

# CHANGE IN THE MANAGEMENT OF PUBLIC SERVICES

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This article identifies the main themes in recent changes in public sector management and shows the extent of the challenge to past organizational assumptions. While recognizing the objectives of the changes could bring benefits if realized, it argues that there are a series of issues that are unresolved. The language of consumerism, the development of government by contracts, the form of performance management and the use of quasi-markets are seen as creating problems. These are seen as deriving from an attempt to apply approaches drawn from the private sector to the public domain. It is argued that they need to be balanced by approaches that recognize the values of the public sector.

## INTRODUCTION

All parts of the public sector in Britain face, or have faced, major management change. Many of the changes have been initiated by the government, although some of them, are the result of independent initiatives, for example, by local authorities. The changes are a response by government to wider social and economic changes and an expression of developing ideas and ideologies. John Major, when Chief Secretary to the Treasury, in a lecture for the Audit commission entitled 'Public Service Management – the Revolution in Progress', stated:

My theme is the impact of general economic developments on public service management – the changes they make necessary in the public services, the opportunities they offer public service providers, and the benefits they will deliver for the wider community, both as taxpayers and as users.

He argued that the change within the public services

...is nothing less than a revolution in progress. Because it has been gradual, and has involved a high degree of co-operation by staff, it has not had the acknowledgement it deserves. Nor has the staff for their part in it. But it is a revolution, nonetheless, and its impact is dramatic (Major 1989, p. 1).

Whether the developments are so great as to call them a revolution may be subject to debate. Certain of the changes have been carried into practice but some have proved difficult to implement. We accept, however, that the nature of public

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service management is changing and we will argue that, while some of the changes strengthen it, others create major problems because they involve the adoption of models based on the private sector – and often over-simplified private sector models – without regard to the distinctive purposes, conditions and tasks of the public sector. This has meant that, in some cases, the practical impact has been small. As Johan Olsen, writing about Scandinavian experience, has argued

Possibly private sector models have had more impact on how we talk about the public sector than on how it works. In a period where the private sector is assumed to be modern and the public sector is old-fashioned, it is tempting for the public agencies to change their basis of legitimacy.

The image presented of the private sector is seldom based on empirical observations of how this sector actually works. Rather it is taken from how introductory text books in business administration say it should work (Olsen 1987, p. 3).

The public service, it seems, can only retain legitimacy by changing the way that it is managed, or appears to be managed, to reflect ideas about what constitutes good management, which will typically be based on private sector ideas. In many cases, as Meyer and Rowen (1977) argue, the change will be ritualistic. Moreover, because it is difficult to measure objectively the performance of the public service there is a tendency to imitate those organizations that are seen, whether rightly or wrongly, as effective (Dimaggio and Powell 1985). The result is that change is not introduced to solve specific problems, but to express ideological commitment. The use of market and private sector management methods has been identified as a general solution to public sector problems. But the introduction of private sector approaches itself introduces new problems and issues. The public realm must act to reconcile, if only formally, conflicting interests and values, to pursue multiple purposes, and to enable accountability. The mechanisms of private sector management will not easily adapt to these demands and purposes. It is the identification of the problems resulting from the use of new, private sector based models of public service management that provide the main focus of the article.

### THE MAIN STEPS TO CHANGE

Each of the parts of the public sector in Britain has been subject to investigation or legislation which has led to management or organizational change and some other parts have been privatized in the full sense of the term. The sale of nationalized industries or of council houses involve a transfer of assets from the public sector to the private sector with, at best, a regulatory role retained by the public sector. That privatization process has, however, only been taken a certain way and has inherent limitations. Madsen Pirie, Director of the Adam Smith Institute, acknowledges that: 'It is also recognised that privatisation in Britain is nearing the end of its initial agenda' and that:

There is scope for directing attention to those services which governments have preferred to keep within the public sector, and to asking if ways can be found to make these services in turn direct their output to the satisfaction of the wants

and needs of their customers, that is, to the recipients of the services (Pirie 1991, p. 4).

The emphasis in the restructuring of the management of public services has been increasingly placed, both by the government and opposition, on strengthening the position of the public as customer or as citizen in public services. The government's White Paper on The Citizen's Charter follows on and brings together a series of changes in the management and organization of different public services.

### The civil service

*The Rayner scrutiny programme* which involved a series of studies of activities aimed at identifying ways in which they could be carried out more efficiently. Studies were carried out by departments under the control of their ministers, but with advice and guidance from Sir Derek Rayner and his supporting unit based in the Cabinet Office. Though the immediate impact was often limited, Rayner scrutinies had a major impact on thinking and culture.

*The Financial Management Initiative.* Departments were required to review their management and financial systems to ensure

- (a) a clear view of their objectives and means to assess, and wherever possible, measures, outputs or performance in relation to these objectives
- (b) well-defined responsibility for making the best use of these resources, including a careful scrutiny of output and value for money; and
- (c) the information (particularly about costs), the training and the access to expert advice when they needed to exercise their responsibilities effectively (National Audit Office 1986, p. 1).

