The Global Revolution in Public Management: Driving Themes, Missing Links

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Abstract

Since the late 1970s, a truly remarkable revolution has swept public management around the world. Understanding this revolution means sorting through three issues: the basic ideas of reform; the connections between the reforms and governmental processes, like budgeting and personnel; and the links between these processes and governance. These reforms have proven surprisingly productive but, in the process, they have raised a new generation of fundamentally important issues that have been largely unexplored.

INTRODUCTION

From the late 1970s through the mid-1990s, a remarkable revolution swept much of the world. Governments around the globe adopted management reforms to squeeze extra efficiency out of the public sector—to produce more goods and services for lower taxes [Peters, 1996; Organization for Economic Cooperation and Development (OECD), 1995a, 1995b; U.S. General Accounting Office, 1995a]. The Westminster nations—Australia, the United Kingdom, and especially New Zealand—proved the world's most aggressive reformers and have widely been viewed as models. From Korea to Brazil, from Portugal to Sweden, government sector reform has transformed public management.

History might well record this as the first true revolution of the information age. But the revolution has required carefully working through three issues: the ideas of reform; the connection of reform with core processes, like budgeting and personnel; and the linkage between the processes of reform with the structures of governance.

Governments around the world have struggled with these questions, but no government has moved farther faster than New Zealand [Boston et al., 1991; Boston, 1995a; Boston et al., 1996]. It is a relatively pure model of reform: large-scale, forceful changes implemented in a relatively small nation with a relatively straightforward political system. Its reformers have been unusually thoughtful about what they have tried to do and reflective about their results.

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The Kiwi (New Zealand) experience, therefore, presents a focused and fresh way to think through the driving themes and missing links of reform.

IDEAS

To a remarkable degree, theory—especially principal–agent theory—has driven the New Zealand reforms, as Scott, Ball, and Dale [1997] have shown. Indeed, it is hard to imagine where else on the globe one could travel to visit the offices of senior government officials, and hear informed and straightforward discussions of formal economics and its applications to government management. To a lesser degree, the other Westminster nations (Australia and the United Kingdom) have relied on the theory's implicit notions; their efforts have, in turn, influenced other nations.

The driving idea behind this broad array of reforms has been "managerialism."[1] The approach argues that traditional bureaucratic hierarchy had become unresponsive. Reformers sought to replace authority and rigidity with flexibility; the traditional preoccupation with structure with improvements to process; and the comfortable stability of government agencies and budgets with market-style competition.

The basic idea has played itself out in two very different ways. In some countries (notably Australia and Sweden), government reformers preached the need to "*let* managers manage." Reformers there believed that managers knew the right things to do, but that existing rules, procedures, and structures created barriers to doing it. Existing policies and practices create their own reality, analyst Peter M. Senge argued, which make managers reactive, chained to standard operating procedures, and limited in vision. Focusing managers on the problems that have to be solved, and then giving them the flexibility to solve them, promotes organizations that can adapt and governments that work better [Senge, 1990, p. 231; Australian Public Service Commission, 1995; Barzelay, 1992; Howard, 1994; Kettl, 1994].

At the core of let the managers manage is the customer service movement, which focuses managers on serving citizens instead of the needs of the bureaucracy, on the "works better" side of the "works better/cost less" dilemma. In Australia, the government has concentrated more on providing "quality as the customer defines it." Government officials began assessing how citizens judged their contacts with public agencies: their timeliness, accessibility, reliability, responsiveness, and cost. In the 12 months prior to July 1992, for example, 72 percent of the people surveyed reported that they had been treated "well" or "very well" in their dealings with government agencies. The tax office set goals for accuracy of advice provided, the timeliness of the response, the accessibility of the staff, and the relevance of support [Task Force on Management Improvement, 1992, pp. 387, 396–397, 410]. In the United States, the Clinton administration led a similar drive for 214 federal government agencies to define customer service standards [Clinton and Gore, 1995; Gore, 1993]. A major national survey of customer service in both the public and private sectors judged one region of the federal Social Security Administration as having the best customer service, handily defeating several private companies well-known for their treatment of customers [Bishop, 1995].

[1] The role of managerialism in the New Zealand reform has been the matter of some debate, however. See Boston, et al., [1996].

The let the managers manage approach builds on a philosophy of "continuous improvement" to replace the urge for bureaucratic control. The philosophy, in turn, is an outgrowth of the "total quality management" movement championed by W. Edwards Deming [1986]. It argues that working constantly to enhance service delivery, building from the bottom up instead of from the top down, and establishing a system of cooperation among government workers from different agencies are the keys to real service improvement.

