

Public Sector Reform in Central and Eastern Europe

Geert Bouckaert
Catholic University of Leuven

In an OECD report entitled *Government of the Future* (2000), the question “Why public management reform?” is answered in three ways. First, governments need to keep up with society in terms of responsiveness and better, faster and more services. Second, trust in government needs to be re-established. A third reason is that government’s role is changing under new pressures including the loss of the government monopoly, greater competition, the opening-up of societies and international structures. However, for the countries of Central and Eastern Europe (CEE), the starting positions, the challenges, the capacity to change, and the initial objectives were quite different from most of the Western European countries, except for, e.g., Portugal or Spain. (OECD 2005).

In a first part, this essay will cover spans of public-sector reform which may be narrow or broad. In a second part, trajectories of reform, which are not linear but progressing in a corrective way, will be discussed. In a third and final part, remaining issues of reform practice and study are discussed.

1. Spans of public sector reform

In Western Europe, there was a relatively common problem analysis. Two main problems coincided: First, there was a macro-economic problem of too big a proportion of government in the gross domestic product (GDP), of significant deficits, and of a perceived lack of public-sector performance contributing to the GDP. Second, there was a drop of trust and legitimacy in public institutions, including politicians.

The macro-economic shifts (from ‘problem’ to ‘solution’) could be operationalised as follows from the ‘economic’ point of view:

- The proportion of the public sector in the GDP decreases; there are countries with stable patterns of decrease, others have more fluctuating decreases.
- Government net lending is an indicator of the yearly deficit. Of course, the European Union’s Maastricht criterion of a maximum of 3% deficit had a significant impact on reform policies within the European Union. In general, there was a downward trend. In some countries, this deficit turned into a surplus; the recent (financial) crises are reversing this pattern again.

- Government employment as a proportion of total employment should in general be decreasing. However, some countries have stable or even increasing numbers of government employment.
- The division of the budget shows in general that direct consumption by governments is decreasing. This may prove that direct service delivery by the public sector is decreasing as well. It also shows that transfers are increasing. These should guarantee outsourcing or privatising of service delivery as well.

From a societal point of view, there was a general feeling of decreasing satisfaction with government performance, and a related level of trust which was generally decreasing. To solve these problems in countries like the United Kingdom (Thatcher) and the United States (Reagan), politicians initially started to blame the civil service and distanced themselves from the public sector. The public sector was the cause of all problems, and in reducing it, the two problems would be solved. This strategy of bureau-bashing could not last for a very long time, because trust in civil servants is higher than in politicians. The politicians' pushing for lower trust in civil servants resulted in lower trust levels for the politicians themselves. This negative project was not sustainable in the long run. Therefore, other strategies had to be developed.

In analysing these strategies, three main objectives occur:

- the need to adjust the proportion of government in the GDP and the related need to reduce the deficits (savings) or to re-allocate resources;
- the need to solve the problem of a low level of performance (real and/or perceived as such); and
- the need to redefine responsibilities between actors (legislative versus executive; public sector versus market; politics versus administration; ministers versus ministries versus autonomous bodies; central level versus decentralised levels of government); this triggers the need to redefine mechanisms of accountability.

In solving these needs, 'performance' became a common conceptual denominator. The exercise of moving activities to the market place and of reducing budgets implies a certain mapping of inputs, activities, outputs and outcomes, their links, now and in the future. Taking measures to improve real and/or perceived levels of performance requires the implementation and use of instruments that describe and push towards performance. Adjusting systems of responsibility-sharing and mechanisms of accountability implies that performance will be used as a key operational term to guarantee substantial, valid and auditable performance agreements. And in observing trends which occur in realising a modernised public sector, performance (measurement and management) appears to be a pivotal element.

In general, there are three hypothetical basic mechanisms which could be presumed in the dynamics of increasing performance:

- First, increasing pressure improves performance (pressure assumption);
- second, increasing specialisation improves performance (re-structuring

assumption); and

- third, increasing citizen involvement improves performance (citizen-as-customer assumption). (Bouckaert and Halligan 2008)

The general idea that government and public sector are not changing by themselves is reflected in the idea that pressure for performance should be organised to guarantee change and improvement. As a result, internal and external pressure is institutionalised in the public sector. Increasing internal pressure implies that the whole range of internal management instruments is activated. Strategic plans and business plans, personnel evaluations, organisational relationships and financial mechanisms are adjusted to enhance pressure. Also, external pressure, through market-type mechanisms, is present.

