action.

34. Finally, when a problem has emerged in government, it requires careful diagnosis to identify the possible *contributory factors* in the managerial environment. There is scope for tools to assist governments in :

- being precise about the problem they are trying to solve (reform is not an end in itself);

- identifying the factors in the managerial environment that give rise to the problem;

- formulating an intervention plan appropriate to the systemic characteristics and context.

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

Table 2 -- Factors Potentially Relevant To Addressing Corruption Risk

Risk	Contributory Factors	Systemic Characteristics	Contextual Variables
Corruption	Inadequate compliance with accounting and reporting rules Patronage in appointments Undue influence by major vested interest groups Weak oversight of arm's length public bodies Secretive and unaccountable officials Weak internal and external controls Weak safeguards for awarding government contracts	Lobbying and party funding system Incentives & accountability of officials Accounting and reporting standards & compliance Ethical and professional standards amongst officials Senior civil servant system (elite/non elite, permanent or politically appointed) Official information disclosure regime Effectiveness of external invigilators.	Power of organised labour to resist change Capacity of the legislature to constrain Executive action Balance of power between head of government & ministers Constitutional autonomy of lower levels of government Citizens' interest in and expectations of official behaviour Independence / assertiveness of judiciary Political capacity of Executive for hard decisions

Civil service culture and its place in good governance

36.   The least systemically oriented area of recent public management reforms has been human resource (HR) management. The deep incentives for public servants flow from civil service legislation and procedures, and from the culture which has, for most OECD countries, developed over many decades if not centuries. Yet contemporary public management attention tends to be on particular processes such as competencies, contracts, training or pay for performance. There is a danger that the constitutional, legal, cultural and leadership factors, which together create what is important and distinctive about public services are not reflected on, or are dismissed as the bureaucratic problem which must be "reformed" Civil service governance, important to national governance, needs more attention.

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

38.   Every organisation must rely on informal factors such as staff commitment, and sense of joint purpose if it is to be successful-even an assembly line manufacturer. In complex areas of activity where performance is impossible to measure in any comprehensive way, these informal cultural factors become the prime means of direction, motivation, co-ordination and control. There is no area of activity more complex than the policy domain of government, and despite progress in the areas of target-setting, performance contracts and measurement, this domain will always be governed by cultural means (Ouchi calls such control "tribal").

Leadership and culture

39.   That the core public service is controlled more by culture than by rules has long been recognised. Some administrations therefore attach high importance to building a closely knit cadre of leaders and potential leaders with a strong shared sense of the national interest. This strategy of developing and socialising a hand-picked elite with generalist skills over the course of their careers has historically been a very successful way of assuring the co-ordination and continuity of the public service, and of certain important governance values. In other administrations, leadership selection has been less a matter of overt strategy than the result of informal assessment networks and patronage -- including political patronage -- amongst successful public servants who have attained the required level of seniority within their department. This system of producing leaders also ensures cultural consistency and continuity, but with less attention to national vision and horizontality.

40.   The first approach has come under fire in some OECD countries because of perceived governance problems: the elite came to be seen as insufficiently representative of the people at large, and/or unresponsive to new political direction. The second approach (sometimes caricatured as "Buggins' turn"), tends to be criticised for producing leaders who lack innovation and are too bogged down in the *status quo*.

41.   Both kinds of system are being modified in some OECD countries by the introduction of market mechanisms such as term contracts, external appointments and performance management. There is also a trend in some countries away from in-house training and development of senior people and toward greater use of high-level short course management training, often at international business schools. There is also a countervailing trend to this movement towards the market, of politicians wanting greater use of party political appointments. That these innovations will eventually change public sector culture and therefore the civil service system is quite clear. What is less clear -- but very important -- is the long term nature of that change. It is a matter for thoretical concern at least that the leadership model being pursued in some countries focuses on individual competencies rather than group socialisation around the national interest (except for political appointments, which imply some external socialisation process). Will this weaken the cultural glue of the future civil service?