New Zealand and the United Kingdom, on the other hand, have aggressively pursued a philosophy of "*making* the managers manage." Because most government agencies and programs are monopolies, managers had little incentive to manage better. The only way to improve government performance, they believed, was to change the incentives of government managers by subjecting them to market forces, as Scott, Ball, and Dale [1997] have pointed out.

In the United Kingdom, for example, the Thatcher government launched a reform christened "Next Steps." Departments framed policy, but two thirds of the employees were to be removed from these departments and placed in agencies. The agencies had contracts specifying their goals and the performance standards by which they would be judged [Campbell and Wilson, 1995; Kemp, 1990].[2] The Major government has since moved aggressively to privatize some of the Next Steps agencies and to contract out other services.

New Zealand has moved even more radically to transform its government sector. Senior government officials have been hired on performance agreements, to manage agencies whose work is defined in purchase-of-service agreements [New Zealand Treasury, 1995]. The government contracts with agencies for the work they do, with clear goals and tough measurement of results. Top managers are hired by contract, rewarded according to their performance, and can be sacked if their work does not measure up. New Zealand public managers, in fact, talk about their "business" in language indistinguishable from their private counterparts [Scott, Bushnell, and Sallee, 1990].

The British and New Zealand reforms, moreover, have aggressively followed rational choice economists in privatizing programs and contracting out for programs remaining within the government [Blais and Dion, 1991; Brash, 1996; Niskanen, 1971; Savas, 1982; Scott, Ball, and Dale, 1997]. They market-tested public programs, through tactics such as requiring government workers to bid for their work against private sector companies. Indeed, unlike the American instinct to contract out work on the assumption that the private sector provides higher quality work at lower prices, New Zealand governments have been agnostic on the question of *who* can best provide services. Instead, they have ruthlessly focused on the *how*—the pursuit of efficiency through competition—and they have introduced far more extensive cost accounting systems to make managers manage.

In other nations, especially the United States, reformers have sometimes eagerly looked to both sets of ideas as a shopping list from which they could cobble together their own reforms. This has often proven a trouble-prone strategy, for two reasons. First, although it is tempting to combine pieces from

[2] The competitive contracting system in the city of Phoenix perhaps most closely resembles the Westminster, and especially the New Zealand, contract-based reforms. See Flanagan and Perkins [1995].

each approach, their fundamental philosophies drive in opposite directions. Letting managers manage is at its core an empowering philosophy, which aims to break down restrictions on managers' flexibility. Making managers manage, on the other hand, seeks to give managers great freedom in solving administrative problems, with the discretion shaped by market incentives. Without clearly charting the steering currents, reformers risk shearing their reforms apart. Indeed, the American National Performance Review has been deeply troubled by its split focus [Kettl, 1995; Kettl and DiIulio, 1995; compare Kamensky, 1996].

Second, the elements in each approach are not so much items in a menu as integral pieces of larger strategy. The New Zealand reform would have been impossible without the contracting process, and the contracting process would not have worked well without its output-based measurement process. The reforms have required hard work to sustain the bureaucratic culture changes required [Gregory, 1995], but the two strategies require culture shifts in opposite directions. That has not prevented some reformers (especially in the United States) from trying to do just that, but when they have tried, they have courted deep, often unresolvable, conflicts.

PROCESS

The ideas, no matter how powerful, have not proven strong enough to stand on their own. In part, this is because reformers' rhetoric has sometimes outstripped their ability to produce results. In part, this is also because many of the ideas collide with existing governmental processes, especially for budgets and personnel. Reformers' experiences, especially in Australia and New Zealand, teach that the management reform philosophy works best when supported by freshened management processes.

The Budgetary Process

Reformers have attempted to move from demand-driven government, where success often is defined by how many programs are passed and how much money is budgeted, to results-driven government, where success is defined by programs' effects. The shift is profound, from a focus on *inputs* (how much should we spend?) to *outputs* (what activities do our inputs produce?). Ultimately, many reformers hope to move to *outcomes* (what consequences do they produce?). It leads to a much more expansive view of budgeting by linking allocation decisions and their results.

