

## Osborne's Trilogy: A Critique of the Management Philosophy of David Osborne

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### ABSTRACT

Given the public attention rendered to Osborne's writings on public management, it is both timely and necessary to provide a critique of his key books with various co-authors. His message is a simplistic version of NPM without any foundation in organisational theory or rational choice. His recommendations go against the wisdom of public administration and they are not strategy-proof from the point of view of asymmetric game theory.

### Introduction

Together with co-authors, David Osborne has produced a set of books that has attracted much attention and most probably sold very well. His trilogy has no doubt had impact upon public sector reform, at least so in the United States, where he has created a group of "reinventors" who regularly report on the outcomes of his management philosophy for the public sector. He has even published a huge handbook for helping people in transforming government: *The Reinventor's Fieldbook: Tools for Transforming Your Government* (2000).

Osborne's message in his three books is normative, as he wants to find the "perpetuum mobile" of government, or the self-inventive agency, which steers towards economy and efficiency. Osborne launches a most impressive list of public sector reform ideas and he often provides evidence from how these ideas have been tried in various levels of government in the US. Thus concentrating almost exclusively upon the OUGHT, one wonders whether Osborne has not bypassed a large literature in public administration and public management that underlines the recalcitrance of government towards lofty reform projects and promises of quick fixes.

In this article, I wish to confront Osborne's key reform ideas with the lessons from extensive empirical research on public organisations as well as with basic theoretical results in asymmetric games, especially the principal-agent interaction. Osborne bypasses the lessons from organisational theory as well as entirely the occurrence of gaming or strategy in public sector reform. He assumes that there is at all times a huge slack that can be squeezed without hurting the proper functioning of public programmes – a dangerous message with dire political consequences,

if taken seriously in the consulting business. When it is argued that the government, or public organisation, is inferior to private organisations – markets and entrepreneurialism, then one may place the problem either with the supply side – costs, or with the demand side – value. Osborne began by focusing on too high costs (slack), but he now deals with the lack of priorities behind a goal structure of public programmes.

## Osborne and New Public Management

It would make things easy if one regarded Osborne's trilogy as merely another exercise in NPM. But I believe that Osborne's trilogy:

*Reinventing Government* (1992) (with T. Gaebler)

*Banishing Bureaucracy* (1997) (with P. Plastrik)

*The Price of Government* (2004) (with P. Hutchinson),

contains more than the theory of NPM, much more. And what it contains in addition to NPM is at odds with the established theories about government and public organisations. Let me pin down the difference between Osborne and NPM.

It is true that Osborne starts from the kind of reforms that constitute NPM and which he also fully endorses:

decentralisation

re-examination of tasks and goals

downsizing and privatisation

cost-efficiency through contracting out and user charges

customer orientation and user fees

benchmarking and performance measurement

regulatory reform: deregulation (Osborne & Plastrik 1997, 8).

However, Osborne not only wants to advocate these reforms; he searches for something much bigger in terms of academic achievement. One can search for evidence concerning these reforms meaning whether they “work” or not. In an evaluation of public sector reform in the last twenty years, finding the outcomes of these reforms is a most important research endeavour. Osborne presents numerous cases that are relevant in relation to the question: To what extent do findings about outcomes confirm the NPM philosophy that the above reforms increase efficiency? However, Osborne casts his nets wider, much wider. He does not only want to correct government by taking away its *slack* but to change government entirely. It cannot be done, I will argue.

## Paying for Government, Not Slack

Like all organisations or activities, government has two sides: value and costs. We value government because it brings us services we need, especially so in a democracy. However, we do not want to pay for the extra cost that government tends to generate, its X-inefficiency or waste. In a basic principal-agent approach to government with the population as the principal, the goal of the principal must be stated thus: maximise the value of government and minimise the slack of government. A number of mechanisms may be designed to accomplish this objective function, from fiscal constitutions to restraining revenue maximising politicians (public choice theory) to tendering/bidding schemes in policy implementation (NPM). However, the purpose is to reduce slack and not to undo government in itself.

