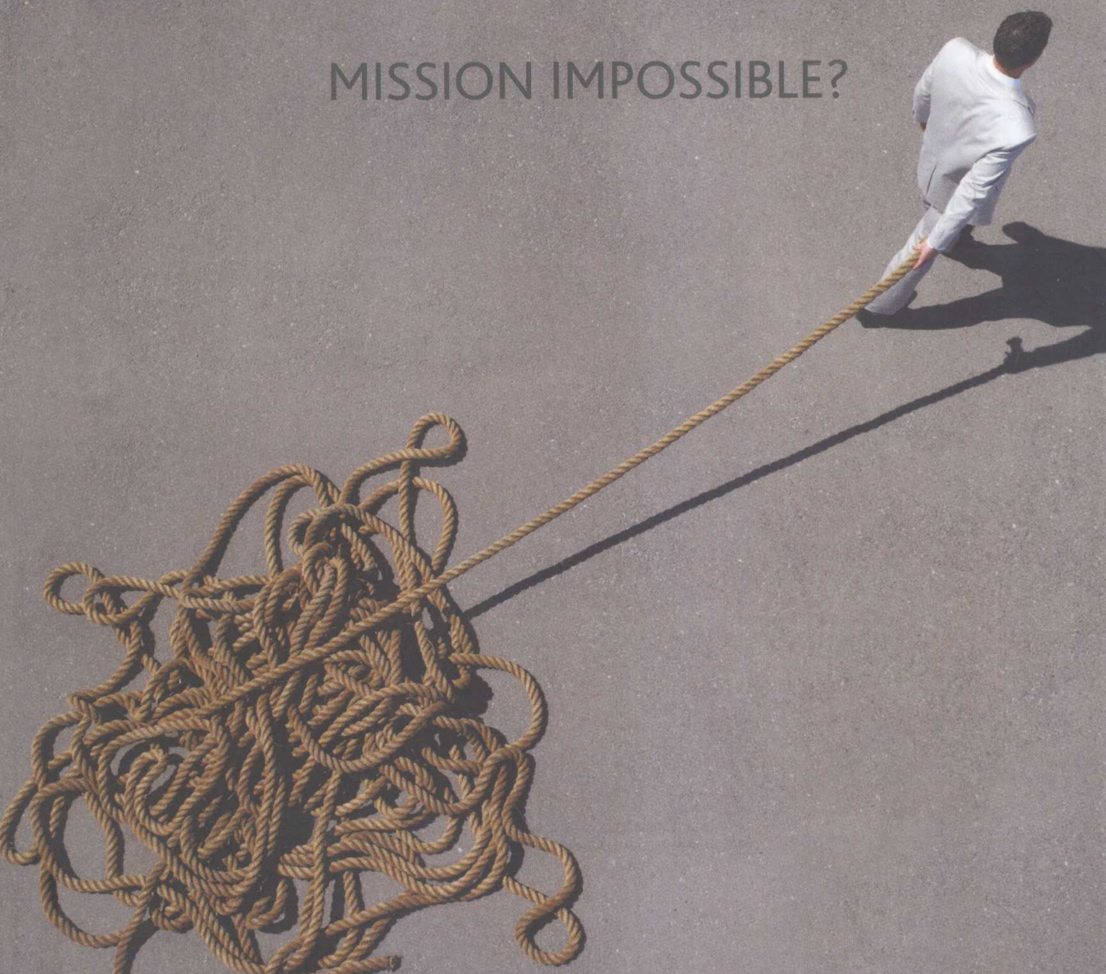
IAN CHASTON

PUBLIC SECTOR MANAGEMENT

MISSION IMPOSSIBLE?



Public Sector Management

Mission Impossible?

Ian Chaston
Visiting Professor of Marketing and Entrepreneurship, CENTRUM Catolica Business School, Peru

palgrave
macmillan

First published 2011 by
PALGRAVE MACMILLAN

Palgrave Macmillan in the UK is an imprint of Macmillan Publishers Limited, registered in England, company number 785998, of Houndmills, Basingstoke, Hampshire RG21 6XS.

Palgrave Macmillan in the US is a division of St Martin's Press LLC, 175 Fifth Avenue, New York, NY 10010.

