



New Public Management

(Chapter 2)



(New) Public Management (NPM)

New public management (NPM) is the generic term for administrative reforms that have been carried out in a similar form in various countries since the late 1980s.

It is an approach to the reorganization of steering processes in the public sector with the aim of increasing **effectiveness** (will the planned objectives be achieved?) and **efficiency** (is output delivered at the best input-output ratio?).



Bureaucracy - Organization of Traditional Administration

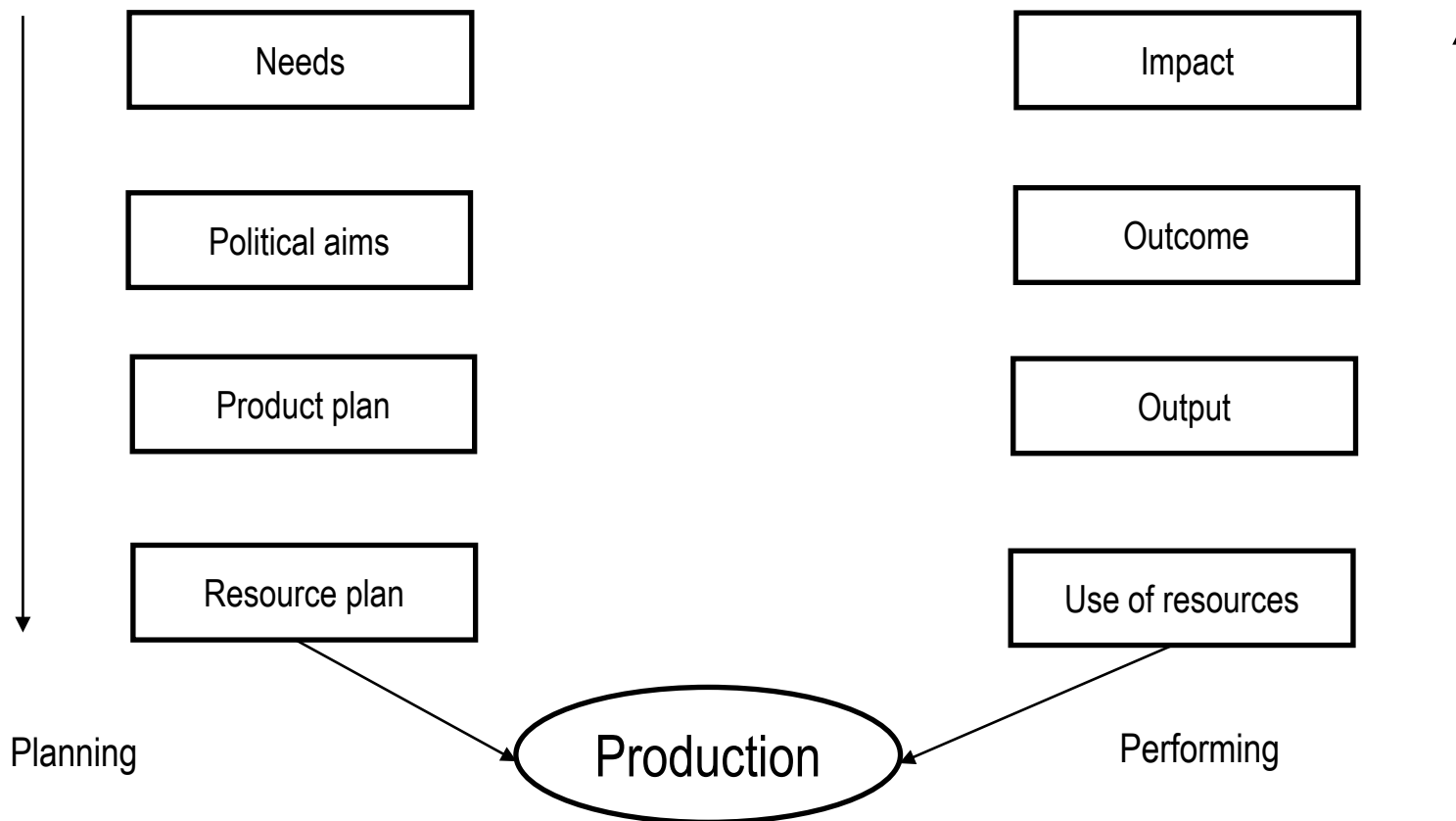
“The bureaucracy is rational in nature: rule, purpose, means, factual impersonality shape its conduct.”