The strategies for building that link have varied greatly. Governments in New Zealand and the United Kingdom have, since the mid-1980s, aggressively developed performance goals for the managers of public programs and measured their outputs against the goals. Australia has focused more on traditional program evaluation and broader outcome measures. The Swedish government has worked toward audited annual reports. The French have defined "responsibility centers" in which to establish who is responsible for what. In the United States, the Government Performance and Results Act (GPRA) mandates that all federal agencies develop strategic plans and assess the outcomes they produce compared with those plans.[3]

[3] Although GPRA mandates no explicit linkage with budgetary decisions, it is inconceivable that such information, if produced, would not influence budgeters. The Office of Management and

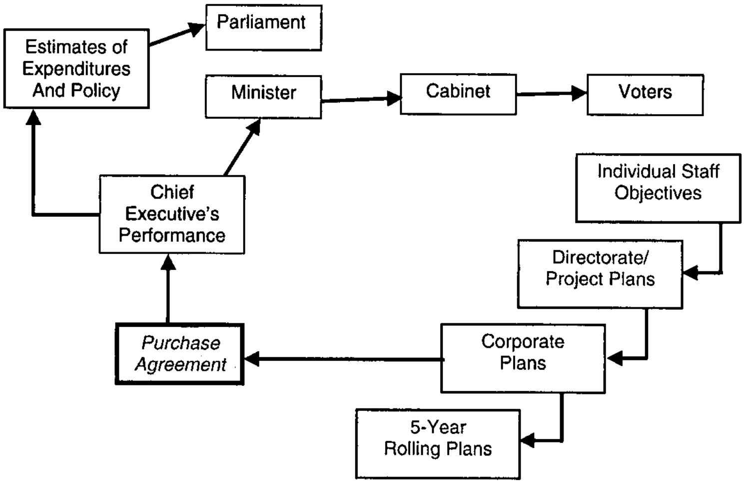

Figure 1. Flow of accountability.

Other governments have experimented with different approaches, but the effort to set goals, measure results, and use the analysis to guide policy decisions is critical to the global public management revolution. In New Zealand, measurement of outputs and accrual accounting are the bedrock of the system [Pallot, 1996]. Figure 1 shows the relationship between the budget and output measurement for one New Zealand agency. Workers within the agency, the Ministry for the Environment, are responsible to meet the output targets contained in the purchase agreement. The chief executive is responsible to the minister, and eventually to the prime minister and cabinet, for ensuring that subordinates meet the policy targets and to the Treasury and Parliament for meeting spending targets [Boston and Pallot, 1997; Scott, Ball, and Dale, 1997].

The experiences of aggressive reformers, especially in New Zealand and Australia, have shown that performance measurement is central to the reforms. But should performance measurement focus on outputs or outcomes? Measurement of outputs charts the number and quality of activities; measurement of outcomes gauges the broader results produced, especially when weighed against social objectives.

On one level, of course, the answer is clear. Citizens and elected officials alike want problems solved. They want police agencies to make citizens safe, health agencies to make people healthy. Such agencies ultimately succeed only to the degree to which citizens feel safe and people enjoy good health. Thus, the fundamental logic of performance measurement drives the process toward outcome measurement.

For agency managers, however, outcome measurement is very troublesome. Performance measures of any kind are extremely difficult to produce. Output measurement in itself, as the New Zealand government found, is a very difficult

Budget, moreover, has promoted the reform as a means of gaining greater control over the budgets and operations of federal agencies. See Kravchuk and Schack [1996].

problem. Pushing past outputs to outcomes—from activity to results—is a far harder methodological problem. Moreover, progress toward outcomes typically depends on many factors that government officials themselves cannot control. Many social factors, from unemployment to drug use, influence the level of crime regardless of what police do. Citizens' eating and exercise habits, along with genetic predispositions, can help or hinder progress toward good health, regardless of the activities of health agencies. Outcome measures help answer the basic question—do programs work?—but can threaten public managers and confuse accountability—because a significant portion of the results may lie out of their control. Outputs, on the other hand, are easier (but not simple) to measure and can focus precisely on the managers' own behavior, but they fail to answer the basic question of whether citizens' problems are solved.

The New Zealand and British governments have focused on outputs. In Canada and Australia, however, the government has assessed outcomes, although output measurement has remained the basic building block. The Australian government, for example, now bases half of its budgetary decisions on program evaluation [Beazley, 1994, p. 4].

The distinctions between output and outcome measures can seem extremely arcane, but the experiences of these governments show that they represent very different strategies with fundamentally different implications. Managers do not need to make an either/or choice. But, as the New Zealand case demonstrates, the value added by even simple measures of output is substantial. Moreover, output measurement is the fundamental building block for all performance measurement systems; there can be no assessment of outcomes without first gauging outputs.