Progress was sluggish according to a House of Commons Select Committee Report (HC 61, 1986–87). The Treasury was reluctant to release control and the emphasis was on running costs rather than programme expenditure or the policy system (Gray *et al* 1991). Performance measures are frequently little developed, and devolution of financial responsibility did not include much relaxation of staffing and establishment controls.

*The Next Step agencies.* This initiative derives from the report by the Efficiency Unit on *Improving Management in Government: The Next Steps* (Ibbs report 1989). It proposed that the executive functions of central government should, wherever possible, be transferred to agencies charged with specific tasks. The agencies' main objectives and type of performance targets are defined in Framework Documents designed to achieve government policy as defined by the minister. The agencies were however to be given greater management freedom to meet their performance targets.

A large number of agencies have been established, and a high proportion of the civil service are now employed in them. Agencies range from the very small, such as the Queen Elizabeth II Conference Centre, to the very large, such as the

Social Security Benefits Agency. The framework documents still create limited freedom for agencies. Accounting approaches often allow circumscribed power, and, as with the Financial Management Initiative, there are limitations on purchasing and personnel powers (Pendlebury, Jones, Karbhan 1992). Experience in other countries, notably New Zealand (Wistrich 1992), has shown that there are problems of accountability in agency structures. There is, as yet, little evidence that agencies have had a major impact on the civil service at the policy level, but the potential for change is great.

### **The health service**

*The NHS management inquiry.* This inquiry was conducted by Sir Roy Griffiths and was designed to strengthen management within the health service. It led to the appointment of general managers with management accountability in place of the previous emphasis on 'consensus management', working on fixed term contracts, and paid on a performance-related basis. The Griffiths report also emphasized the need for a greater focus on patients as consumers.

*The national health service reforms.* The government's proposals were set out in the White Paper, *Caring for Patients* (Department of Health and Social Security 1989) and implemented through subsequent legislation. The key change was the split between the role of the district health authority as a purchaser of services and the role of hospitals as providers governed by contractual arrangement. In effect an internal market was created. General practitioners can opt to hold budgets and be purchasers of services – as are, of course, local authorities. Hospitals can opt out of control by the district health authorities to be controlled by self-governing trusts. A significant number of hospitals and other health units have now opted for trust status. In effect a variety of purchasers faced a variety of providers, including private hospitals.

Competitive tendering has been used for cleaning, catering and laundry services in the national health service, and, although most contracts have been won internally, the pattern of work and level of employment has changed substantially. Delegation of financial control is implicit in the development of the internal market, but there has also been an explicit experiment with devolved finance, the Resource Management Initiative. The national health service is changing from being an integrated, hierarchical bureaucracy to becoming a dispersed network of organizations interacting on increasingly market-based principles.

### **Local government**

*Compulsory competitive tendering.* The Local Government Planning and Land Act 1980 and Local Government Act 1988 required local authorities to put out to tender a specified range of services, which can be, and has been, extended by the government. In determining the award of contracts the local authority has to be governed only by commercial considerations with tight restrictions on what is

seen as non-commercial. The introduction of compulsory competitive tendering (CCT) has required authorities to draw up detailed specifications of the service to be contracted for and to separate client and contractor roles within their organization. Compulsory competitive tendering is now proposed to be widely extended through the public sector (The Treasury 1991). In the case of local government there is to be competition for direct services, such as the management of arts facilities, and support functions, such as legal and personnel services. The impact of CCT has been great, with about 20 per cent of contracts lost to the private sector, significant increases in productivity and reductions in staffing, extensive changes in pay and conditions, and internal reorganization of local authorities, and changes in management processes.

*The Education Reform Act.* The Education Reform Act 1988 introduced a wide range of changes including the national curriculum and assessment tests for pupils at specified ages. The greatest impact on the organization and management of education has been the requirement for the local management of schools, giving governing bodies responsibility for the budgets of schools and for the management of staff. Schools are also given the right, subject to a referendum of parents, to opt out of local authority control and become grant maintained. Though relatively few schools have opted out so far, the number can be expected to increase.

*Community care.* The legislation on community care (the Children Act 1990 and the National Health Service and Community Care Act 1990) will lead the local authority to become a purchaser of services, based on an assessment of the need for care, from a range of providers, creating a mixed economy of care. The local authority is also required to constitute an inspectorate service on an independent basis within the organization.

Many other areas of local government have been subject to changes based upon the introduction of market mechanisms in the management processes. Housing revenue accounts have been ring-fenced, so that they operate on a quasi-trading basis. Waste disposal has been subject to competition and changed patterns of regulation. Competition has been introduced for housing grants and for urban renewal. The various changes to local government are leading to changes both in the structure of management and in organizational processes.