Next to pressure, the idea of specialisation for performance is involved to enhance improvement. Creating autonomous organisations with smaller fields of competencies, up to single-purpose or task-homogeneous bodies, is in accordance with the managerial philosophy which states that specialisation pushes results. This is also applied to the policy cycle where policy design seems to happen in a better way in e.g. ministries, the implementation in another independent entity (market or public sector) and the evaluation in still another one. Of course, the whole problem of co-ordination and the choice of an optimal level of specialisation are crucial. Most countries wrestle with the agenda of adequate mechanisms of co-ordination.

A third crucial issue is the 'customer' role of citizens, including their active involvement in co-designing, co-deciding, co-implementing and co-evaluating public services. Participation for performance becomes a key element in reform policies to increase satisfaction and ultimately trust and legitimacy of public services.

In the CEE countries, the problem analysis was also similar to a large degree. However, the starting positions were quite different, and the objectives were heavily influenced by the perspective of possibly becoming a member of the EU. Building democracies, organizing transitions, and preparing pre-accession were shared objectives.

In some cases, systems change drastically. Political systems change, e.g. from dictatorships to democracies, and their elites are removed. Democratic checks and balances are established. State structures are reshuffled, e.g. toward more decentralisation. The economic system changes its nature, e.g. from state monopolies to market systems with private firms. Societal and social systems with NGOs, not-for-profit organizations, and citizen action groups are established and are designed to participate actively in a public debate and to become stakeholders of their society and their communities. (Peters 1996) Within the public sphere, the decision-making processes are redesigned to select political and administrative personnel, to create a legal framework with authority and legitimacy, to have a new budget cycle, to get sustainable policies which support the system and to establish a public sector infrastructure which is efficient, effective, reliable, transparent, and legitimate.

Within the CEE countries, it seems that changes have been drastic indeed, including in public systems. Politics, policies and administrations were to change accordingly. In focusing on the administration and the management of public systems, five scopes of reform are possible, from a very narrow and limited, to a very stretched and

broad span of reform. (Pollitt and Bouckaert 2004) These five positions could be linked to definitions of public sector reform. Choosing one of these five positions is not just an academic choice with theoretical implications. Choosing one of these models has tremendous practical implications for the content of a reform programme, for the choice of the reform projects, for the sequence and timing of the reform portfolio. It also requires different tactical choices to be made. One of the issues is how many degrees of freedom there are to reform the public sector.

1. A first model has a span of reform which is limited to single organisations within the public sector. In this sense, "Public management is a merger of the normative orientation of traditional public administration and the instrumental orientation of general management." (Perry and Kraemer 1983, x) In practice, this means that private-sector management techniques are imported into the public sector. Private-sector-based methods and techniques of command and control, internal control systems, personnel and financial management tools, etc. are transferred to the public sector. The focus here is on single organisations. The assumption is that if these entities function properly, the public sector is much better off. Obviously, this requires a solid support system, since this should be applied to all organisations in the public sector, from local to central.
2. A second model has a broader span of reform which looks beyond single organisations to clusters of public sector organisations. "The critical area of public management is the management of organizational interdependence, for example, in the delivery of services or in the management of the budgetary process. Public management is concerned with the effective functioning of whole systems of organizations. ... What distinguishes public management is the explicit acknowledgement of the responsibility for dealing with structural problems at the level of the system as a whole." (Metcalf and Richards 1987, 73-75) This is about reforming networks or chains of organisations. Here we reform organisations and their interfaces, interdependencies, interactions and coherent clustering. Value added is defined at the level of sets of organisations, not just at the single level. Here we can ask the question of where particular organisations should be, at a central or rather a decentral level. The location of an organisation in a set becomes important. There is the question of relationships, e.g. hierarchies of organisations, in order to have good service delivery and policy implementation. This requires a vision on the architecture and the mapping of the public sector.
3. A third model goes beyond this architecture. "We conceive public administration as the key output linkage of the state towards civil society. However, the interface between public administration and civil society is a two-way street, including public policy implementation as well as policy demands from private actors towards policy-makers." (Pierre 1995, ix) This span of reform includes the interface of the public sector and civil society. This interface needs to be reformed too, which in some cases requires civil society to be (re)built. This requires the recognition of civil society as a partner in reform. Therefore platforms for exchange, transparent discussions and contradictory debates are necessary to reform the public sector in a sustainable,

legitimate, and transparent way. Stakeholders become part of the reform process. Outsourcing, co-production, and public-private partnerships (PPPs) become key tools in the whole production of services. Policy cycles consist of co-design, co-decision, co-implementation and co-evaluation. (Pollitt, Bouckaert and Löffler 2006)

