

## **New Public Management as a Paradigm of Public Sector Reform: Examples from Developing Countries**

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**Abstract:** *New Public Management (NPM) evolved as a model of reform and governance in the public sector management. To assess NPM as the public sector reform agenda, a closer look at NPM and its applications in developing countries is essential. To do this, this paper discourses some key issues: What is NPM and its background? What are the influential factors in replicating NPM initiatives in other countries from its original birth place? What theories are concerned with NPM for its acceleration? How scholars view NPM reforms round the globe? What factors are influencing its success or failure in those territories? Through the critical analyses of these questions this paper attempts to provide a better understanding of the general applicability of NPM in developing countries along with particular highlights on some influential factors for its success or failure combining a case study approach. This paper analysed the facts from case studies which can be mapped back to the theoretical and analytical framework to bridge the gap between theory and practice. From here again, it is apparent that in certain cases NPM may work better. Again, if assessed on the basis of the facts whether it has improved responsiveness of bureaucratic agents to their political principals, a mixed answer is available because there are instances of improving the organisational performance targets in the public sector though not always satisfactory. The reality in developing countries is that performance incentives have proved too weak to have much impact owing to close political and personal ties between managers and the government.*

### **1.0 Introduction**

"Private good, public bad" with this viewpoint new public management (NPM) evolved as a model of reform and governance in the public sector management. During the 1980s when International Monetary Fund (IMF) initiated some structural adjustment programmes, both the developed and developing countries felt pressure due to economic and fiscal crises. As a result, the active role of the state was seriously called into question in most western countries (Zifcak 1994). Ultimately, the situations led them to be more market-focused and private sector-oriented. Developed countries searched for alternative ways of organising and managing public services and redefining the role of the state to emphasize on

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markets and competition, and also to be focused on the private and voluntary sectors.

On being engulfed by economic and fiscal crises in the 1970s and 1980s most developing countries also started shifting from state-led development and bureaucracy. These newly coined practices and techniques have been called NPM by Hood (Aucoin 1990:1) or the 'new managerialism' (Hood, 1991:8). Some researchers termed it as a 'paradigm' (Hughes 1998; Borins 1994; Osborne & Gaebler 1992). Practically, since there have been significant differences between countries, some countries have been successful in some areas in NPM reform and some could not be.

To assess NPM as the public sector reform agenda, a closer look at NPM and its applications in developing countries is essential. To do this, this paper discourses some key issues: What is NPM and its background? What are the influential factors in replicating NPM initiatives in other countries from its original birth place? What theories are concerned with NPM for its acceleration? How scholars view NPM reforms round the globe? What factors are influencing its success or failure in those territories? Through the critical analyses of these questions this paper attempts to provide a better understanding of the general applicability of NPM in developing countries along with particular highlights on some influential factors for its success or failure combining a case study approach.

The remaining portions of the paper are structured as follows: Part II presents the approaches inside NPM along with its influential factors; Part III turns to the theoretical foundations; Part IV reviews literature on NPM both in OECD and developing countries and shows the roads where NPM has travelled; Part V deals with key issues in developing countries; Part VI is concerned with a brief NPM case study taken from Bangladesh; and finally Part VII infers a conclusion reviewing the overall analysis.

## **2.0 Meaning of NPM**

According to Manning (2001), NPM is a set of menu where the dishes are variety of choices. He pointed out that NPM basically contributes to 'managerialism' and 'new institutional economics'. However, scholars have summarised its other offerings. First comes 'management culture' highlighting citizen or customer, and accountability for results (Minogue 1998; Pollitt 1993; Commonwealth Secretariat 1993; Hood 1991). It then

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focuses on structural aspects or organisation that tends to decentralised authority and control along with alternative service delivery mechanisms (Manning 2001). However, According to Borgenhammer (1993), depending on situations different types of decentralisation initiatives have been taken as presented in Table 1. Next arrives the market-oriented approach for separating production responsibility from service providers to compete in a free market environment keeping cost reduction for the delivery of better services in mind. However, this attempt is intended for raising efficiency by subjecting public organisations to market conditions (Mills 1997).

Table 1: Types of Decentralisation

<i>Types of decentralisation</i>	<i>Definition</i>
Decentralisation (Administrative)	Decision-making is transferred to a lower administrative (civil servant) level
Devolution (Political decentralisation)	Decision-making is transferred to a lower political level (local government-municipalities etc.)
Delegation	Tasks are allocated to actors at a lower organisational (semi-autonomous) level
Privatisation	Tasks are transferred from public to private ownership

Source: Borgenhammer (1993)

As mentioned by Aucoin (1996) what is central to NPM approach is the creation of semi-autonomous agencies. They turn a monopoly provider into a contracting agency for performing government functions confirming 'efficiency gains'. Hood (1991), the forerunner apostle of NPM, mentioned the major of its doctrines which include lowering costs in direct public sector, raising labour discipline to improve resource use, application of private-sector-style management practices, competition in the public sector etc.