The changes brought about by the government are not the only changes being brought about in the management of local authority services. In local authorities with their own politics, changes have also been taking place. Some of these, as in Conservative authorities such as Wandsworth, have involved the development of compulsory competitive tendering which has been a model used in legislation, as was the development of devolved budgets in schools in hung Cambridgeshire and Conservative Solihull.

But there have been other changes. A number of Labour-controlled authorities such as York or Lewisham have developed service contracts specifying the standards of services the customer is entitled to expect and providing the means of redress, including financial compensation, following the proposals in the Labour Party's

paper *Quality Street* (Labour Party 1989). Some local authorities have devolved the political control of their services to area or neighbourhood committees – Liberal-controlled Tower Hamlets having gone furthest in this respect.

### THE KEY THEMES

Through all of these changes certain key themes can be found, reflecting the transformation of public service management that is sought.

#### **The separation of the purchaser role from the provider role**

In all parts of the public service there has been a separation of the role of determining what should be provided from the role of provision of a service. The language varies. The framework document for Next Step agencies constitutes a contract for performance by the agencies, establishing a principal-agent relationship with ministers; the purchaser-provider split in the national health service and in community care, and the client-contractor divide in local authorities, create trading relationships. Both approaches separate service policy-making and specification from delivery and production. The development of devolved management involves a similar separation. It is argued that such changes avoid a confusion of role in which those responsible for determining the service required have, because they are also responsible for provision, become defenders of the interests of providers rather than the public service. Separation of purchaser and provider roles is seen as crucial to the development of markets.

#### **The growth of contractual or semi-contractual arrangements**

Traditionally public sector organizations have been structured for direct hierarchical control. The developments described above have required or have encouraged a movement to control through contracts. In the main these are internal contracts, in which managers act as agents for the ultimate client, the public. If responsibility for provision of a service is not to be exercised directly, but through another organization, then the requirements for the service have to be specified and means laid down for ensuring those requirements are met. In effect contracts, or if not formal contracts, semi-contractual arrangements are made. Examples of the latter are framework agreements made for the agencies described above, or the service level agreements made between central departments of a local authority and service departments, which specify the work to be done by the central department and its cost. Similar arrangements are being used to manage relations between social services departments and voluntary and private sector providers.

#### **Accountability for performance**

These developments, whether the setting of contracts, the devolution of management responsibility, or the creation of agencies subject to framework agreements require accountability for performance. Thus:

We are determined to give much clearer roles for the units which become Agencies, clearer roles towards both their departments and their customers,

clearer and more demanding performance targets and accountability for the Agencies, their executives and managers and all their staff – and crucially – a greater sense of corporate identity (Major 1988, p. 5).

Accountability is linked to performance assessment. If managers are to be in greater control over the resources required to achieve targets, then they will be held accountable for their performance. Schools will be held accountable for the achievement of the national curriculum. Contractors will be held accountable for fulfilling their contracts. There is a necessary emphasis on performance assessment and performance indicators.

The White Paper on the Citizen's Charter also lays a more general stress on the publication of standards

Explicit standards published and prominently displayed at the point of delivery. These standards should invariably include courtesy and helpfulness from staff, accuracy in accordance with statutory entitlements, and a commitment to prompt action which might be expressed in terms of a target response or waiting time (CM 1599, 1991, p. 5).

The Local Government Act (1992) requires the development of performance indicators for local government, overseen by the Audit Commission, which can serve as the basis for league tables of performance. Managers' performance is increasingly likely to be assessed in terms of these standards.

#### **Flexibility of pay and conditions**

Traditionally personnel policy in the public services has been based on national agreements governing pay and conditions, often specified in considerable detail. The more the work of the public services is carried out in units which are held accountable for their performance, the more those national agreements are seen as restricting management freedom. The requirement to compete in local markets makes it difficult to operate with nationally based labour costs.

National agreements are attacked as restricting management's ability to use its resources effectively. At the same time performance-related pay and contracts are advocated for managers and staff in agencies and are already being applied to general managers in the national health service and increasingly widely in local government. Sir Robin Butler, the Head of the Home Civil Service, speaking about the new agencies has argued that

The flexibilities provided in the new pay agreements will be available and more will be developed. Chief Executives will be appointed for a finite term; and their future careers, and to some extent their immediate pay, will be determined by their performance. So the incentives for success and the penalties for failure will be more clearly defined (Butler 1988, pp. 13–14).

National health service trusts, grant maintained schools and local authority contractor side organizations are all adopting locally agreed pay and conditions to some degree.

### **The separation of the political process from the management process**

In local authorities, the national health service, and in central government, political control has been traditionally exercised directly through the hierarchies responsible to committees and to ministers. One theme of the change in the management of public services has been the attempt to separate policy-making and the political process from the management process. Thus in the reorganization of the national health service national control is exercised through two separate bodies in the Policy Board and the Management Board.