4. A fourth model goes beyond the infrastructural level and includes the supra-structure of reform. “We talk about the *managerial* state because we want to locate managerialism as a cultural formation and a distinctive set of ideologies and practices which forms one of the underpinnings of an emergent political settlement.” (Clarke and Newman 1997, ix) This reform scope includes the realm of ideas and ideologies, culture and values. Reforming the public sector includes not just its infrastructure (organisations and their interactions within the public sector and its civil society) but also its suprastructure. Although this does not mean that identities of communities or nations need to change, it does mean that practices are based on belief systems with norms and values, cultures and ideas. (Bouckaert 2007) Removing a tradition of corruption, supporting a culture of public entrepreneurship with responsibility and accountability, pushing the value of citizen trust and customer satisfaction are part of this fourth span of reform. A crucial debate here is the old discussion of whether infrastructure determines its suprastructure or, the other way round, ideas change practice. This is a crucial element in a sustainable reform programme. It requires projects on civic education, transparency and communication, customer, citizen and civil servant surveys on perceptions, expectations, beliefs and convictions, satisfaction and trust.
5. The fifth model goes beyond the fourth one and includes all elements of the system. “Public administration may be interpreted as a social system existing and functioning in accordance with its own order but, on the other hand, it also depends on environmental conditions in a complex and changing society. ... In the light of the modern society’s functional differentiation, state and market are notable for their own characteristic strategies to control the supply of goods. The type, scope, and distribution of private goods are decided on by harmonising the individual preferences within the market mechanisms; decisions on the production of public goods, on the other hand, result from a collective, i.e. politico-administrative, development of objectives.” (König 1996, 4, 59) This requires a reform strategy which includes the major steering mechanisms in society, depending on the state structure itself. Market mechanisms are obvious within the private sector. Budget mechanisms are clear within the public sector. In a mixed economy, you also may have consensual allocation of resources amongst not-for-profit organisations. Public sector reform affects the proportions and regulates the allocation mechanisms of public, private and not-for-profit. It also affects the allocation mechanisms within the public sector using hierarchies (budgetary top-down distribution with e.g. envelopes), markets (market type mechanisms such as vouchers or competitive tendering) or networks (consensual distribution).

Just as in many other countries, CEE countries have chosen mixed strategies of public-sector reform, and these choices have changed over time. However, it seems

that the span of reform has been rather broader than narrow. It also seems that tactics could have been more visible than strategy because of electoral cycles.

This brings us to the question of the trajectories to move ahead. Are reforms linear or dialectic or cyclical? Are they continuous or discontinued? Are reforms cumulative or not? Have models been made explicit or not?

2. Trajectories of reform

It is clear that these adjustments in the public sector have been based on an action-reaction pattern where the solution of a problem turns into a problem itself which needs to be solved, as in figure 1. A solution becomes dysfunctional because it is not really, or really not, answering the question, or because the solution is becoming so extreme that it has lost its answering capability, or because the implementation was so deteriorated and deteriorating. Sometimes the 'cure' was worse than the disease. Many OECD countries, even the most rational and 'pure' NPM countries, such as e.g. New Zealand, had a series of reforms which could be framed into a sequence of a (problem)-(solution)=(problem)-(solution) etc. chain. (Boston et al. 1996; Chapman and Duncan 2007; Commonwealth Secretariat 2003; Norman 2003; Scott 2001; Schick 1996) This zig-zag action-reaction chain was not designed beforehand but became a pattern of change in many countries. In some cases, there was an ideological exaggeration of a solution which then was ideologically corrected in the next government.

This trajectory is described in figure 1. An initial situation is perceived as a problem. Since the 1980s, reactions of countries have been to maintain, modernise, marketise or minimise their public sectors. (Pollitt and Bouckaert 2004) This resulted in a range of acceptable 'solutions' for the perceived problems. However, as described above, these solutions became too extreme, or unacceptable because of some dysfunctions. Dysfunctional pressure and specialisation caused loss of control. In general the set of solutions that has been developed to solve the second generation of problems can be based on mechanisms (and their related instruments) of hierarchy, markets and networks. Specifically, Market-Type Mechanisms (MTM) and Network-Type Mechanisms (NTM) were supposed to be useful because of their higher level of compatibility with organisational autonomy. (Christensen and Laegreid 2006; Halligan 2006)

Problems were perceived of guaranteeing performance, taking and allocating responsibility, substantiating accountability, keeping or even enhancing transparency, making functional control and keeping a sufficient policy capacity. As a 'solution', agencies were created, autonomy was granted, specialisation was increased, single-policy capacity was developed, and performance measurement systems (PMS) were installed for guiding, control and evaluation. This would solve the initial problem.