However, scholars have come to a common components of NPM such as deregulation of line management; conversion of civil service departments into free-standing agencies or enterprises; performance-based accountability, particularly through contracts; and competitive mechanisms such as contracting-out and internal markets (Aucoin 1990; Hood 1991). Ingraham (1996) and Minogue (1998) include 'privatisation' and 'downsizing' as key parts of NPM package. Although NPM has been

facing some debates about its fruitfulness, Thomas (1996) mentioned that some of its key features are still prominent in the vocabulary of civil service reform all around the world. After all, the central objective of NPM was improvement in the ways in which government is managed and services delivered, with emphasis on efficiency, economy and effectiveness.

### 2.1 The Influential Factors of NPM Reform

The factors that influenced the rise of NPM during 1980s in developing countries are to be considered here for best assessing its applicability. Polidano (1999) explained three reasons behind it. First, fiscal crisis of the most western governments moved them to NPM approach. Studies reveal that because of the crisis coupled with the quest for efficiency and effectiveness the United Kingdom (Greer 1994; Marsh & Rhodes 1992; Stewart & Walsh 1992), and Australia and New Zealand (Halligan 1998) declared a general agenda to reorganise public bureaucracies as the topmost political priority. Second, the influence of neoliberal idea of market competition for enhancing economic efficiency also gave rise to NPM proliferation. Finally, the neoliberals' criticisms of the old public administration about the size, cost and the capability of government viewing it 'inefficient monopoly services-provider' was another driving force (Zifcak 1994).

### 3.0 Theoretical Foundations of NPM

New Public Management is based on much theoretical underpinnings. Posed by many authors (Walsh 1995; Hood 1990; Aucoin 1990), NPM has common roots and combines several theories defining the way administration should run. The most important theoretical foundation of NPM is 'new institutional economics' (NIE) (Hood 1991:6) and particularly 'public choice theory' and 'principal-agent theory' which rooted in the economist's theory of rational behaviour (Hughes 1998:10). The basis of these theories is the conception of 'rational actor'. According to Dunleavy & Hood (1994), general assumptions about rational actor are that he is an ideal type of individual and have sets of well-formed preferences that can be compared easily and he also seeks biggest possible benefits and least costs in decisions.

Public choice theory argues that this theory demonstrates inconsistencies of representative democracy and proposes an alternative basis for decision-making in government (Walsh 1995). To counteract bureaucratic monopoly this theory provides more competition in the delivery of public

services, privatisation or contracting out in order to reduce waste and more information about the availability of alternative services. Thus, it emphasises the importance of the interface between bureaucracy and the political environment (ibid).

The principal-agent approach is a framework for the analysis of decentralisation that reforms by which the rent-seeking tendency (Tullock & Eller 1994) by bureaucrats, their clients and politicians will cease. They are the monopoly provider of services and often seek scope of 'opportunism' or 'self-serving'. They explained that the central government is viewed as the principal with the objective of equity, efficiency and financial soundness whereas the local authorities will work as the agents who are given the resources to implement general policies to achieve these objectives.

The evolution of NPM also belongs to the 'market mechanism' which can derive benefits in terms of efficiency and effectiveness in exposing public sector activities to market pressures and using markets to serve public purposes (Metcalfe & Richards 1990). 'Neo-Taylorism' belonging to organisational theory and classical management theory (Keraudren & Mierlo 1998:40-41) advocates that the administrative system is filled with poor management. As a result, the cost of producing a public service is never known. Furthermore, there is lack of responsibilities and personal initiatives among civil servants. This theory thus seeks to apply managerialism and its techniques which might be proved successful (ibid).

#### 4.0 Review of Literature

Keraudren & Mierlo (1998: 407-416) evidenced that the United Kingdom (UK) launched NPM reforms a decade earlier than most other western countries. There is little conclusive evidence as to gains of efficiency by the UK. However, as a first initiative in 1980s, UK succeeded in reducing the number of civil servants by 20%. Studies show that contracting out in the National Health Service (NHS) seems to have become more efficient, increasing hospital output by twice as much as the increase in cost in real terms. In New Zealand, NPM is perceived as a major success although this country is experiencing the coexistence of the State and the market for improved delivery of services. In France, decentralisation faced resistance from civil service. Again, users found little results from implementing NPM reforms. In other Central and Eastern European countries NPM was almost unsuccessful.