The NHS will continue to be funded by the Government mainly from tax revenues. Ministers must be accountable to Parliament and to the public for the spending of these huge sums of money. Such accountability does not mean that Ministers should be involved in operational decisions. On the contrary, these decisions must be taken locally by operational units with Ministers being responsible for policy and strategy.

The central management of the NHS must reflect this division of responsibilities. The Government proposes that responsibility for strategy will be for an NHS Policy Board chaired by the Secretary of State for Health. Responsibility for all operational matters will be for an NHS Management Executive chaired by a Chief Executive (Department of Health and Social Security 1989, p. 12).

Similar separation is apparent in the creation of agencies and the requirements for local authorities to separate political and management responsibility embodied in the Local Government and Housing Act 1989. Whether in practice the separation is maintained is a matter for investigation. In the dispute on ambulance staff pay, the issue was formally treated as the responsibility of the Management Board, but the involvement of the Secretary of State was inevitable and was reflected in numerous statements. The practice may differ from the intention.

### **The creation of market or quasi-market**

Where provision has been undertaken directly by a public organization, there has normally been one provider, either nationally or in each local area: 'Traditionally the public services have been monolithic organisations with overall management, finance control and budgetary control all held in the centre' (Major 1989, p. 4). One of the effects of the changes has been to replace a single provider with a plurality of possible providers. Competitive tendering has just that effect. In the government's proposals on community care, local authorities are to be encouraged to use many alternative sources of provision. In health and in education the emphasis is placed on the independence of the separate institutions through opting out, or on greater control over their own management by the institutions through devolved control. The 'monolithic' institution of the health service and of the education service is being broken down into its component parts. All these changes open up the possibility of competition or quasi-competition between alternative providers.

Competition arises directly in relation to competitive tendering. There is an emphasis in the changes in education on parental choice, associated with a system of finance that ensures that income varies with the number of pupils. Similar



mechanisms will be at work in the national health service, although the critical choices will be made not by patients, but by doctors or by health authorities. Agencies in central government are, as yet, subject to little competition, but it is likely to grow.

The markets that are being created are not necessarily consumer-led markets. In the health service markets are still predominantly provider-led in that authorities or professionals make choices on behalf of the public. The hospitals as providers have had a substantial impact on the nature of contracts. Even where the consumer has a choice, as in the case of schools, one is not in a pure market situation because there is no question of direct payment, and because of the limitation on the number of places available what are being created are quasi-markets rather than markets. There is limited freedom on the demand side, with very little change as yet on the supply side.

The government has at the same time sought to extend the extent of charging for public services and where charges exist to reduce the extent of subsidization. The principle of 'user pays' is being introduced along with the attempt to create choice. Charging is also being developed within public service organizations by the development of internal markets. The use of charging by the public services changed remarkably little in the 1980s. It is yet to be seen whether markets will be based on pricing and charging in the new public service (Heald 1990).

#### **An emphasis on the public as customer**

Many of the changes introduced by the government are brought together in the White Paper on the Citizens Charter which is stated by the Prime Minister to be 'about giving more power to the citizen' (Citizen's Charter 1991), although the emphasis is less on the public as citizens than as customers. The emphasis is upon individual rights to choice and to quality, with little reference to citizens' duties. Accountability is seen as market-based.

The White Paper lays a stress on setting standards, the provision of information, the right to choice, privatization and competition, redress, and inspection and regulation. These are to be the means to achieve 'The Principles of Public Services': 1. Standards, 2. Openness, 3. Information, 4. Choice, 5. Non-discrimination, 6. Accessibility, 7. Redress (Cm. 1599, 1991, p. 5). The public is seen as having acquired rights to services through the payment of taxes rather than community membership. The model of the state's relationship with citizens is one of contract rather than embodying any idea of commitment and responsibility. The state's role is to guarantee rights, rather than provide services. The justifying basis is one of liberal individualism, rather than civic republicanism (Oldfield 1990).

#### **The reconsideration of the regulatory role**

While the government has reduced the role of the public sector in direct provision, it has given an increased emphasis to regulation. Each of the major privatizations of public utilities has been accompanied by the creation of a regulatory agency. The Audit Commission has played an extensive regulatory role. The White Paper on the Citizen's Charter lays an emphasis on the role of regulation and inspection

separated from the interests of the providers. Where previously inspection and regulation have been carried out by the same organizations that provided the service, the emphasis is now being placed, for example, in social services on the independence of the inspectorate. The White Paper on the Citizen's Charter stresses the danger that

Professional inspectorates can easily become part of a closed professional world.

The Citizen's Charter will therefore begin to open up inspectorates to the outside world. It will make them much more responsive to public concerns. To this end, we will appoint lay members to more inspectorates to work closely with professional colleagues (CM 1599, 1991, p. 40).

There is a similar development in waste disposal. In the case of education there are proposals to put inspection itself on a market basis.