However, these reforms resulted in dysfunctional levels of autonomy. Autonomy became an objective in itself, and central government lost control over centrifugal families of organisations. Because of the contracting mechanisms with these agencies, there was a focus on measurable outputs which also influenced a bonus system. This resulted in a suboptimal focus on agency outputs rather than on policy out-

comes. It was unclear if and how certain outputs were contributing to certain outcomes. Ultimately, outputs became an objective in themselves. There also were considerable transaction costs between the components of the policy cycle and between agencies. Autonomy resulted in disconnecting the normal chain of design, implementation and evaluation. Even worse, the nature of the connection was altered from a hierarchical link to a market type mechanism. Policy advice and design was supplied to departments or agencies. There was a quasi-market interface between supply and demand of policy advice or any other interaction between entities in the public sector. In separating supply and demand, there was a disconnected policy capacity which was too specialised and which lacked critical mass. The linkage between stages of the policy cycle, but also within the implementation stages were disrupted for the sake of autonomy and responsibility. A logical policy chain became a sequence of supplies and demands. Dysfunctions as a consequence of performance-based control systems started to result in 'gaming'. The guiding principle was not the reality of administrative or societal value added but its derivative of better numbers on particular indicators.

This problem triggered new 'solutions' which were based on re-establishing the co-ordination between departments and agencies, or between different agencies, by using renewed Hierarchy-type-mechanisms (HTM) as well as new Market-type-mechanisms (MTM) and Network-type-mechanisms (NTM). Also efforts to look beyond single organisations and to take a policy field perspective (in focusing on outcome drivers for outputs, cross organisational boarder 'landscape reviews' or joined-up government or straight forward evaluations) were put in place, increasing policy capacity at a higher (meso) level. Audits became the (re)new(ed) solution. Internal audits became a separate part of the internal control system. External audits were expanded and further developed, auditing all aspects of 'performance', including the quality of indicators and data. A key question was whether these 'solutions' would generate new problems.

They did. It seems that HTM was not always very functional, especially in cases of pure recentralisation. Also MTM sometimes resulted in shifting from a public to a private monopoly, without competition, or market regulation and modernisation. NTM, in many cases, became a soft and symbolic mechanism. Obviously, there are good examples of renewed versions of hierarchies (holding structures, consolidated budgets, etc.) or regulated markets (telecom, postal services, electricity) or networks which did function ('open methods of co-ordination' in the EU). However, it also seemed that when a problem occurred, the solution was to have more of the same. A perceived problem of indicators, objectives or audits resulted in more indicators, more objectives and more audits. One could sometimes consider a mushrooming of indicators and objectives, and an audit tsunami. Especially internal audits have exploded. Above all, performance as a principle to organise a control system replaces trust, internal trust, as a basic principle. Distrust within the public sector became the standard: between the central and the local governments, between the ministries and the agencies, between the line departments and the horizontal departments, between politics and administration. The assumption that agents and professionals within the public sector are in line with general interest became an obsolete principle and needed to be replaced with a major principle of economic neo-institutionalists,

i.e. principals should not trust agents. Therefore, if trust was good, it was not good enough anymore. Distrust, control and audits should replace it.

This extreme solution, turning into a problem, needed a new solution. In some countries, there was a tendency to consider the ‘less is more’ principle. In the Netherlands, indicators need to be ‘useful’ and the ‘provide or explain’ principle says that one should provide indicators unless one can explain why these are not provided. Rebuilding trust within the public sector, not just citizens trusting their government and administration, becomes a ‘solution’. Also, the focus on performance needs to take a governance approach into account, beyond the public sector in its strict sense, resulting in performance governance as a model. (6 et al. 2002) Obviously, this again may result in new problems, and an ex-ante evaluation of these new solutions is required.