The Australians freely admit that they have been at the task for more than a decade and have yet to get it right. The New Zealand government is struggling over the next stage in its reforms. Their experience shows that developing a robust set of outcome measures is a project for decades, not months. However, despite the difficulties in the project, neither the Australians nor the Kiwis have abandoned the project, even though there have been transitions to new governments. The process has produced enough leverage on tough issues to give it staying power.

The Perils of Performance Measurement

Even the New Zealanders, who long were the most committed to output measures, have found themselves increasingly drawn to outcomes. In 1995 at Cave Creek, a park maintained by the New Zealand government, an overlook collapsed and 14 young people died. The tragedy led to a judicial inquiry, which found that the accident resulted from a systemic failure in the New Zealand government. No government official ultimately was found responsible. How, citizens asked, given a system designed to ensure high performance and clear accountability, could the accident have occurred and no one be punished?

The Cave Creek accident underlines several important points about government reform and performance measurement. First, no reform system is foolproof. Even the most advanced system remains a work in progress that requires constant improvement. Kiwi government officials very self-consciously have thought about the problems that face them next, but visitors trying to borrow some piece of the New Zealand reform experience have frequently missed this critical lesson.

Second, when a problem emerges the instinct of Kiwi managers, following a decade of reform, is to seek ever-greater specification of performance goals and output measures. Some New Zealand officials have likened this response to physicists' hunt for the quark, believed to be one of the fundamental building blocks of the universe. Looking ever more inward, they feared, would blind them to problems based on the connections among problems, which ever-greater goal specification could never solve. Problems that, in particular, require horizontal coordination are difficult to attack within a system based on vertical control, from performance goals set by top officials to output measures gauging the behavior of bottom-level managers. More problems involve shared responsibility for results, which conflicts with the instinct toward ever-greater specification of every manager's responsibilities.

Third, broadening the scope of the New Zealand reform to coordination (for shared responsibility) from control (through performance contracts) would move the system from a relatively "hard" focus to a "softer" one. The movement toward outcome measures is irresistible. Once output measures have been created, the natural tendency is to ask how they relate to outcomes. Episodes like the Cave Creek tragedy, moreover, demonstrate that attempting to insulate the output-based system from outcomes is a political impossibility. Making a transition to outcomes from outputs, however, would require in the New Zealand government a culture change nearly as fundamental as the initial change from traditional administration to performance-based contracts.

New Zealand officials have started to think about this puzzle. Top managers, for example, have begun considering a shift in focus from government's role as purchaser of services to a role as owner of programs. The words signal a fundamental shift in management focus, from a management-control, efficiency-based orientation to a broader, more strategic and coordinated approach to problem solving rooted in the pursuit of the public interest. Government officials have continued to debate the proposal, but the discussion in itself demonstrates three things: the critical foundation that output-based measures play for subsequent reforms; the inescapable drive toward asking broader outcome questions; and the important role that the public interest question inevitably plays.

The Human Resources Process

Civil service reform has been part of the package of most public management reforms [Chaudhry, Reid, and Malik, 1994]. The reforms have sought to transform the culture of public organizations, including encouraging employees to think about citizens as "customers" to be served instead of "clients" to be managed. The changes have imposed technical reforms, including the development of output and outcome measurement systems and the strategic planning to guide them. The changes, finally, have created financial incentive systems to promote performance. Put together, these changes have required significant employee training and new personnel systems.

Such process changes would have been huge in any case. In many countries, however, the changes came in the midst of a more fundamental downsizing of the government sector which, in turn, threatened or actually sacrificed the jobs of many government employees. Although the rhetoric of improved performance—making government work better—lay behind reforms every-where, the "costs less" component provided the political driving force. Civil servants frequently were the first targets of the reduction movement. American Vice President Al Gore's "reinventing government" set a target for reducing federal employment by 252,000 (later raised by Congress to 272,900), a reduction of about one eighth. The civil service in the United Kingdom shrank by even more—nearly 30 percent—in the 15 years of the Thatcher–Major reforms. Half of the workforce in the New Zealand government's core departments has been eliminated. In most nations launching major changes, the reforms often ended the certainty of future employment, introduced new financial rewards, and challenged managers with a new imperative to manage better. The very nature of government work fundamentally changed; and in the process, the morale of government employees often suffered [Kettl et al., 1996].