### **A change of culture**

Many of the changes sought by the government can be seen as attempts to change the cultures of the public services, dominated as they have been by the traditions of administration, hierarchy and professionalism. The government sees itself as challenging trade unions and professions as defenders of the status quo:

we must make the public services more attractive both to existing staff and to potential recruits. The new freedoms that come from a de-regulated economy have been much analysed by economic commentators. But their most important effect is to re-shape the attitudes and expectations of the work force. They want greater responsibility and greater incentives. They can cope with them. They must have them. The changes we are making in the public services may not always appeal much to the unions and professional bodies. But they should be very attractive to individuals and that attractiveness is important if the public services are to compete in an increasingly active and tight labour market (Major 1989, p. 7).

The model of the private, commercial, market culture is influential. The Audit Commission has described its model for management in local government under the title 'The Competitive Council'. The changes in the management of the health services introduced by the Griffiths report emphasize the patient as customer, and the appointment of the general manager challenges the dominant professional culture. The impact of compulsory competitive tendering on local authorities has been to stimulate a commercial culture. Change in culture is slower than change in mechanisms, but institutional theory would suggest that fundamental changes in the rules will have a strong effect, though not necessarily that predicted.

The agenda for change has been developed, and the underlying legitimation is increasingly clear. The extent to which the result will be clear, substantive change is a matter for empirical investigation in coming years. But there is little doubt that the agenda is more radical than that of any other advanced nation, with the exception of New Zealand. The change in public service management will also serve as a good basis for the testing of institutional theories of politics, with their interweaving of concepts of culture, structure and action. The outcome will not depend solely upon a process of mechanical implementation of the new agenda, but on the way that new and traditional approaches interact.

## A CHALLENGE TO ORGANIZATIONAL ASSUMPTION

Assumptions are built into any organization that are so much part of the working of the organization that they are rarely stated, and, because of that, rarely challenged. They are part of the unconscious everyday expectations within which people operate. Into the traditional management and organization of public services were built:

- (a) The assumption of self-sufficiency – that where a public organization is responsible for a function, it will normally carry out that function itself, directly employing the staff required to do so. The result has been very large public sector organization.
- (b) The assumption of direct control – that control over the activities of a public organization is best exercised through continuous supervision through an organizational hierarchy.
- (c) The assumption of uniformity – that where a service is provided it should be provided on a uniform basis within the jurisdiction of the organization.
- (d) The assumption of accountability upwards – that the accountability of the public servant to those who receive a service is through the political process.
- (e) The assumption of standardized establishment procedures – that staffing policies require the application of standardized practices throughout the service.

These assumptions imply a conception of public service that was essentially state led, and in which citizens participated little, other than through periodic elections. The canons of representative democracy ruled. There was a faith in hierarchy and bureaucratic rationality. The emphasis was upon the collective. Equity, justice and impartiality, rather than liberty, were the leading values. The management of the public service was little conditioned by the private sector. The values of the public domain were seen as totally separate from those of the private. There was an essentially statist, paternalist approach to the provision of public service.

It is not suggested that this approach was universally accepted or that these assumptions were never breached, but that they governed the norms of sound administration from which divergences had to be justified. They were embedded in the culture of the organization. A distinction has to be drawn between those parts of the public sector in which the dominant culture was administrative, such as the civil service, and those in which the dominant culture was professional, such as the health services and much of local government. But these are to be seen as variations on a theme, rather than fundamental differences.

The assumptions set out above and the administrative and professional cultures in which they are embedded are all challenged by the recent changes:

- The assumption of self-sufficiency is challenged by the use of a variety of agencies, by the development of the enabling and regulatory role, and by contracting out.
- The assumption of direct control is challenged by control through specification expressed in contract agreements, by performance targets and by the development of competitive and trading relations.

- The assumption of uniformity is challenged by the growing variety of providers, and by the emphasis on choice.
- The assumption of accountability upwards is challenged by acceptance of accountability to the customer. Regulators and inspectors act as the customer's agent.
- The assumptions of standardized staffing procedures are challenged by an emphasis on motivation and by new pay structures.
- Both the administrative and professional cultures are challenged by the entrepreneurial culture, by the emphasis on performance measures and by the management changes generally.

The challenge to the assumptions shows the extent of the changes being brought about or, in some cases, planned in the management of public services.

### THE MAIN EFFECTS OF THE CHANGES

These developments are designed to bring about major improvements in the quality, efficiency and effectiveness of public services. These can be argued to result from:

1. The focus of attention on what is required from a service. When a service is controlled directly it can too easily be assumed that there is understanding of what is required, whereas the reality may be that it has never been clarified or communicated. The experience of competitive tendering in local government has illustrated this (Walsh 1991).
2. An emphasis upon what is achieved and on the quality of performance. By specifying what is required, by the development of contracts, by the regulatory role, and by the development of performance measures, attention is focused upon achievement.
3. The release of management potential through the devolution of finance and management responsibility and through new staffing policies.
4. The breaking down of the barriers that have built enclosed organizations in the public sector, through an emphasis on the customer and the challenge to the professional and administrative cultures.
5. The use of a variety of methods of provision to encourage innovation and experiment.
6. Competitive and trading mechanisms used to stimulate the search for economy, efficiency and effectiveness.