However, Halligan (1998:3) summarised the achievements claimed for NPM in OECD countries: "public sector reforms in the OECD during the last 20 years have been notable for the magnitude, breadth and significance of the changes". It demonstrates that downsizing was the most important universal attribute of public sector reform applying the NPM strategies in those countries. Reports also reveal that privatisation and corporatisation have been widely used in many of these countries.

The literature shows that in many developing countries, economic crisis was the main factor for ambitious reforms in the public sector since the early 1980s (World Bank 2000). Larbi (1999) proved that the economic crises in the Asian tiger economies have promoted major reforms in the public sectors. Studies show that NPM represents a paradigm change in thinking and practice of public administration (Hughes 1998). Furthermore, during that time reducing the size and role of government by allowing the private sector a greater share of economic activity was considered to be as a new solution (Cassen 1994).

Many developing countries have been implementing NPM reforms. The most visible elements of the NPM initiatives that the majority of developing countries throughout the world have adopted are 'privatisation' or 'corporatisation', and 'downsizing' (Cook & Kirkpatrick 1997; Ramamurti 1999). The features of 'decentralisation' and 'contracting out' are also common in many locations.

#### 4.1 Downsizing the Public Sector

Downsizing in the public sector from the perspective of developing countries experiences several repercussions. Since unemployment ratio is very high because of large number of population bounded with scare resources, any decisions about downsizing the government in any sector results in processions or strikes as people have no other alternative jobs. However, there are also opposite scenario. For example, Larbi (1999) reports that Uganda cut its civil service by more than half in the early 1990s. The study also reveals that the Zimbabwean civil service has also been cut by about 12 per cent since the commencement of civil service reform in 1991. Studies in some countries show that such a downsizing administrative reform involved high political risk and financial cost e.g. for one-time retrenchment. In those studies, downsizing was successfully implemented in Russia, Tanzania and India. But Guyana, Bulgaria, Uganda, Ethiopia, Republic of Yemen, Cambodia and Sri Lanka lagged behind.

## 4.2 Decentralisation

As a key reform area of NPM, decentralisation plays a vital role in the reconstruction of the public sector. Since decentralisation has different sub-categories, many of the developing countries have experienced at least some of the features. For example, in many African countries such as Mali, Senegal, Uganda ethnic conflicts are quite common. In those countries decentralisation has been applied as a major reform of public sector. Many different forms of decentralisation initiatives have been applied in India where public services, including health were decentralised. In Philippines, all hospital and public health services were removed from central financial and managerial control and devolved to local government (Larbi 1999). However, researches show that the concern is that decentralisation could lead to inequalities when it is used as an instrument to raise revenue.

## 4.3 Corporatisation

It is best known element of civil service reform in the UK and New Zealand, two pioneers of the new public management (Polidano 1999). A number of countries including Jamaica, Singapore, Ghana and Tanzania are experimenting with UK-style executive agencies. There are some success stories. For example, many of the African countries merged customs and income tax departments into corporatised national revenue authorities. Many of these countries are also in the process of corporatising their health sectors (Larbi 1999). Data reveal that corporatisation initiatives have mixed results. In some countries, revenue authorities have dramatically increased tax income. For example, the Uganda Revenue Authority increased its tax intake by around 17 per cent per year from 1991 to 1995. But Bolivia has an unsuccessful story (ibid: 146-52).

## 4.4 Contracting out

A number of developing countries are adopting contractual arrangements with the private sector to deliver both clinical and non-clinical services. However, the evidence regarding the benefits of contracting out is mixed. For example, in the contracting out of non-clinical services in Bombay that private contractors are consistently cheaper but they provide a lower quality of service compared with direct provision by public hospitals. Larbi (1999) suggests that in countries which lack basic government administrative capacities, it may be better for the government to provide the public services directly instead of contracting out.



## 5.0 Key Issues of Developing Countries

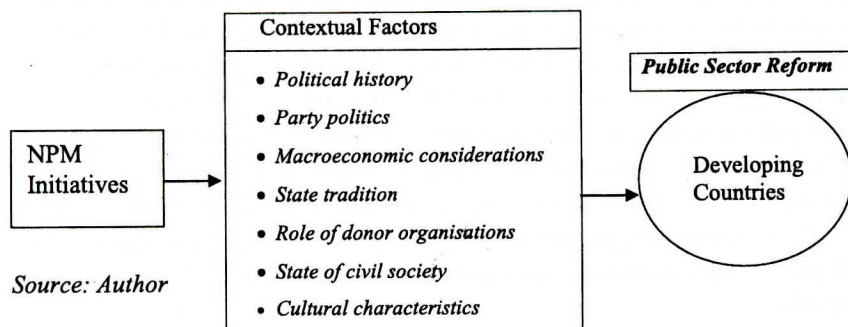
Manning (2001) highlighted three reasons why NPM has not seen a success in any developing countries. First reason is the absence of democracy. NPM survived in the context of the Western world where people are educated, well-aware of their rights and privileges, respect individual's responsibilities. But in case of developing countries, these types of citizens are rare seen. They are treated as 'subject' rather than 'customer' or 'citizen' (ibid.). Second, the existence of old public administration structure is so vibrant that civil servants would not feel encouraged embracing this new form of managerialism. Third, NPM could hardly make any significant impact in its mainland. So, it is quite natural to expect a lot of success stories from the developing world.