Osborne's almost 15-year-long crusade against government does not make this crucial distinction between eliminating waste, either with politicians or with bureaucrats, on the one hand and reducing basic government operations. Today, government is down on its knee in the American context: The US Government is broke. The 2004 federal deficit is the highest in U.S. history. The states have suffered three years of record shortfalls. Cities, counties, and school districts lay off policemen and teachers, closing schools, and cutting services. Yet, *The Price of Government* advocates competition, customer choice, and a relentless focus on results to save millions while improving public services. Osborne believes that there are still 10 per cent more to save on each programme, of which 5 per cent can be handed over as bonuses to employees who find and make the save. But simple math tells us that 10 per cent savings year in and year out will lead to programme abolition sooner rather than later. This is nonsense, especially in the US context.

One cannot run government and receive its value without incurring costs. Value and costs are essential parts of any organisation delivering service. Once the fat is gone, any reduction in cost must lead to a reduction in output, meaning that value is also diminished. The X-inefficiency of government was revealed first by organisation theory and later by public choice theory. We need no more of that now. There is basically no limit to slack in government, as it could run from 5 to 40 per cent of the costs. However, when the slack has been reduced, further cost reductions must hurt valuable operations.

The US government is about half the size of government in well-ordered democracies in Western Europe. Surely the fat must be gone. When government is pushed back so far that it cannot fund its essential operations, it is not the time for a relentless search for saving a few more dollars. It is time to state the value of government and attempt to measure it. What would society be like if law and order did not work, if children did not get proper education and if people could not get basic health care?

Government is a difficult organisation to manage, not merely because it harbours complicated principal-agent relationships (Fukuyama 2004; Lane 2005), but ever more so because the estimation of its value is not naturally forthcoming. Osborne started out with the cost side in *Reinventing Government* (with Gaebler), and in *The Price of Government* (with Hutchinson), he realises that the value side is as important. But he could not imagine that the only strategy that can buttress the value of government is to raise more revenues.

Improving government in the US context can only mean one thing, namely raising taxes. The difference between the US and the European scene could not be more telling. What is at stake in the unfolding management crises in the US government is the value question: Do citizens want a decent and functioning government? In continental Europe, it is still the cost side that is dominating, as taxes cannot be raised further and user fees are high at all times.

Value in government is not forthcoming naturally because it is shared entailing the N-1 and 1/N problems in collective action. A citizen would, all other things equal, wish to have government but pay less him-/herself. And whatever a citizen pays for government will be shared with all others. Thus, taxes are a poor measure of value in government. And yet, taxes constitute the main income source because there is a limit to the rational use of user fees.

The value of government would need to be documented better in management research. Such research would inform society about how many people benefit from government and in what ways. This is difficult research, as it requires the development of new kinds of indicators tapping consumer satisfaction, coverage and appreciation of value. Osborne has nothing to say about how to promote this research on government.

### **Changing the DNA of Government**

According to Osborne, there is something fundamentally wrong in the mechanism design behind government. This echoes the public choice school. And Osborne singles out the bureau as the “wrong” institution in government. Bureaucracy destroys government because it has no mechanism of error correction. The market economy provides certain correcting mechanisms against error. These mechanisms work themselves out through the peculiar mix of incentives and institutions which characterise well-ordered or well-functioning markets. Could one find something similar for the public sector?

When government puts into effect the above-mentioned reforms of NPM, then the impact may be a great success in the short run. But what guarantees that the effects aimed at will be long-term ones? Osborne reports upon many short-term savings or increases in output, but clearly they can hardly be reproduced from one year to another in a long-run perspective. What to do after NPM? If NPM shakes up a public organisation from its tradition protection against outside demands and breaks its established mechanisms of inertia, would it not return then to sleeping ugliness when the NPM reforms have been introduced through outside pressure? Osborne wants to maintain the momentum of NPM by finding what has eluded all theoreticians of public organisation, namely the self-inventing mechanism.

Osborne states that he wants to change the “DNA of Government”. Let me quote from *Banishing Bureaucracy* (with Plastrik):

By “reinvention” we mean the fundamental transformation of public systems and organisations to create dramatic increases in their effectiveness, efficiency, adaptability, and capacity to innovate. This transformation is accomplished by changing their purpose, culture, incentives, accountability, power structure, and culture. (Osborne & Plastrik 1997, 13-14)

This *Copernican Revolution* in government will do away with bureaucracy and introduce a self-innovative organisation that accomplishes economy and effectiveness by itself as if these two goals had been built into the organisation. The prevailing wisdom in political science used to be that government bureaux are immortal, that they have a momentum from within that is extremely difficult to change, as well as that governmental organisations display resistance to change. How, then, could Osborne accomplish this Copernican Revolution in government?