The degree to which there will actually be improvement is a matter for investigation, and there has been, as yet, little systematic study of the results of the new management on the services provided.

#### Issues to be faced

There are few, if any, absolute values in organizational change. There are arguments for centralization and arguments for decentralization. There are arguments for competitive relationships and for co-operative relationships. The strengths that come from organizational change can easily become weaknesses when carried too far as has been argued for private organizations (Miller 1990). Thus, while it can be

argued that in certain parts of the public sector, the professional culture was over-dominant, that does not mean that the professional role is not important. Or while it can be argued that traditional modes of accountability prevented responsiveness to the customer, that does not mean that public services can be totally responsive to the customer or that political accountability should be disregarded. What has to emerge if the changes are to be successful is a new balance as institutional traditions interact.

The danger is that the balance is not likely to be achieved if management change is based on an uncritical adoption of approaches developed for the private sector. That is to assume that there is a generic approach to management which can be applied in all circumstances. Organizational analysis of management in the private sector has shown that management varies with the technology of the task and that service management has to be distinguished from the management of manufacturing processes.

There are distinctive tasks in the public domain, but there are also distinctive purposes and conditions. It is for this reason that the private sector model is inadequate as a basis for management. A distinctive model is required to guide management in the public domain, for as Stewart and Ranson illustrate, the conditions are different.

#### Private sector model

Individual choice in the market  
 Demand and price  
 Closure for private action  
 The equity of the market  
 The search for market satisfaction  
 Customer sovereignty  
 Competition as the instrument of  
 the market  
 Exit as the stimulus

#### Public sector model

Collective choice in the polity  
 Need for resources  
 Openness for public action  
 The equity of need  
 The search for justice  
 Citizenship  
 Collective action as the instrument  
 of the polity  
 Voice as the condition

(Stewart and Ranson 1988, p. 15)

This does not mean that particular approaches developed in the private sector cannot be adopted in the public sector. The test must be as to whether these approaches support the distinctive purposes, conditions and tasks of the public sector.

The argument is that activities are placed in the public sector to realize distinctive values, to be subject to distinctive conditions, or to carry out distinctive tasks. In the public domain, to which organizations in the public sector are subject, distinctive purposes are achieved. Collective values are established out of differing interests. These can involve the values of equity and justice and the meaning to be given to community. Citizenship is established through democratic processes, which set the distinctive conditions for management in the public domain and provide the basis of the distinctive tasks both of balancing interests and values, and enforcing collective choice (Ranson and Stewart 1989).

These considerations mean, for example, that the political process should not

be regarded as an obstacle to effective management in the public domain but that management should support and express the legitimate political processes. Nor is it adequate to treat the task of management as meeting the requirements of the customer, when activities are placed in the public sector to meet the requirements of public purpose. Need, rather than demand, may have to be established in the public domain. For many activities in the public domain there is more than one customer whose interests have to be balanced. Effective management of the public sector organizations has to be grounded in the distinctive purposes, conditions and tasks of that domain.

The assumptions that are challenged by the changes may have had a role in maintaining those purposes, achieving those conditions and carrying out those tasks. While they may not have been the only means to those ends, there can be dangers in adopting new approaches without regard to them.

Considered against the distinctive purposes, conditions and tasks of the public domain, a series of issues have to be faced about the management changes being introduced. Those issues arise in so far as the management changes being introduced are built upon a private sector model rather than upon a model designed for the public domain. The issues do not mean the changes can or should be abandoned. What may be required is to achieve a new organizational balance realizing the strengths brought about by the changes while overcoming the problems. But the process of change is not likely to be linear, but circular and often self-contradictory.

One of the dangers of the emerging patterns of public management is that approaches that have value in particular situations are assumed to have universal application. Public organizations carry out a wide range of activities subject to very different conditions. If in the past there were dangers in the universal assumption of direct provision of services in organizations structured by hierarchical control, there may, equally, be danger in the new assumptions that are replacing it, if universally applied.

### **The limitations of government by contract**

It has been argued that there are advantages in the increased use of contracts in the process of government. They require a clear specification of the work to be done and a means of control over that work. What cannot be assumed is that all the work of public bodies can or should be subject to contractual arrangements. Contracts, unless they are to be continually re-negotiated, thereby losing their point, introduce a rigidity into the public services which may be inappropriate where flexibility is required.

The mistake is that identified by Olsen (1987) of assuming models from the private sector that are not necessarily applied in that sector. Williamson (1975) has analysed the circumstances in which contracts are appropriately replaced by hierarchical control. He identifies situations in which uncertainty is high as ones in which contracts are inappropriate and direct control is required. Equally, where transactions vary, the costs involved in contracting may be so great as to render contracting unrealistic. There are also circumstances in which, because of greater access to information, the contractor can exploit the client and therefore direct

control is in the interests of the client. Many of those circumstances apply in the public services. The need is to distinguish the circumstances in which government by contract is appropriate, but not to assume its universal application.