Palgrave Macmillan is the global academic imprint of the above companies and has companies and representatives throughout the world.

Palgrave® and Macmillan® are registered trademarks in the United States, the United Kingdom, Europe and other countries.

ISBN 978–0–230–29279–6

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources. Logging, pulping and manufacturing processes are expected to conform to the environmental regulations of the country of origin.

A catalogue record for this book is available from the British Library.

A catalog record for this book is available from the Library of Congress.

10 9 8 7 6 5 4 3 2 1
20 19 18 17 16 15 14 13 12 11

Printed and bound in Great Britain by
CPI Antony Rowe, Chippenham and Eastbourne

Preface

Since the mid-1970s many of the Governments in developed nations have been facing increasing problems funding the provision of public sector services. The core of attempts to reduce the balance demand for services relative to available funds led to various actions collectively known as New Public Management (NPM). Although the aim of NPM was to improve economics, effectiveness, and efficiency within the public sector, many of these initiatives had no real significant impact, and public sector spending continued to rise. In 2007/8, the crisis in global banking forced some developed nation Governments to intervene in the financial services industry to rescue failing institutions. These actions led to a massive rise in public sector deficits in some countries. Concurrently, the situation was made worsen because some countries such as Greece had made inappropriate decisions in their approach to borrowing money to fund public sector expenditure. As a consequence of these events, some Governments are now being forced to implement major cutbacks in public sector spending as the only realistic strategy to reducing their country's financial deficit. The outcome of these actions is that public sector managers are now entering an extended period of financial constraint. This will require some fundamental changes in the way public sector organizations are managed in the future. The purpose of this text, therefore, is to review public sector management practices as the basis for proposing actions that realistically do have the potential to improve economics, effectiveness, and efficiency within these organizations.

To understand why the public sector is facing growing problems over the imbalance between service delivery responsibilities and available resources, there is a need to understand how the welfare state has evolved over time. Hence, Chapter 1 examines the factors influencing the role of Governments to become more involved in the provision of social services to their countries' inhabitants. Following the emergence of problems such as rising inflation, economic downturn, and labour union inflexibility in the 1980s attempts were made by some Governments to reform the public sector. Chapter 2 reviews what has become known as the NPM approach and identifies some of the weaknesses of this philosophy when used to alter public sector processes.

Joseph Schumpeter and the Austrian School of Economics, on the basis of the analysis of economic cycles and the Great Depression, posited that long-term survival is dependent upon organizations recognizing and responding to meta-events. The twenty-first-century public sector manager will be facing an unprecedented combination of meta-events. Chapter 3 examines the meta-event threats created by population ageing, globalization, and the impact on public sector deficits following the need for Governments to respond to the global banking crisis.

One of the problems facing public sector managers is the complexity of the needs of different stakeholders. Chapter 4 examines the issue of stakeholder management and the adoption of appropriate values to assist the survival of public sector bodies in the face of severely constrained financial resources. Given that survival in the face of meta-events is dependent upon developing a clear understanding of how to manage the future direction of the organization, Chapter 5 examines the relevance of strategic planning in public sector organizations and the need for these organizations to develop a more innovative and creative orientation. Chapter 6 presents the perspective that adopting an innovative, entrepreneurial orientation demands identification of an appropriate vision and an ability to embed this vision into all aspects of an organization's operation. This typically requires the organization is led by a visionary leader. Hence the chapter reviews the key role of these individuals and the managerial attributes which they exhibit.

In recent years there has been a diversity of opinions expressed for and against the continued utilization of positivist, linear sequential business planning models which have dominated the management literature for the last 50 years. The strongest critics of such paradigms argue their total inapplicability in volatile or rapidly changing market conditions. Despite these criticisms, many of these analysis tools that have been developed over the years still have relevance in today's organizations. The purpose of Chapter 7 is to present some of these tools and to illustrate their ongoing role, sometimes in an updated version, in the business analysis process.