The British–New Zealand model imposed new demands for results and made government managers singularly responsible for producing them. Unitary civil service systems gave way to more flexible agency-based systems, with responsibility developed from the central civil service agency to departmental managers. In Britain, moreover, the role of the unions representing government workers has shifted as well, with the focus of representation moving from a broad umbrella group to the workplace [Fairbrother, 1994].

In New Zealand, individualized work and performance contracts have replaced the rule- and process-based civil service system. Government managers are hired on fixed-term contracts and negotiate their agencies' outputs with ministers. They can receive performance awards for superior work and be dismissed if they prove unable to meet the negotiated targets. Top agency managers, in turn, frequently hire their senior managers by contract and hold them accountable through performance contracts. The flexible, output-based, contract-governed system has virtually replaced the nation's traditional civil service system. The State Services Commission, the former nerve center of the civil service system, now focuses instead on strategic planning for the government's workforce; on the appointment of departmental chief executives and the monitoring of their performance; and on the enforcement of government ethics.

The Australian model proceeded very differently, with a fundamental transformation of human resources as the keystone for a much broader reform movement. Civil service reform has been far more central to the Australian reform movement; it has focused particularly on "developing the main resource of the [public] Service, its people. The strong positive attitudes and commitment which public servants have to a better Public Service need to be brought more clearly to the forefront and used to underpin a real culture of continuous improvement." The system seeks "to focus on individual performance and adding value in what they do, thus helping people achieve their agency's objective and continuously improve their agency's performance" [Australian Public Service Commission, 1995, p. 1].

The Australians have concentrated on improving the skills of their managers through training and by reshaping the civil service system to encourage performance, compared with the fundamental changes in process driving the New Zealand and United Kingdom reforms. The difference is in part one of style, but it is even more fundamentally one of scope: In the United Kingdom and New Zealand, elected officials have sought a much more fundamental reduction in the size of the state and far more radical changes in the mechanisms the state uses to manage its programs. In the United States, by comparison, civil service reform has not played a significant role in any part of the reforms, and managers have had to use the existing civil service system to cope with growing expectations and cuts in government programs.

Civil service reforms have varied enormously in global reform efforts, but two basic strategies frame the options: substantial dismantling of existing civil service rules, significant privatizations, and substantial delegation of authority to agency-based managers (as in the New Zealand and United Kingdom make the managers manage cases), and new investments in training and incentives (as in the Australian let the managers manage approach). The British–Kiwi model has promoted more radical and rapid changes. The Australian model supports more gradual and continuous change. The strategies are different but neither course is easy. Managing morale problems, finding workers with the skills to cope with significantly greater responsibilities and a more results-oriented focus, motivating them to high performance, contending with greater demands and lower resources, and developing the ability to steer radical change are skills that public managers increasingly need. To the degree that new employees who are trained in the private sector enter to provide some of these new skills, there is the additional need for inculcating the sense of public interest into workers used to serving the more narrow profit motive.

The fundamental issue lies in organizing the process that creates worker incentives and provides their support. Motivation lies at the core of the human resource problem of government reform. Tough performance contracts and monetary rewards alone cannot supply adequate incentives. The best private employers around the world look on their employees as assets, not costs. They focus on their people as the most important tool to serve their mission [Tyson, 1987, p. 76; Kettl, 1995; Kettl and DiIulio, 1995; U.S. General Accounting Office, 1995b; Wyatt Company, 1995]. Indeed, nations like New Zealand that have aggressively reformed their government sector recognize the need for plowing some of the savings back into training their workforces and devote substantial energy to conferences, courses, and other programs of employee support.

This creates a genuine dilemma for reformers. On one hand, the reforms seek smaller and more efficient governments, driven by market-based incentives and sometimes staffed by managers with significant private sector experience. The temptation is to impose highly stylized images of private management on government agencies, such as tough output guidelines. On the other hand, the job of managing government is more than just a production function. It requires a sense for and a sensitivity to the public interest. As one observer of the British reform warns, "Individualism, and the 'survival of the fittest' through the market mechanism, do not accord with a desire for the public good" [Tyson, 1987, p. 76]. Genuine reform must constantly seek a balance between the new mechanisms to provide efficiency while retaining a sharp focus on the ageless questions of the public interest.