The answer is as obvious as it is naively simple: Take the inherited wisdom from a course on private organisation and pin it down to 5 principles. Then apply them to government. Thus, we arrive at Osborne's 5 C's:

core strategy: clarify goals in a consistent hierarchy of priorities

consequence strategy: introduce private incentives everywhere

customer strategy: emphasise consumer choice

control strategy: allow for discretion and underline empowerment of employees

culture strategy: create entrepreneurialism and reduce resistance to change.

But precepts are one thing and reality another, as students of moral philosophy never fail to point out. What would be the relevance of these rational precepts, if the world of government obeyed the laws of complex organisation theory? Suppose we accept the lessons from 100 years of enquiry in organisation, public or private, and confront them with Osborne's Five (March 1989; March & Simon 1993). Then we would have the following contradictions:

organisational goals are complex and ambiguous

government involves social values and vocation

public goods or semi-public goods must be allocated to all or no one

discretion entails a risk for arbitrariness

all organisations manifest resistance to innovations if they threaten vested interests.

In this *hiatus* between Ought (Osborne's Five) and Is (organisational theory) it is, of course, Osborne who must bend. If something is desirable (Osborne's Five), it is not necessarily feasible: Ought does not imply Can. In the world of genetics, it is real DNA which determines the animal. If one wants to identify the chain of DNA in government, then perhaps empirical research is a better strategy than a mere normative selection of reasonable precepts?

Government has some characteristics which make it less suitable for the kind of reinvention strategy that Osborne recommends (and perhaps sells) to government. Government is after all NOT one or another kind of private organisation. Let me try to identify a few of these features of public organisation which do not rule out NPM but which restrict the applicability of private organisation precepts.

## Public Organisation versus Private Organisation

The logic of private organisation – markets, profit maximisation, incentives: private vices – public virtues, flexibility, and adaptation – has a high esteem with Osborne. He sees no limit to the possibility of substituting private organisation for public organisation. Public organisation often displays features that are at odds with the philosophy of creative destruction and entrepreneurialism including: inertia, bounded rationality, stability, procedural accountability, social norms and vocation. Perhaps a well-ordered society needs both private and public organisation? And we should not attempt to replace one by the other? Government can benefit from private organisation, especially in its procurement activities. However, there is a limit to the substitution of private organisation for public organisation – a fact which Osborne never admits or takes into account.

Government cannot operate according to the logic of private organisation. Government does not come and go; only governments have short life spans. Long-run stability counts for much with government meaning that the benefits that government produces are taken for granted and are often seen as intangible or non-fungible. Government, whether at the local, provincial or central level, does not *camp on the seesaws*, as it must continue to operate under all conditions. Government flexibility is not the same firm adaptation in a market setting.

It is easy to be impressed by the logic of private organisation, especially when the state offers a legal system where private contracts and property rights can be enforced. However, government cannot operate according to private organisation. The market selects the winners and the losers from among the private enterprises as the business cycle unfolds, with some companies expanding while others shrink up to the possibility of annihilation. Government does not function according to this logic of growing and diminishing. It attempts to maintain its operations whatever the situation may be. Thus, public organisation underlines long-run stability through its institutions of competencies, tenure and non-profit activities.

Government, which is always founded upon public organisation in a well-ordered society, may employ private organisation and its mechanisms to a certain extent. Thus, it may use tendering/bidding extensively as well as joint-stock companies. Outsourcing may be a sound strategy when government has expanded quickly or when government faces difficult demands from public-sector trade unions. Public enterprises may be incorporated and put under a general competitive regime leveling the playing field. But the core of government cannot abide by the logic of private organisation. And this is what Osborne never recognises, as he fails to see the limits of reinventing strategies.

Government is the exercise of public powers. The Leviathan can only be constrained by means of a rule-of-law regime. This is the basic lesson from public administration. Public organisation satisfies the basic Kantian requirements upon the state in order to have rule of law:

legality and separation of powers  
openness and publicness  
complaint and redress (Kant 1996).

Government must in its core procedures be organised so that it satisfies these requirements. Only public organisation can meet them. Osborne does not have a word to say about procedural justice.