Highly entrepreneurial leaders may adopt an intuitive style during early phases of opportunity identification. This can be contrasted to other leaders who exhibit a more rational, problem-solving orientation. In both cases, however, the greater the knowledge accumulated about conditions external to the organization, the more likely is opportunity for understanding will be enhanced and potential risks more clearly identified. Chapter 8 examines the importance of understanding external environmental change, customer behaviour, and associated strategic implications. Many of the successes associated with private sector organizations achieving national or global market dominance and the ability of some of their organizations to combat competitive pressures can be attributed to the identification and introduction of a new or alternative technology. Chapter 9 reviews the implications of technological change and the degree to which this is critical in enhancing performance of public sector organizations.

The success of private sector organizations is often attributed to an organization which identifies and develops core competences which are superior to those of competition. Known as the resource-based view (RBV) of the firm, this theory clearly underlines the role that organizational capability can play in achieving long-term, sustainable growth. Chapter 10 covers the issues associated with identifying and exploiting core competences and examines how superior capability such as organizations structure or appropriate operational processes can assist public sector organizations achieve their performance goals in relation to the provision of services. Having covered the issues of external and internal analysis, Chapters 11 and 12 utilize the knowledge generated from these activities as the basis for identifying potential opportunities and how to select the most appropriate strategies through which to convert innovation and entrepreneurial thinking into a viable proposition for use by public sector agencies.

Merely developing a new plan which provides a more appropriate strategy is no guarantee of actual operational success. Chapter 13 covers issues of effectively managing the processes associated with implementing a strategy based on innovation and change. Rarely, however, is implementation of a revised business strategy a totally problem-free process. Hence, Chapter 14 examines how barriers to successful implementation can arise and how these can be overcome.

There are clear signs that events such as the collapse of Enron and recent excesses which have occurred within the world's financial community will require greater effort by commercial organizations to demonstrate to stakeholders that a higher level of responsible governance now underpins their business activities. Chapter 15 reviews how the behaviour of managers in the public sector and how the adoption of principles associated with corporate governance and corporate social responsibility (CSR) can be utilized to achieve this goal.

Fundamental shifts in the political and economic fortunes of nations, new global problems, and the advent of major technological change all have implications for almost every organization over time. Although their actual impact is often difficult to accurately forecast, the certainty is that such meta-events will occur. Hence, the final chapter examines some of the key environmental and technological changes that may occur over the balance of the twenty-first century in relation to how these may demand further fundamental revisions in future organizational strategies of public sector organizations.

Contents

List of Figures and Tables

Figures

Tables

1

Sector Evolution

> The aims of this chapter are to cover the issues of:
>
> (1) The evolution of the concept of Government intervention in the provision of services to a nation's population
>
> (2) Evolution of the welfare state model during the twentieth century
>
> (3) Emerging problems over funding public sector services in the 1980s
>
> (4) Keynesian versus monetarist economic theories and the emergence of 'New Public Management' (NPM)
>
> (5) Allocation of funds across different areas of public sector service provision
>
> (6) The limited ability of NPM as a mechanism to control public sector spending
>
> (7) The relevance of strategic planning for managing the current public sector financial crisis.

Sector emergence

From the early days of the creation of the first nation states, rulers and Governments have raised monies through direct and indirect taxation to fund public sector expenditure. For thousands of years the primary use of these funds was to support the armies which countries' leaders considered necessary to protect their citizens or alternatively, implement acts of aggression against other nations. Social support such as caring for the sick, the elderly, or the unemployed tended not to be considered a state responsibility. Provision of services to the disadvantaged was usually undertaken by charitable and religious bodies.

Prior to the Industrial Revolution, people primarily worked on small family-owned rural farms. This provided regular employment to all who were able and a social structure that supplied most of their needs. This self-sufficiency and family-oriented social structure were supported through bartering to acquire needed goods with the consequent result of there being only a limited need for money. Businesses were generally small operations with their owners only occasionally employing people from outside their immediate families. Craftsmen were skilled in specific trades and provided employment through a system of apprentices and journeymen, again often recruiting these individuals from within their own families. The advent of large factories during the Industrial Revolution employing thousands of unskilled workers led to increased demand for labour which prompted a mass exodus from rural to urban areas.