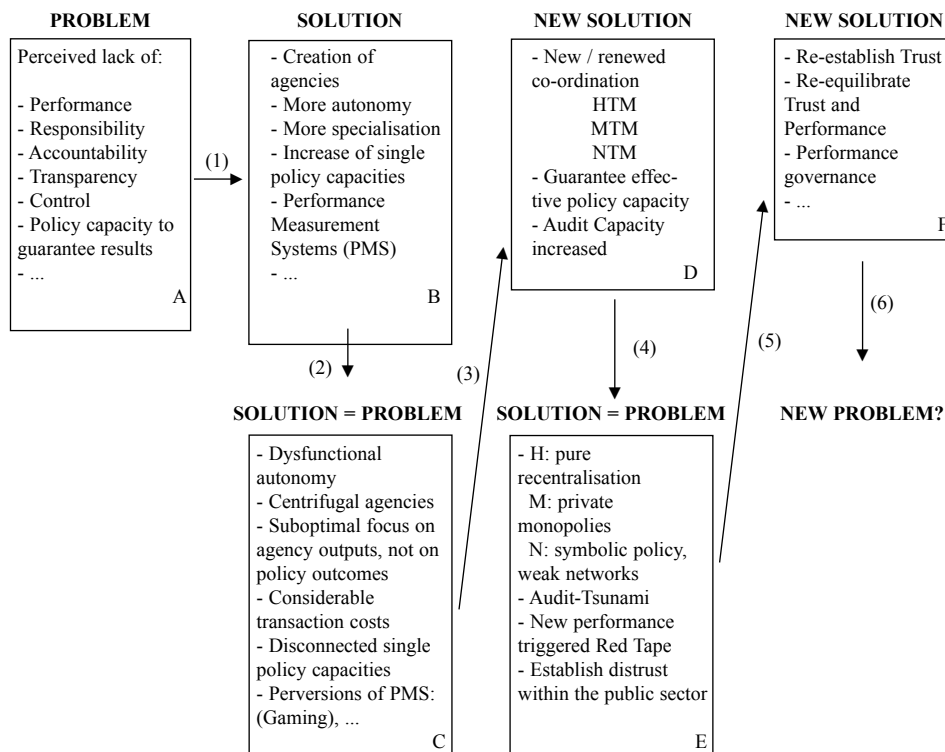


Figure 1: **Refined Problem-Solution Chain regarding public sector reform**

These zig-zag action-reaction trajectories are an empirical description which seems to apply to many OECD countries, even if some have followed this sequence in a more explicit way than others. To the extent that some countries have followed, or even imitated, ‘advanced’ solutions, which were advanced because they provided solutions to a previous problem and therefore were further ahead in the sequence, they probably did not provide the right ‘solutions’ to their own (sequence of) ‘problems’. A famous case is Mongolia, which imported the New Zealand financial model, which was financed by an Asian Development Bank loan. It makes certain observers proclaim that we need not imitate New Zealand, especially not developing countries (Schick 1998).

Many of the shared problem definitions were also generated by sclerotic traditional and Weberian bureaucracies. For many continental European countries, the state of law (*Rechtsstaat*, *Etat de Droit*) and its related Weberian bureaucracies were the starting position. Indeed, there was a need to have a more developed incentive for performance responsibility and accountability, for citizens as a customer orientation, for open and transparent decision-making, perhaps even for participation. Upgrading a European Weberian model with elements of performance and participation could result in a Neo-Weberian model. (Pollitt and Bouckaert 2004; Pollitt et al. 2009) Anglo-Saxon countries have followed a trajectory of upgrading public management models by applying principles of New Public Management.

CEE countries inherited bureaucracies which were dominated by a single party. Even more important than defining the ultimate model which is necessary for a particular country, it is important to try to define, or to anticipate the zig-zag trajectory of action and reaction to reach the desired model. Obviously, especially for countries that wanted to, and ultimately did, join the EU, there was a clear 'to do' list and a series of 'acquis' to realise. There was economic and political pressure to prove progress, to speed up change, perhaps to take short cuts or to jump to 'final' positions. Reforming the public sector sometimes was indispensable and impossible at the same time, and therefore highly problematic. Importing NPM techniques that needed to improve Weberian bureaucracies when these were not present and simultaneously building classical checks and balances was a tough reality. Reforming in such a case sometimes was organising dysfunctions. This leads us to the last section.

3. Further issues to explore

Applying a standard model of analysis to a range of countries makes sense. The ultimate purpose is to compare. The purpose of comparing is to detect patterns or clusters, and to learn from these patterns or clusters of countries. However, differences remain crucial.

Many questions remain for the practice of change, but also for empirical research. Most of this research happened *ex post* and followed a classical pattern of describing, modelling and, in some cases, explaining reform. In some cases it was possible to even predict the consequences of certain reform initiatives because the solutions did not match the problems, or because the contingencies or conditions for an effective solution were not present, or the culture of competition was not part of the culture of the country.

It is clear that public sector reform is a never-ending story. Therefore initial questions remain relevant, such as, e.g., Are short cuts possible? How do we make irreversible reform? How well, and under what conditions do models travel? How generic and how contingent are models? What can we learn from others? Is it useful to replicate research models in a different context? Should we start with finance, personnel or organisational reforms within organisations? etc.

It is important for CEE countries to continue to compare and to learn from one another. It is necessary to develop trajectories and to detect problems, possible solutions for these problems and possible new problems because of these solutions.

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