Source: Weber (1922)

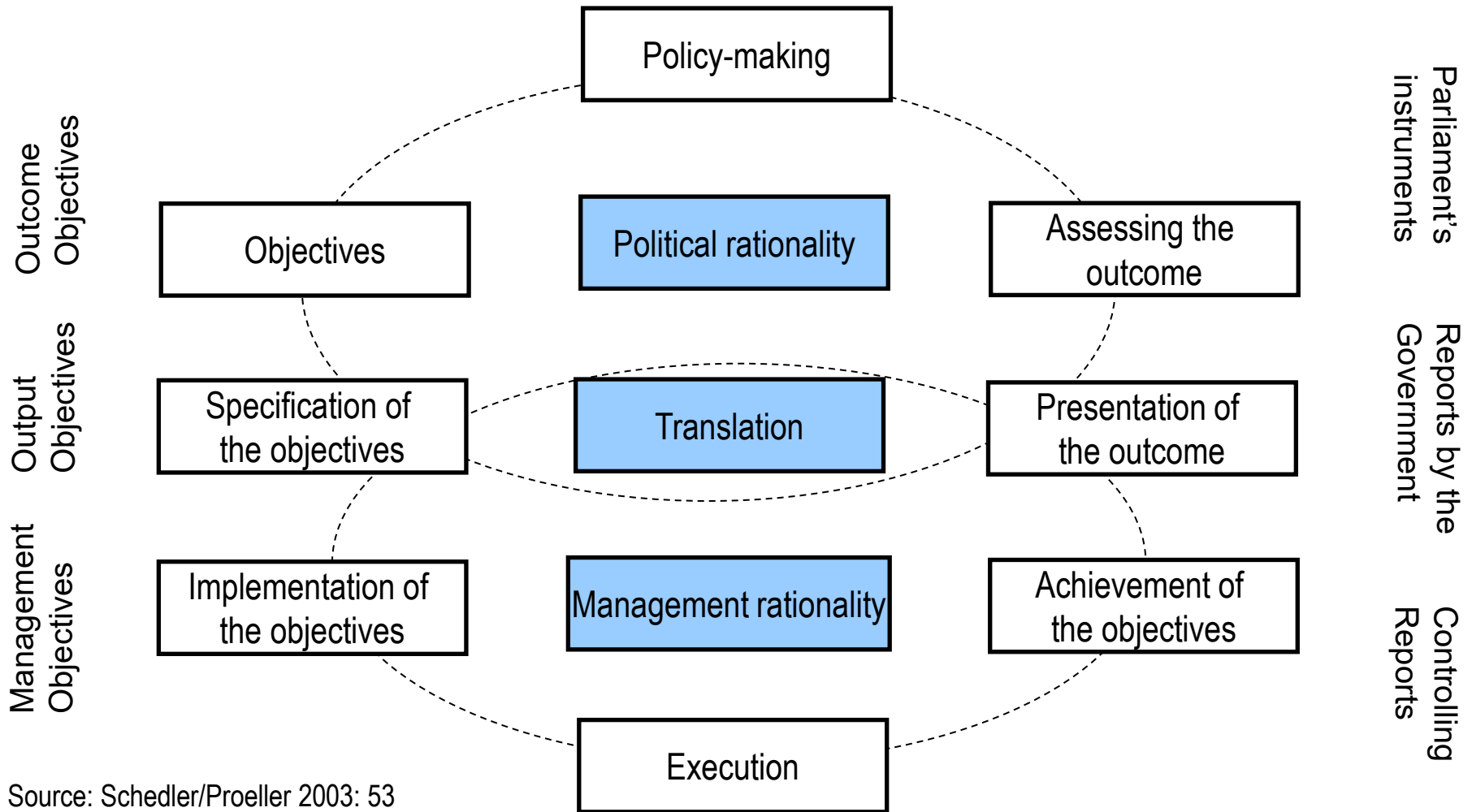
- A system of rules must be observed, which ensures a regulated procedure
- Strict rules of competence which are defined by general standards
- Each position is firmly within the hierarchy; rights and obligations are clearly defined
- The distinct separation of official functions and privacy
- Regulated training and assessment of employees
- Full-time jobs, careers by seniority.



The Process of Planning, Producing, and Performing



Integration of Politics and Management





Theoretical Foundation of the NPM

- **Public choice:** “The subject matter of public choice is the same as that of political science (...) The methodology is that of economics.”