The Industrial Revolution induced many social, economic, and political changes in Western democracies. One of these changes was the shift towards Governments accepting greater responsibility for caring for the aged, unemployed, ill, or injured workers. This occurred because the urbanization of society that accompanied the Industrial Revolution gave rise to significant problems in relation to the health and welfare of inhabitants living, packed together, in poor housing with inadequate water supplies or sewage disposal. Recognition of the relationship between infrastructure failings and the outbreak of diseases such as cholera and typhoid led Governments to allocate an increasing proportion of tax income to supporting the general health care of their respective populations (Pollitt and Bouckaert 2004).

One of the first Governments to become more involved in the welfare needs beyond that of merely public health issues was Germany. In the nineteenth century Bismark created a 'state corporatist' model based upon the introduction of insurance schemes for people in work. These schemes provided a certain degree of protection from poverty in old age and income reduction caused by becoming unemployed (Pollitt and Bouckaert 2004). This 'statist approach' to funding such services has remains in place in Germany to the present day as is demonstrated by the policy that those in employment being mandated to purchase an insurance policy to cover their health care needs. In the nineteenth century in most other countries, however, Governments were unwilling to adopt the German model. As a consequence access to free or subsidized welfare service was only made possible by the intervention of charitable bodies and socially aware, rich industrialists who were prepared on a somewhat limited basis to fund schools and hospitals for the most socially disadvantaged in society.

Twentieth-century events

The expansion of the electoral franchise in many Western democracies to include the majority of the population in the late nineteenth and early twentieth centuries led to the emergence of new political parties seeking to represent the rights of the workers. There was also pressure from the increasingly well-organized labour unions to demand the state make greater provision for the elderly and the unemployed. Although men returning from World War I were promised a 'nations fit for heroes', this benefit remained undelivered. This was due to the parlous financial state of many of the Allied powers which had been caused by huge borrowings to fund their wartime expenditures. An example of the scale of Government deficits created by wartime borrowing is provided by the United Kingdom, where the national debt had risen from £677 million in 1910 to £7.81 billion by 1920 (Wallop 2010). In 1921 the Prime Minster David Lloyd George appointed Sir Eric Geddes to advise on reducing this deficit. He recommended annual cuts in public sector expenditure of £87 million. Although the Cabinet only approved £58 million in cuts, these were achieved by a huge reduction in the size of the British Armed Forces, a 35 per cent reduction in the size of the civil service, salary cuts, and reductions in social benefits such as subsidized secondary education. In Germany the situation was greatly exacerbated by the massive reparations that were imposed on the country by the Allied powers following the cessation of hostilities. The social unrest this caused in Germany would eventually lead to the rise of fascism and only 20 years later, the outbreak of World War II.

In addition to the public sector financial deficit problems of the 1920s, further financial pain faced by the peoples of the Western democracies as the Great Depression of the 1930s led to mass unemployment and declining standards of living. In the United States, the country most impacted by the downturn, recognition of the worsening living conditions of the average family saw the introduction of Roosevelt's New Deal, a component of which social security provided a more secure pension for the elderly and welfare payments to the unemployed.

During World War II, the more astute politicians in the Western democracies began to consider new approaches to provide free or subsidized education, unemployment, pensions, and health care in preparation for the returning members of the armed forces and their families. From these deliberations emerged the welfare state which now absorbs the vast majority of Western democracies' public sector spending (Lindbeck 1995). One of the key factors influencing the scale of public sector spending was the degree to which various Governments across the world adopted a 'universalist' model of the type proposed by William Beveridge in the United Kingdom. His model was based upon a philosophy that access to welfare services should be offered 'free at point of delivery to all' with no restrictions in relation to either an individual's financial position or level of income.

Overtime, however, the high costs associated with a universalist model have caused many Governments to move towards an 'encompassing' model. Under this alternative system some welfare services are made available free at point of provision (e.g. education), whereas others require financial contributions from the recipient when in work (e.g. earnings-related sickness benefits). The scale of the public sector spending in some countries after World War II has also been increased by retention of ownership within the public sector of services such as utilities, broadcasting, and telecommunication. In some cases this was accompanied by the subsequent nationalization of certain industries such as rail, coal mining, and steel. The motive behind these latter actions usually reflected a nation's leadership deciding that more secure, safer working environments could be created for workers by the state becoming their employer.