The Capacity Question

The sheer scale and scope of most government sector reforms are nothing short of staggering. Managers are being asked to do what they have never done before. Indeed, sometimes they are asked to do what no one has ever done before. They are asked to do far more with much less, to do so quickly and under great political pressure. They are asked to transform old systems to meet new problems and to adapt new methods to old systems. These changes inevitably impose enormous strain on the management systems and the people struggling to run them. "The resulting solution," warned one British expert, "usually, and understandably, takes the form of a 'bolt-on' addition to existing arrangements, and there is often a significant under-estimate of the degree of change required to get people to work differently, and the effort required to make that change stick" [Exley, 1987, p. 46].

In part, the solution requires those advocating the let managers manage approach to recognize the political demands driving the process. No system can simultaneously call on managers to assume more discretion and take more risks without creating political incentives to support their decisions—and eliminating harsh recriminations for the risks they take. It also requires those favoring the make managers manage approach to realize that reforms cannot simply be imposed. They require time to take hold, investment in people and technology (including information technology, which often proves especially troublesome), and constant support. Making the reforms stick, the evidence shows, requires sustained, hard work; a recognition that the whole process cannot simply be left to fend for itself; and a substantial investment in management capacity—in people, processes, and technology. Some of the world's most aggressive reformers have painfully learned that starting a reform without feeding it can produce only half a revolution. And "half a revolution is not better than none," argues American private sector management analyst James Champy. "It may, in fact, be worse" [Champy, 1995, p. 3].

Indeed, the New Zealand government has recognized the need for investing in such capacity. It encourages further education of workers and regularly conducts extensive training programs for top officials. The Australian government, likewise, has heavily invested in training its employees. Although the training is substantially less than many private companies provide, it is far more than what is provided in the United States. In Australia, the State Services Commission (the rough equivalent of the American Office of Personnel Management) has redefined its job to that of strategically managing the government's manpower and developing the training its workers need. American reformers have been far less eager either to think strategically about the government's management capacity or how best to build a high-performing workforce. The undeniable lessons of the most energetic reforms abroad, however, underline how important such changes are in the search for better results.

MISSING PIECES

The underlying ideas drive the global public management revolution with uncommon elegance. Give managers more flexibility, let (or make) them manage, hold them accountable for results, incorporate more market testing—these propositions flow directly from microeconomic theory about the motivations of government workers. However, everything truly interesting and useful about microeconomics comes in probing the gaps, in theory and practice, that surround the basic concept of self-interest. So, too, it is with government reform. Many of the most important and troubling elements of government sector reform flow from pieces missing from the overall approach: the relationship between public managers and elected officials; the connections between managers' performance and government budgets; and government's leverage over its nongovernmental partners.

The introduction of performance measurement as part of managerialism is much more than a new wrinkle, however. Accompanying the delegations is a mandate to be more customer-focused, and to concentrate more on outputs and outcomes than inputs. The degree to which this actually happens makes the traditional notion of accountability—top-down authority responsible to the people through elected policymakers—stand on its head. The twin emphases on customers and results focuses administrators downward, toward citizens, rather than upward, toward elected officials. It forces them to shape their behavior by looking outside government to outcomes rather than within government for processes. Reformers have strongly argued that such changes will improve the quality and reduce the cost of services. Whatever merit this argument might have, it certainly if subtly transforms the relationship between elected officials and administrators. At the least, it introduces new standards by which administrators can assert autonomy from policymakers; at the most, it uncouples the existing leverage that elected officials typically use in asserting their control over public managers.

It is impossible to underestimate just how radical a transformation in democratic accountability this is. Policymakers the world over have long sought influence over administrative action, even detailed administrative decisions, by using their control over inputs, especially budgets. Performance-based contracting requires these officials to take a step back from the methods of control they are used to using, to place their trust in a contracting process that requires them to define goals and give managers discretion in how to meet them, and to rely on performance measurement to supplement or replace tactics they previously used to steer administrative decisions.

Thus, the government reform movement, whether the New Zealand performance contract for government officials or the American approach to contracting out, radically transforms the nature of democratic accountability. It introduces an important bottom-up influence to counter traditional top-down control. It demands that administrators perform a new role and build a very different capacity to fill it. And it requires elected legislators and executives alike to change the way they think and act toward bureaucratic control.

In a nonparliamentary system like the American one, the challenge is even greater. Members of Congress are notorious for simultaneously paying little attention to most administrative issues while being hypersensitive to selected administrative details of keenest interest to their constituents. This system puts a heavy focus on inputs and symbolic actions. Government by contract, on the other hand, distances administrators from control of many symbols while forcing a far more careful focus on performance measures. Governing this system requires developing new links between policymaking and policy implementation while simultaneously redefining existing roles. It requires that elected officials hold managers responsible for results—and it implies that voters will then be better able to hold elected officials more responsible for the outcomes of public programs. The American system is now especially well designed to shift and diffuse blame. The nation's tentative steps toward managerialism thus carry heavy and unanticipated political risks for elected officials and public managers alike.