#### **The dangers of separating client and contractor**

The separation of client and contractor has the advantage of clarifying their roles and focusing management attention on their roles. It is, however, in danger of being carried to a point which few private sector organizations would consider appropriate. There is the possibility of extensive bureaucracy and organizational complexity since the trading relationship between client and contractor will require new and often elaborate accountability and control systems. The main danger is, however, that public bodies will become, in effect, a series of separate units conducting their relationships with each other through a series of contractual or semi-contractual relations and consequent organizational fragmentation.

Such an organization would have a limited capacity for learning and therefore for adaptability, as information was held within separate units and as activities were governed by the terms of contracts. In the public domain the capacity for organizational learning has a special importance as the process of government involves adaptation to and direction of societal change. There are dangers if the separation of client and contractor within the public organizations limits that capacity for learning. That separation, if made into an organizational dogma to be universally applied, can be carried too far, limiting that learning which is necessary for effective government.

#### **The confines of performance management**

The development of performance management assumes that managers can be given clearly understood tasks, performance targets to achieve and be held accountable for the use of resources to achieve those tasks. Richards has argued that this 'is essentially a model sprung from production management, extensively used in mass production processes in Western economies, although now being questioned even there' (Richards 1988, p. 11). The basic problem is that it assumes that the tasks of managers in the public domain can be reduced to the requirements set out in the key targets and that targets can be set in relation to those tasks that enable performance to be assessed. Task definition, it is assumed, can be bounded and measured.

Performance management can confine the manager if it limits the capacity to learn and adapt. There is a value to ambiguity in enabling adaptation. The manager can, in any event, never be isolated from the political process, since actions taken in the public domain can and should be subject to public criticism, to which the political process should respond.

There is also a limit to the extent to which adequate or complete performance measures can ever be found in the public domain. Performance measurement and assessment is at the heart of the political, and is a proper subject of public discourse. 'Opponents involved in political dispute may advance different interpretations of productivity . . . there is no single best measure of performance; rather the measure

adopted serves some interests as opposed to others' (Dalton and Dalton 1988, pp. 33, 34).

The danger is not in setting key tasks and targets, but in the belief that performance in the public domain can be confined in those boundaries. Performance management is an aid to management, but only if it is seen as opening up possibilities, not limiting them.

### **The inadequate language of consumerism**

Consumerism defines the public as consumers of public services. The Citizen's Charter goes further by seeing the citizen as a customer, since its emphasis is upon the individual in receipt of a service, rather than on the citizen as an active participant in government.

The emphasis on the customer of public service has the merit of forcing public organizations to look outward to those who use and receive their services. The danger is that the language of consumerism, with its emphasis on the customer is inadequate to encompass the complexities of public action. Thus there are limits to the extent to which public services can regard those effected by the services as customers whose wishes are to be met. Public organizations have the distinctive task of exercising the coercive powers of the state. They order, inspect and control. It is not necessarily helpful to treat as customers those required to take action by a public organization.

Public bodies providing free services may well have to ration services, determining who will receive them and who will not receive them. In other instances public bodies have to decide between competing interests as when local residents object to a home for the mentally handicapped being sited in their area. Again it is not necessarily helpful to regard as customers those whose wishes are not met.

In the public domain, public purposes have to be realized, which may not conform to the wishes of individual members of the public. Public purpose can set limits to responsiveness to the customer. The language of consumerism has a contribution to make to the public domain, but a more complex language has to be developed which also recognizes coercion, arbitration, rationing and public purpose.

### **The limits of contractual accountability**

In traditional public administration, public accountability rested upon clear lines of accountability through the hierarchies of organization, to governing boards, ministers or councillors who were accountable directly or indirectly to the electorate. In addition there were certain norms of public accountability enforcing proper procedures or what in an American context would be regarded as due process.

Recent changes break, to an extent, the clear line of accountability. It is true that a firm to which a service is contracted out is contractually accountable, but that sets limits to the accountability. Saloman has argued that similar developments in America



continually place federal officials in the uncomfortable position of being responsible for the programmes they do not really control. . . Instead of a hierarchical relationship between the federal government and its agents, therefore, what exists in practice is a far more complex bargaining relationship in which the federal government has the weaker hand (Saloman 1981, p. 260).

It has been argued in America that recent court decisions show that contracting out services removes those responsible for directly providing the service from important constitutional and legal constraints 'To political leaders or public administrators who view constitutional due process requirements as onerous limits on the efficiency of government agencies, the possibility of escaping such restraints can only add luster to the possibilities of privatisation' (Sullivan 1987, p. 465).