Culture and change

42.   Changing rules and processes can, but does not necessarily, change behaviour, and changed behaviour can, but does not necessarily, lead to culture change. Systemic reform in the public sector requires clarity about the behaviour and associated attitudes and beliefs that are to be changed, an appreciation of how formidable the challenge of culture change really is, and a multi-facetted intervention sustained long enough to achieve this charge. Many public sector reform efforts have tended to be deficient in all three respects. Some HR interventions treat culture change as if it can be readily and predictably achieved through the application of certain interventions -- particularly speeches and training. This is a dangerous myth. Not only is culture change very difficult, but its outcome is always uncertain.

43.   Major change is uncomfortable and anxiety-producing, and because of this, organisations and their members have a natural instinct to resist it. They have a self-protective mechanism that gives priority to preserving their current interests. According to Schein (The Corporate Culture, 1999: 117), changing culture and behaviour has three stages:

  −   unfreezing: creating the motivation to change;

  −   learning new concepts and new meanings for old concepts;

- and internalising the new concepts and meanings so they are incorporated in self concepts and on-going relationships.

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

Implications for reformers

45. Considerations of culture, values and leadership have become more important in management generally, and are of particular importance in public management, especially at the interface between politics and administration. Examination of these issues within governments has, however, suffered from being seen as **too soft** -- a poorly defined set of ideas superficially associated with certain HR interventions, but also as being **too hard,** involving deep and intractable issues of social behaviour beyond the reach of management. The challenge for governments is recognise that the public service culture, and the relationship of leadership to it, matters a great deal; that certain public management policies do change it in important ways; but that these changes take place over a number of years and their impact is difficult to control or predict. What seems important is that governments develop a better understanding of culture and values in their public sector environment, and ensure that their instrumental interventions in the civil service system are informed by that understanding.

Towards improved intervention policies

Entry and sequence

46. Even within reforms relevant to the country's endowment and problem-set, public management literature provides very little guidance about how to decide in what order reforms should proceed. Major changes in public management arrangements do not occur in a rationally planned and organised manner. Political opportunities for change open up in an unpredictable fashion -- usually in response to high-profile public management failures, or the emergence of new national challenges. What is important is that when such opportunities for change do emerge, the public sector advisers involved have a good understanding of the systemic consequences of different options, and a principled understanding of the sequence in which actions should be taken if the desired changes are to be effected.

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

48.   Fundamental to avoiding such problems is intervention sequence, which is itself highly dependent on an understanding of the political/administrative culture of the country in question. Some broad lessons on sequence are beginning to emerge from work in developing countries. There is a growing consensus:

    −   that matters of constitutional governance should be dealt with before matters of administration;

    −   that legal frameworks should be in place before dealing with administrative arrangements;

    −   that a functioning core civil service is a pre-condition of more distributed public governance arrangements, and

    −   that rule rationalisation and compliance enforcement should precede rule reform.

49.   But these are still very general (and even now often overlooked by reformers hoping for quick results), and the area warrants a bigger investment in analysis and research than it has had to date.

Identifying and using "levers" of systemic change

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

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

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

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

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

    −   **Major changes to the budgeting and financial management process.** In modern government the role formerly played by central planning has been taken over by the budget. The most powerful incentives for politicians and public servants are around the allocation and disposition of funds. The budget and accounting process has become the operational planning tool of government and provides the architecture for accountability. The role of the budget (and finance ministries) as a lever for change has been further strengthened by the current vogue for including performance targets and measures in the budget and accounts.

− **Major changes to the civil service system.** Over the first-generation reforms some of the biggest impacts -- not always good -- have occurred in those countries that have put large numbers of public servants outside the rules of the core civil service system through the creation of arm's-length public bodies. The other area of high impact has been major changes in the selection and incentives for senior public servants.