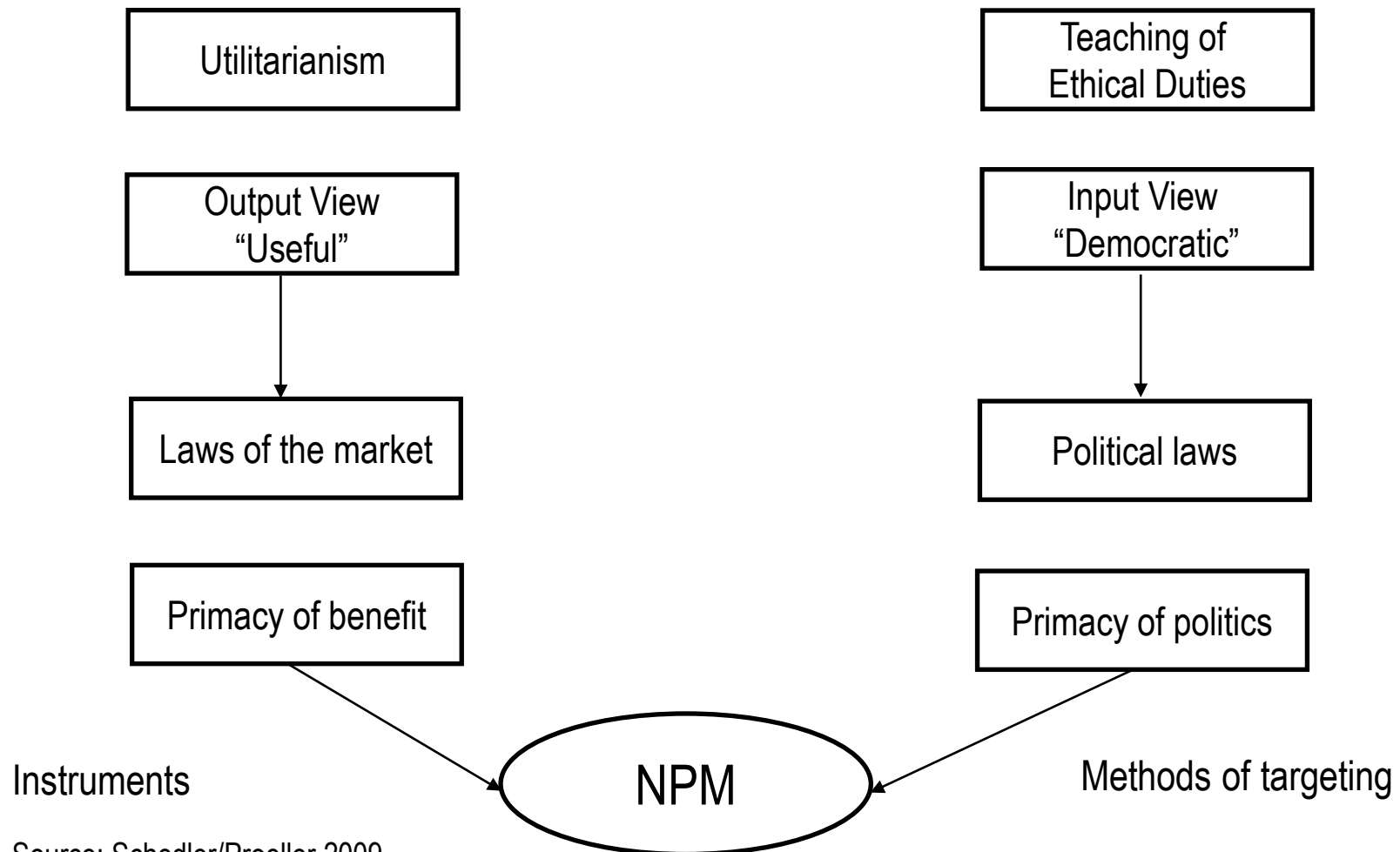
Source: Mueller 1989:1
- Decision-making behavior of politicians is the result of individual preferences. These act as self-serving or budget-maximizing bureaucrats.
- Therefore, appropriate conditions must be created in order to promote competition between authorities and administrative units.



- **Managerialism:** Applying beliefs and practices, so-called management principles, to specific problems. Origins in antiquity; e.g., Adam Smith, Henri Fayol, Peter Drucker, and Tom Peters.
- In order to solve economic and social problems, sufficient room to maneuver in order to implement of management is the basic prerequisite.
- As a result, there is a need for deconcentrating power, decentralization, deregulation, and delegation. Other consequences are the adoption of management concepts from the private sector such as TQM, lean management, BPR, etc.



The Sources of Legitimacy of NPM





The Guarantor State

The concept of the **guarantor state** unbundles the question of size of government (welfare state vs. night watchman state) and provider of public services.

The size of government is decided by elected bodies based on democratic rules.