While due process provisions are not so clear in this country, the contracting out of activities could remove activities from some of the norms of public accountability. Access to information and open government which are required from local authorities do not apply in the same way to contractors. The nature of the audit process may be changed. The extent to which ministers can and will answer questions on the activity of hived-off agencies remains to be resolved. The danger is that the development of contractual accountability will restrict political accountability, which remains the basis for action in the public domain.

#### **The limitations of quasi-markets**

Underlying many of the changes introduced by the government are market approaches. The development of the internal market in the health services, the extension of parental choice in education and the requirements of compulsory competitive tendering are all examples. However, what is being introduced are not the markets on which market theory is built, but quasi-markets. The internal market introduced in the health services is not a consumer market, but a market in which doctors, health authorities or in some cases, local authorities act on behalf of the consumer. It is a producer rather than a consumer market. Equally, parental choice, far from operating in a free market, operates in a market where supply is necessarily restricted and where choice is limited by, for example, the requirements of the national curriculum.

The nature of the markets introduced by these changes varies greatly depending on the number and nature of the purchasers and of the providers and of the relationship between them. Common, Flynn and Mellon have concluded from a study of competitive structures in the public sector

It is clear from our analysis of the organisations we have studied that they range across the competitive spectrum. At one end there is no competition at all, rather an arm's length relationship between a purchaser and a provider. At the most competitive end, while politics still has influence (in the form of Government ownership, enabling legislation and so on), an organisation may face both public and private sector competitors and supply its products and services to a range of organisations. So it is apparent already that introducing 'markets' to former public sector monopolies has a wide range of meanings (Common, Flynn and Mellon 1992, p. 33).

Dependent on the meanings will be how the market will actually operate in practice. It cannot be assumed that the market will operate as if there was perfect competition. One is dealing with structured markets or quasi-markets which will effect behaviour, but not necessarily as in such a situation. The structured markets have to be seen as policy instruments whose effect has to be understood and which may well require modification in the light of experience. They reflect not the conditions of perfect competition, but public purpose, and should be judged by appropriate criteria.

Thus Mayston has argued that 'Internal markets and management information systems in the NHS need to be seen not as magic solutions to the NHS's numerous problems but rather as potentially useful tools that need careful application and adaptation if they are to pass the underlying cost-benefit test' (Mayston 1992, p. 52). The use of market mechanisms should be seen as a policy instrument, whose design, monitoring and control remains a responsibility for the management of the public sector. It cannot be assumed that a quasi-market is guided by an invisible hand to an optimum solution. The outcome is influenced by the design of the market's structure. Thus the use of market mechanism does not remove the need for control, but rather requires the development of system management concerned with the behaviour of the new market structures.

### **The danger of undermining values of the public domain**

There has been, as we have seen, an emphasis on a commercial culture with a resulting search for an entrepreneurial approach. There are dangers if that emphasis leads to a neglect of the values of the public domain.

Sir Robin Butler, the Head of the Home Civil Service, in a speech to the Institute of Personnel Management welcomed the development of the Next Steps agencies, but stressed the need for them to retain the traditional strengths of the civil service 'equity, accountability, impartiality and a wide review of public interest'. He argued that 'The unity of the Civil Service offers stability and a continuing corpus of tradition, knowledge and experience, which is part of the infrastructure of a democratic society (Butler 1988).

William Waldegrave, when Secretary of State for Health, highlighted the danger of the emerging language of management in the health service, which can ignore the values that are the strength of that service

Our 'customers' do not come because the price of beans is less or because of the pretty girl in the advertisement; they come because they are ill, not seldom frightened, and they want help and expect care. . .

Without remitting for one moment the pressure to get a better management system, borrowing what is useful from business, let us watch our language a bit.

It just bears saying straight out: the NHS is not a business; it is a public service and a great one (Waldegrave 1991, p. 12).

In adopting a private sector language there is a danger that organizations in the public domain will neglect the values inherent in that domain: - the values of a public service.

## CONCLUSION

The management of public services has to be grounded in the purposes, conditions and tasks of the public domain, lest it undermines the basis on which those services are provided. This article has set out the main trends in the management of public services. It has shown the extent of the challenge to the organizational assumptions that have governed the previous management of public services. It has recognized the strength of those changes, but also the danger if the distinctive purposes, conditions and tasks of the public domain are ignored. It has shown that there are limitations to most of the approaches being adopted when examined from that perspective. Although these approaches have a contribution to make to public management, they do not by themselves constitute an adequate basis for that management.

The mistake is to assume that there is one approach to management applicable to public services based on an over-simplified model of the private sector. The language of consumerism, the development of government by contract and of contractual accountability, the form of performance management, the use of quasi-markets and a stress on private sector values create problems if the limits to their application in the public domain is not recognized. This does not mean that these approaches do not have value in the public sector, but they do not by themselves constitute an adequate approach to the management of public services. They have to be balanced by approaches which recognize the values of the public domain.

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