From research papers made on five different countries, some key aspects regarding the applicability of NPM in developing countries were found. Researchers show both positive and negative effects of NPM. What came out from these empirical studies is that there are some significant secondary success stories. As a general view, these might be common not only to African countries, but also to almost all other developing nations. One of the reforms is initiating a different salary structure for the civil servants as a flow of managerialism and measure to prevent corruption. Another aspect is also vivid that is focusing the core government function. Following it, many governments have removed from its 'producer's role'. The remaining reforms include greater emphasis on performance and personnel management practice, use of information and communication technologies (ICTs), measures for curbing corruption etc. These steps have made differences in terms of improving performance and productivity in many areas (Minogue 1998).

For over many years, NPM success or failure was the primary focus in NPM literature. There is a common assumption that NPM-style reforms are being undertaken for greater efficiency and cost savings (ibid). However, the study mentioned that some contextual factors such as political history, party politics, macroeconomic considerations, state tradition, role of donor organisations and the state of civil society, influence the nature and the outcome of NPM initiatives in developing countries. Pillay (2008) explored the applicability of NPM in the context of national culture. In his study, he proved that because of cultural factors, key NPM reform agenda proved to be successful in Malaysia and Singapore but the same agenda became unsuccessful in Bangladesh and

Pakistan. So, it is important to view contextual factors for initiating NPM-type reforms. Many scholars have mentioned about different types of influential factors for its success in the perspective of developing countries. To implement NPM in developing countries, these factors need to be considered because these initiatives are subject to the socio-political aspects of an individual country. The Figure 1 below shows the nexus among NPM, contextual factors and public sector reform.

Figure 1: NPM, Contextual Factors & Public Sector Reform Nexus



## 6.0 Case Example from Bangladesh

This case example is taken on a NPM-style reform to downsize the government employees in Bangladesh. The present government when came in power in January 2009, it decided to cut down the size of unnecessary staff who are just receiving salary at the end of the month and actually doing nothing as to their responsibilities in the government service. Particularly, the government also declared that from now on there would be no recruitments of the fourth class employees in the public sector due to their trade unionism and redundancy. They would rather be outsourced if needed for rightsizing the public sector. The result was that there was instantly a revolt from the employees' trade union. The key executives of the State considered the negative impacts of the new government at the beginning of its term which the opposition party could capitalise to fuel public sentiments as a common culture. Finally, the government had to retreat from its stand. As a result, downsizing idea could not be implemented.

## 7.0 Conclusion

NPM produced both suspicion and enthusiasm that surrounded the debate that leads to a question mark for its generalised applicability (Manning

2001). In the late 1980s, major western donors began to link good governance to their aid policies (Larbi 1999). Thus, 'good governance' and 'new managerialism' are presented as twin outcomes (Minogue et al. 1997). In both good governance and NPM prescriptions, public management reform has become a key component. The paper proposed to analyse some key issues surrounding NPM to assess its applicability in the developing countries. Although there are many features, this study particularly highlighted the key components of NPM to compare their applications. Considering all these, it has been clarified that NPM was thought to be a 'cure-all' or 'panacea'. But actually the reality is not so easy. The background on which it was born was pertinent to western world. Again, what is good for OECD might not be good for all developing countries as "one size does not fit all." Some of the aspects of NPM were also imported by many developing countries as a pre-condition of aid. Again, the answer to the question whether only NPM is the reformative measures for developing countries is in the negative. The old public administration also can play a better role if it is applied properly.

This paper analysed the facts from case studies which can be mapped back to the theoretical and analytical framework to bridge the gap between theory and practice. From here again, it is apparent that in certain cases NPM may work better. Again, if assessed on the basis of the facts whether it has improved responsiveness of bureaucratic agents to their political principals, a mixed answer is available because there are instances of improving the organisational performance targets in the public sector though not always satisfactory. The reality in developing countries is that performance incentives have proved too weak to have much impact owing to close political and personal ties between managers and the government.

However, what is important is that the reform should be capacity building related and focused on the pragmatism of those countries. Emphasis should also be given to the national core values and their relationship to the other factors surrounding globalization. For its better applicability, there should be 'political will' that may solve many administrative ills.



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