− **Major changes to public transparency and accountability.** Over the last decade the growing prevalence of laws requiring the disclosure of official information has been a powerful force in piercing the secrecy of government, and thereby closing the power gap between officials and the public. Also, more local transparency measures such as customer charters and remedies, public score sheets and "league tables" appear to have high impact on behaviour -- though most applicable to the more measurable functions of government. The public disclosure of evaluation and review reports, especially in areas such as health and education but also more generally, can have a high impact.

− **Changes in powers of departments vis-à-vis central agencies.** "Letting managers manage" is one of those areas where there is often more rhetoric than action – mainly because such delegations are often incomplete, (for example, in the Netherlands, the first agencies created after 1994 were supposed to implement a results-oriented management model. At first, this only led to major frustrations, as the reporting policy department continued its inputs-oriented management.) However, in those countries where departments have truly been delegated managerial power over both money and staff, real change does occur -- sometimes to the point of the centre wanting to rein them back in after a few years.

− **The creation and closure of organisations.** This is a very powerful lever for change -- and also a risky one. Political benefits are front-loaded in structural reform. Confronted with an issue of public concern, a minister or senior official can create new agencies or parts of agencies or invigilating units, or boards, and this demonstrates political or managerial assertiveness. The display becomes even more convincing when the new body is named after the problem being addressed. However, creating a new body does not of itself solve the problem, and may create new ones.

− One risk is redundancy: if the new body is not integrated into how the system as a whole takes decisions, then apart from the political benefits at the point of creation, the entity becomes a useless overhead cost. Also, the use of structural change as a lever of reform needs to take account of the high risks of new start-ups in areas of government where cultural controls are paramount. Such new organisations can face very serious problems in the absence of culture-carried assets such as institutional memory and professional networks, and it can take several years before they become effective -- and, in this weakened state, then may be vulnerable to scandals and further structural change.

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

government actions, or when the political costs of project failure are such that private investors can ride free on a de facto government underwrite.

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

55.   For the reasons discussed, because these levers can indeed change behaviour, they need to be operated judiciously with a clear sense of the problem being addressed, and an understanding of their dynamic, longer-term, and cultural consequences. The converse of our hypothesis is that if a reform effort is not using one or more of these levers, it is most unlikely to be capable of systemic change. There are an array of instrumental interventions in such areas as strategic planning; evaluation; information technology; performance management; management information; performance pay; and visions, missions and values, that will have real impact on behaviour only if used in support of one or more of the systemic levers above.

MODERNISATION REVIEW : WORK PROGRAMME 2002-2004

56.   *Programme Objective*: To better understand public management changes in OECD Member countries over the last two decades and their impact on public governance; to analyse differences amongst institutional and national settings; and to provide comparative information and analytical tools that will enhance the capacity of Members to oversee and guide the adaptation of public sectors to the future changing needs of their societies.

57.   *Products*: An integrated report in each of 2003 and 2004, and a series of OECD Policy Briefs and presentation sets, with comparative data and analysis, on key individual topics.

58.   *Programme Oversight*: Relevant topics for reports will be examined in the Senior Budget Officials and Human Resource Management Working Parties and the Centres of government meeting. The draft integrated reports will be presented to the PUMA Committee in 2003 and 2004.

59.   A panel of public management experts covering a range of governmental systems will provide technical quality advice to the Programme.

Individual projects

1.   Governing for performance

60.   Many governments are bringing quantifiable goals and measures into their planning, budgeting, management and oversight processes in order to improve the "performance" of government. This project will ascertain what different OECD countries have done in this area, assess the impact of this approach on public governance and management systems, and provide guidance on its future development.

61.   Building on PUMA 's work on performance, and current work under SBO on output- and outcome-oriented budgeting and management, the project will also provide new information and analysis on performance from a whole-of-government perspective. Areas of particular interest are: how to mitigate perverse effects of quantified goal-setting and measurement in government, an assessment of mixed scorecard approaches to oversight, public involvement in setting and monitoring performance, a revisiting of the role of evaluation, the assurance of performance information, management control in a performance-oriented system, and the use of performance measures in budgeting and accountability -- from the perspective of both the Executive and the Legislature.