In Westminster-style systems, the policymaking/policy administration line is inevitably fuzzier, because elected legislators head the major administrative agencies. Elected officials cannot distance themselves as easily from the results of their policy decisions as can American presidents and members of Congress.

If managerialism raises the political stakes by tying elected officials more closely to outcomes, it also has sought to divide policymaking more clearly from policy administration: Policymakers make policy, and then delegate implementation to managers, within or outside government, and hold them responsible by contract. Like the American case, this redefines existing roles. Unlike the American case, it requires elected officials to take even greater responsibility for framing goals. Indeed, New Zealand officials, having invested more than a decade in trying to improve their government's performance through ever-greater specification of contract goals and better measurement of outputs, have found themselves drawn into the far fuzzier world of outcomes. The elegant construction of the reforms has strained under the pressure of coping with the broader links between policy and management, between contract goals and results.

Either way, the movement toward managerialism, contracts, and performance measurement raises huge challenges for the behavior of elected officials and for the operation of democracy. In both approaches, elected officials have to confront new issues; develop new relationships with public managers; and take new responsibility for the results of governmental programs. Most fundamentally, managerialism in all of its variants radically transforms the connections between elected officials and voters. In their enthusiastic rush to reform, many of the movement's leaders have not carefully thought through what they would be getting themselves into, how they would have to change their own behavior, what capacity they would need to play their new role, and how all of these changes would affect the sinews of democracy.

Performance, Results, and Budgets

The search for certainty amid such complexity can trap managers into a mechanistic view of the process. Strategic planning, construction of indicators, output measurement processes, and reporting requirements can easily become ends in themselves. The fundamental purpose of the process, of course, is not to produce measures but to improve results. It is far more useful, therefore, to think of the process as *performance-based management,* not performance *measurement.*

To allow the performance process to focus narrowly on measurement too often leaves the key decisions to the measurers. Moreover, performance-based management serves managers best when incorporated seamlessly into the government's other major decisions, especially budgeting. Its greatest potential benefit is to help everyone in the process think more strategically. It can help government managers focus on how to do their jobs better and explain to elected officials how they are trying to translate legislative goals into results. It can help elected officials weigh competing claims for scarce resources and put the money where it will do the most good. And, most important, it can help citizens understand better what value they receive for the taxes they pay.

Put simply, performance-based management is about *political communication.* It has value only to the degree to which it improves that communication. This communication occurs on three different levels:

Within the Agency

Agency managers inevitably have a great deal of discretion. They need to chart which problems will get their strongest attention, and how best to go about solving them. The tighter the resources (money, people, and technology) are, the more important it is to solve these problems well.

Between the Agency and the Central Executive Offices

Key agency decisions inevitably percolate up to the central budget office and the president or prime minister. Some decisions are budgetary: How much should an agency spend on which programs, and how ought money be distributed among agencies and programs? Some are programmatic: Which new initiatives ought to be launched? And some are managerial: Which problems ought to be attacked first, and how? Performance-based management can never resolve the questions; no information system or data analysis can ever resolve what are fundamentally political judgments. But it can provide additional useful information that, on the margin, can help lead decisionmakers to smarter decisions. It is on the margin, given scarce money and even more scarce time, that the most critical decisions are always made.

Among Agency Managers, Ministers, and Parliamentarians

Elected officials cannot be uninvolved bystanders or arms-length participants in the performance management process. Yet experienced countries like New Zealand have discovered that ministers and parliamentarians often are tempted to distance themselves from the chain of responsibility and the unforgiving implications of clear output measurement. Successful performance management systems hinge on careful integration of politics and management. Elected officials are the ultimate audience for agencies' performance measures. The measures offer great potential for improving legislative oversight; it is easier to ask good questions about results if results-based information is readily available. Moreover, they offer great potential for enhancing congressional budgeting; it is easier to target scarce budgetary dollars on important problems if elected officials know which programs are most likely to deliver solid results.