The provision of public services is decided by the administration based on an utilitarian approach.



Selected Instruments of Public Management

Steering:

- Distinction between strategic and operative steering
- Focus on the outcome/impact instead of the input
- Corporate structures

Service Orientation:

- Customers and citizens orientation (quality management)



Market Orientation:

- Monetary and non-monetary incentives
- Performance management, performance contracts, service level agreements
- Competition substitutes such as benchmarking, internal markets, outsourcing, and privatization

Controlling :

- Controlling of impact, cost effectiveness, law, and fairness



The “Basic Steering” Instruments

A) Product

“The product is the smallest independent service that can be used by a customer. A service is considered to be independent if it provides a benefit without needing any other service.”

Source: Brühlmeier et al. 1998: 301

- Product is produced in an organizational unit, or an organizational unit is responsible for creation.
- Product meets third-party needs.
- Product leaves organizational unit.
- Product is suitable for steering in the political-administrative system.



Fields of Application of Products

1. Relevant for political decisions
2. Relevant for a market-oriented organization
3. Basis for quality management, process management, etc.
4. Platform for performance controlling in the context of performance contracts
5. Cost objects for pricing
6. Allows make-or-buy decisions and tenders



Elements of a Product Description

Name of product
Responsible person for product, responsible team
Related product group, responsible person for the product group
Target customer
Specification of product/service
Related semi-products
Legal bases
Output targets and indicators
Outcome targets and indicators
Financial targets: Output targets and indicators



Contract Management and Performance Agreements

Contract management means that targets are set for a certain period of time between government and internal organizational units of different hierarchy levels, but also to organizational units outside hierarchy. This steering mechanism includes global budgets and performance contracts/agreements.

Source: Schedler/Proeller (2009)



B) Performance Contract

The multi-year performance contract is the steering instrument between the executive and the operational administrative unit:

- Definition of products that are grouped into product groups (with indication of output and outcome/impact targets, target groups, service users, and indicators or standards for measuring the degree of achievement).
- Definition of a budget and operational-organizational framework
- Principles of management (human resources management, establishment plan, surplus transfers at the end of the year, etc.)



C) Lump-Sum Budget

The global budget is the steering instrument between the legislature and the executive. With the lump-sum budget, the legislature determines the allocated financial resources for the product groups. Output and outcome/impact targets are, although not legally, at least politically binding.

Lump-sum budgets may be exceeded as long as the revenue generated within the contract is higher than the budgeted expenditure.

Reporting/controlling becomes indispensable because the legislature (and executive) needs information about output, outcome, and impact in order to allocate the lump-sum budget.



Characteristics of Contract Management

- Dissolution of the strictly hierarchical gradation of decision-making powers
- Quasi-contracts replace hierarchical instructions
- Joint definition of objectives
- Increasing flexibility and motivation
- Incentive to competitive behavior
- Promoting cost orientation
- Flexibility and freedom requires more complex control



Variety of Performance Contracts

Example 1: Performance mandate of the Swiss Federal Office of Communications

Agreement between the Federal Council and the Federal Office on the regulation of radio, telecom services and radio and television concessions

Example 2: Performance agreement on the granting of subsidies to increase biodiversity in forests

Agreement between the Federal Forestry Directorate and the Swiss Canton of Aargau on the implementation of a project to increase biodiversity in forests



Example 3: Performance agreement of the Samaritans Association Urtenen-Schönbühl

Agreement between the Swiss municipality of Moosseedorf and the Samaritans Association of Urtenen-Schönbühl on assistance by lay medical personnel in taking care of patients or persons seeking help



Types of Performance Contracts

	Type A	Type B	Type C
<i>Partner</i>	Internal	Between tiers of government	Public-private
<i>Hierarchical insinuation</i>	Yes	No	No
<i>Legal mandate</i>	Yes	Yes	Indirect only
<i>Exit option</i>	No	Hampered	Yes
<i>Enforcement</i>	Yes	Hampered	No
<i>Duration</i>	Mid-term	Long-term	Negotiable
<i>Example</i>	1	2	3



Integrated Task and Financial Planning

“Integrated task and financial plan” is a steering document containing all tasks of a public administration. The document is usually updated once a year. It integrates the planning of the upcoming years and combines financial and performance data.



International Development in Mid-Term Planning

- Reforms of steering public finances common in the OECD
- Forms of performance budgeting: (1) Financial reporting with performance information, (2) performance influenced budgeting, (3) performance-based budgeting
- Instruments in the OECD: Program-building, lump-sum-budgeting, mid-term perspectives, performance contracts, resourced-based budgeting