2.   What is happening to OECD civil services?

62.   The HRM issue that most distinguishes the public sector from the private sector is the civil service system. Across OECD countries the last two decades have seen major changes in the way civil servants are organised and managed. This project will track and analyse the main legal and process changes that have impacted on the civil service system in different OECD countries, and assess the significance of these trends on civil service culture and on public governance generally.

63.   The project will build on existing OECD work on Leadership Development, Knowledge Management and The Competitive Public Employer. New comparative information will be gathered on legal and other changes to civil service systems across the OECD area, and their likely impact on the deep

incentives on civil servants will be analysed. Areas of particular interest will be the creation of new employment regimes outside of the core public service, leadership development arrangements, the use of temporary contractors and employees, the use of performance incentives, the impact of the increasing use of individualised and term contracts, the management of public sector knowledge workers, and the extent and significance of deregulation of centralised HR management.

3. *Distributed public governance: The oversight of arm's-length public bodies, agencies and authorities*

64.   Recent years have seen two important trends. In some countries, in the effort to improve customer service, many public bodies have been created under new forms of delegated or devolved authority. During the same period, however, the changing nature of governmental problems has meant renewed attention to the strategic management of the public sector, and this has required a review of the relationship of the centre to public bodies accustomed to acting with considerable autonomy.

65.   This project will track structural trends across OECD public sectors, and identify important issues and practices relating to how these bodies are aligned with the whole-of-government interest. The work will build on the existing work on Distributed Public Governance. Areas of particular interest are: the role of umbrella legal frameworks; planning and reporting regimes; relationship with civil service rules; the appointment and use of boards; accountability to ministers, Parliament and the public; and future organisational trends. The project will also assess developments in OECD within the civil service -- especially the relative merits of mega-departments versus sectorally focused departments (e.g. is the recentralisation of security agencies in the USA a harbinger of a swing back to conglomerate central departments?).

4. *Governing by contract*

66.   Over the last two decades, one of the most important trends has been in the increased use of non-governmental contractors for public management and service delivery processes. There appears, however, to be great diversity amongst OECD countries on the extent of contracting in or out, in the areas of activity that this is deemed appropriate, in the approaches taken to encouraging such contracts and to keeping oversight of their use.

67.   The project will involve a survey of the use of private in-sourcing and out-sourcing by government across a representative sample of OECD countries, and an analysis of this information with a view particularly to identifying any relationship between types of society and the potential scope of a contracting regime.

68.   Important issues for the project will be the identification of types of contracting that have been regarded as successful and those that have caused problems, an analysis of the implications for contracting of different public management regimes and societal settings, and an identification of important lessons and trends.

5. *Governing strategically: the changing roles of central agencies*

69.   The emphasis of most modernisation efforts in OECD countries in recent years has been on service delivery: "rowing". It is, however, becoming increasingly evident that some of the most important changes in adapting governments to the changing needs of society is in "steering", especially from a

whole-of-government perspective. A central issue is what strategic capacity a government in modern society needs, and how are the central agencies of different countries adapting to build such capacity.

70.   In different Member countries, each of the central agencies is facing its own kind of challenge. Prime Minister's departments and their equivalents struggle with balancing the management of today's crises, with the need for a steady strategic framework. The performance movement is increasingly making the budget the key "operating system" of government and giving finance ministries a stronger central policy role. Furthermore, civil service departments/management agencies are being torn between their traditional role of maintaining the integrity of the civil service system and new pressures to play an active role in managing the public sector for performance. On top of this there is a pressing new requirement for these traditionally autonomous bodies to co-ordinate more closely in driving government strategy.

71.   The project will collect information on how the role and organisation of the central agencies of governments in OECD countries for policy co-ordination, budget and management have changed in recent years, how they co-ordinate with each other on strategic issues, and what pressures Members see for future changes. Matters of particular interest are risk management; knowledge management; the use of performance targets; the integration of strategy, policy, management and accountability; changes in organisational competencies; and relations with line departments and other public agencies.