Leverage over Nongovernmental Partners

Performance management confronts additional problems in incorporating government's nongovernmental partners into the process. Downsizing pressures have increasingly pushed government's activity to private sector contractors, nonprofit organizations, grantees (especially in federal systems), and citizens. It is hard enough to measure the performance of government organizations. When a substantial part of governmental activity lies outside the direct control of government managers, however, the job becomes much harder. Government managers lose control over the goals, indicators, and measurement processes. The more government builds nongovernmental partnerships to do its work, the harder the job becomes.

Private sector companies, of course, face many of the same problems. Indeed, private sector outsourcing has grown substantially over the last decade as companies, faced with their own demands to shrink costs and improve efficiency, have trimmed their operations and have come to rely more on their own contractor networks. And their experiences suggest one approach to obtaining leverage over nongovernmental partners. Organizations that engage in significant and successful outsourcing realize that they must construct a new capacity to act as smart buyers: to determine in advance what they want to buy; to define specifications carefully enough so that suppliers know what to provide; and to gauge the product so that the buyer can assess the quality of what has been bought [Kettl, 1993]. Many organizations in general, and government agencies in particular, do not have this capacity. There frequently are few career paths for procurement managers or, where they do exist, they are not prestigious and remunerative enough to attract the government's best workers. Careful management of these new governmental reforms requires the cultivation of new capacity, which is why governmental reform must go hand-in-hand with human resources reform. And, in the end, it all must be focused squarely on achieving the public interest.

ACCOUNTABILITY AND THE PUBLIC INTEREST

Most nations journeying down this path have discovered that the managerialism movement has radically transformed democracy. The fundamental governmental premises of the movement are simple enough, but the introduction of performance measurement is much more than a new wrinkle. It transforms the relationship between elected officials and administrators. Indeed, managerialism and its collection of reforms have sought to divide policymaking more clearly from policy administration. It is a strong echo of the basic issue that framed the study of public administration for the first half of the 20th century. This historically has been a difficult—indeed, at its core, insoluble—problem, which has played itself out very differently in different countries. In particular, the reformers must sort through two basic questions.

First, *capacity:* A recurring theme throughout this study has been the need to build new administrative capacity—government workers with different skills, supported by new information technology and by new management processes. Managing a performance-based contract system is very different from managing a more traditional authority-based system. To do so effectively requires a conscious effort to identify the capacity needed and how to create it. Skipping this stage can lead to failure. As one analyst pessimistically wrote, "countries most in need of administrative reform are least able to implement it" [Caiden, 1994, p. 111]. Effective reform requires building the capacity to pursue it.

Second, *the boundaries of government:* The reforms require moving from a negative view of government—which pieces can be privatized, streamlined, or abolished?—to a more positive view—what should government do, and how can it best do it? It also requires defining and strengthening government's core. As much as reformers incorporate private sector models into government operations, government is not and never will be a business. In a democracy, its fundamental job is pursuing the public interest. It promotes critical values of fairness, justice, equity, and due process. Government exists, and has always existed, precisely because the private market, and market-style management, does a terrible job in pursuing goals such as these that go beyond efficiency.

To protect and promote these goals, government must have the capacity and support to manage its inherently governmental functions. Defining the term has daunted analysts for years [see Boston, 1995b; U.S. General Accounting Office, 1991]. Government used to define its role in terms of what only it could do, or what elected officials wanted it to do. But reformers have been trying to shrink government wherever possible. The private sector can now provide virtually any governmental service, from police and fire protection to prisons and schools. Given the power of the private sector model and the political need to mount reform, it frequently has been tempting to push the private sector into anything it *can* do, without first asking whether it *should do it*. Effective reform requires ensuring that only government does what government must do.

Government reform is still an experiment in most places where it has been deployed. The deeper questions are what effects it truly has on the size of government; on the capacity government requires to fulfill its job; and on the fundamental mechanisms of elected democracy [Kettl, 1995; Kettl and DiIulio, 1995; OECD, 1995b]. In tackling all these questions, performance measurement is central. Performance measurement is important because it helps illuminate the government's results. Performance management helps ensure that government promotes the public interest, however the often messy debates over government and its results may define it.

That is perhaps the greatest value of performance *management*. The managerialism movement, and its contract-based variants, grew out of a profound public dissatisfaction with government, its programs, its performance, and its governance. But both through design and political reality, its creators quickly came to realize that it was not a machine that could be turned on and left unattended. Reform through contracting and performance measurement will surely not solve all of government's problems. But the reforms clearly mirror the pressures that led to their creation—and they introduce new, and largely unexplored, political and management features into policymaking and implementation.

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