The problem for many Western Governments in 1945 was how to fund these new social welfare programmes because their wartime borrowings had left most of the democracies with massive national debts. Foresight over the desire to avoid the political unrest that led to the rise of fascism in Europe in the 1930s and concerns over the further expansion of communism caused the US Government to announce the Marshall Plan. This provided a huge injection of overseas aid equivalent to over $100 billion in today's money. These funds supported the rebuilding of war-torn infrastructure across the Western economies and paid for new forms of social welfare.

The economic growth enjoyed by the Western democracies during the 1950s and 1960s generated rapidly rising GNP and increasing revenue flows from taxation. Rising level of tax receipts supported an ever-increasing expansion of the public sector. This, in turn, resulted in some cases of Governments becoming the largest employers. In the United Kingdom, for example, the National Health Service (NHS) reached the point of having the largest workforce of any organization within Western Europe (Salamon and Anheier 1998).

A key aim of welfare spending after World War II in Western Europe was the achievement of full employment. Returning members of the United States' armed services, however, encountered few problems in obtaining employment in a rapidly expanding, consumer-led, post-war economy. As a result, in the United States the post-war social contract did not include the welfare provision target of achieving full employment as had occurred in Europe.

Different Priorties

Case Aims: To illustrate the differences which exist between the American welfare model and the systems elsewhere in the world.

Many in the American private sector would argue that their country's economic model represents the highest, most advanced form of capitalism. The principles underlying the model include

> *deregulation, privatisation, and the free setting of prices and especially wages in competitive markets, without interference from unions or concern for the shape of the resulting distribution of wealth. To this model, right wing politicians and their supporters would add the reduction of public subsidies, public transfer payments including pensions and keeping public enterprise to the minimum. This is accompanied by the desire for "sound" fiscal and monetary policies, with the former dedicated to budget balance and the latter exclusively to price stability.*
>
> (Galbraith 2007, p. 3)

Galbraith also suggests that the American model is repellent both to left-wing politicians and for most people in Europe because the modern Americanism is

(cont'd)

perceived to be opposed to the social democratic values of fairness, solidarity, and tolerance.

These differences in social and political attitudes between nations are critical factors in explaining the variation in the welfare service model found in the United States versus other developed nation economies elsewhere in the world. Key aspects of the American model are reflected in the provision of social amenities available to the middle class, namely, health care, education, housing, and pensions. Health care, in the United States, consumes some 15 per cent of GDP compared to 8–11 per cent in Europe. However, direct expenditure on health expenditures by the US Government consumes only 6.8 per cent of GDP. This is because until 2010 in the United States the direct public commitment to the provision of free or subsidies health care was limited to the elderly, disabled, poor families, and military veterans. For the rest of the population, medical care was covered by private insurance schemes. Overall in the United States, the tax-financed share of health care spending is approximately only 60 per cent of the country's total health care expenditure.

College education in the United States consumes about 3 per cent of GDP, whereas in Europe what Governments typically spend is about half this level. This difference reflects the greater importance that the United States places on funding a system to generate a high proportion of knowledge workers and a perception that college is a more effective alternative to paying young people unemployment benefits. The other alternative to welfare for young people in the United States is via the retention of a large military constituted of several million members which consumes 4.5 per cent of GDP. In relation to housing, expenditure on social housing in the United States is lower as a proportion of GDP than in most European countries. This reflects the fact that many Americans own their home and to ensure this ability is widely available, the Government has created various financial institutions and financial systems to enable lower paid workers to afford a mortgage.

In relation to pensions, social security payments to the elderly represent 8 per cent of GDP in the United States. The American elderly tend to live in their own paid-off homes and although via Medicare they pay only a fraction of their own medical expenses, they remain responsible for the bulk of their expenditure on pharmaceuticals. Social Security benefits provide the major source of disposable income of 65 per cent of American elderly and are the only source of income for 20 per cent of the elderly.

The American welfare model is clearly different from many other developed nations'. In these latter countries, health, college education, housing, and pensions remain substantially more within the public sector domain than in the United States. As a consequence, public spending represents a much higher share of GDP in these other countries. Galbraith posits that the American model requires lower funding as a per cent of GDP because due to relatively high levels