### **Public Vices, Private Virtues**

Osborne's management philosophy targets a number of public vices that he wants to undo by the massive employment of the mechanisms of private organisation. Among these vices, we find the basic facts about public organisation that scholars within organisational sociology have taken great pains to establish. Can they really be undone by introducing a self-correcting and self-innovative organisation? Which are these public vices, more specifically? Let us reverse Mandeville's famous slogan and search for public vices as against private virtues.

Osborne attacks public organisation both from the supply side and the demand side. On the cost side, Osborne is of the belief that public programmes in general have huge slacks that can be undone without hurting the services delivered. Steering but now rowing, is what Osborne recommends on the cost side of government, meaning the use of tendering/bidding wherever it is possible.

On the demand side, Osborne argues that goals are not set in a clear and consistent manner. Priorities are not set for public programmes meaning that there is a large set of low priority programmes that somehow muddle through. If it is true that slack is typical on the cost side of public programmes and similarly that public programmes do not enter into a consistent objective function separating high-priority from low-priority programmes, then there would possibly be millions or billions to be saved.

Private organisation would undo these public vices, eliminating slack by means of tendering/bidding in combination with private remuneration for savings and real-locating resources towards high-priority programmes by clarifying priorities. However, all the lessons from organisation theory and public administration indicate that such reforms are more easily stated as desirable than implemented as feasible. Whatever organisation is chosen – public or private, there will be efforts to generate a slack. And in a democracy with organised interests seeking to favour their programmes, there can be no coherent list of priorities set for public programmes, as policy-makers differ in terms of the value they put on different programmes.

Osborne's theory of budgeting expresses his ideas about the vices of public organisation (Osborne & Hutchinson 2004). His steps for rational budgeting for outcomes include: Set the price of government: How much are citizens willing to spend? Determine the priorities of government: The outcomes that matter most to citizens, along with indicators that measure progress. Decide the price for each priority outcome. Set outcome goals and indicators for each of the strategies and programmes, and make sure that results are measured. Decide how to best deliver each priority outcome at a set price: Create steering organisations to act as purchasing agents and have them develop "cause and effect" strategy maps and purchasing strategies. Solicit offers, and then choose which programmes and activities to purchase. Negotiate performance agreements with those providers, spelling out the key outputs and the outcomes to be produced, the indicators to be used to measure

progress, the consequences for performance, and any flexibility granted to help an organisation maximise performance. Develop full cost accounting, which attributes all direct and indirect costs to a programme or strategy. Create a process to review performance against the targets, in both the executive-branch steering organisations and legislative committees organised to focus on the same outcomes. The reader who has studied budgeting and public administration recognises this message as merely a version of the idea of programme budgeting combined with TQM. One does not need to use incrementalism (Wildavsky & Swedlow 2001) in order to argue that Osborne's budget theory is impractical. It is enough to employ the principal-agent model.

In order to state in a succinct manner that also private organisation may display vices and that no organisation whether public or private can be fool-proof, one may state a simple principal-agent model, which covers both public and private organisation. Suppose that government as the principal hires a set of agents to implement policy. The agents would be the experts – thus there is asymmetric information. What institutional arrangement would be most suitable from the point of view of the principal in order to motivate the agents to deliver high effort against a reasonable remuneration (Rasmussen 2001)?

There are two institutional arrangements that structure this principal-agent interaction in service delivery, where Osborne favours private organisation, meaning tendering/bidding, whereas mainstream public administration and organisational theory would recommend bureaucracy. The Osborne argument against bureaucracy is only a summary of the public choice criticism of long-term contracts in public organisation, resulting in either excessive supply or X-inefficiency (Mueller 2003). If the principal instead chooses a short-term contracting regime involving market testing and bonuses to the agent, then the principal can avoid moral hazard, but he/she runs into the equally difficult question of adverse selection: How to identify the bidding agents and select the best one? It is strange that Osborne does not bring up this fundamental problem in private organisation, which is well-known from for instance the experiences with NPM in New Zealand.

## **Conclusion**

I find the management philosophy of Osborne to be a crude and simplistic version of NPM. It bypasses all the empirical findings within public administration and organisational theory. And it is blind towards the theoretical insights in asymmetric information game theory. We should be more critical against this kind of consulting literature, which may have dismal political consequences for the safe and predictable delivery of public services. Implicit in all his books is an unwarranted assumption that slack in public organisation is without limit.

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