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# **PUBLIC MANAGEMENT AND THE LEARNING ORGANIZATION**

**ABSTRACT:** This paper examines institutional arrangements that would allow public sector organizations to learn more effectively. According to management strategists and organizational theorists any organization that can learn is inherently equipped to develop a sustainable competitive advantage. The NPM could help build learning organizations that operate more efficiently and effectively and that also better serve citizens and the public interest.

## **INTRODUCTION**

The period 1975 to 1995 has witnessed a redefinition of the relative roles of government, business, and the market in most countries world-wide, with the role of government in universal retreat. These changes are more than ones of fine tuning, modest realignment, or reaction to public debt pressures from financial markets; they involve, on balance, a substantially reduced role of government as a planning and regulatory agent in the economy and the adoption of new approaches to governance. In this paper we examine some of the forces which are driving these changes. We use the learning organization paradigm developed by Peter Senge (1990) as a framework to explain many of the obstacles to change in the public sector which prevented earlier—and more moderate—reform and laid the foundation for more radical change. We suggest that the New Public Management is a response to these forces of change and represents an effort to convert government and public sector organizations into more effective learning organizations.

Karl Polanyi, in his book *The Great Transformation* (Polanyi, 1944) documented two great transformations in the role of government in the economy: the transformation from mercantilism to laissez-faire capitalism (1770s to 1830s) and—the one that most interested him—the transformation from laissez-faire capitalism to the modern mixed economies and, in some instances, centralized command economies (1830s to 1970s).<sup>1</sup> Since the mid-1970s, most OECD countries have entered a third great transformation which is resulting in significant change in the scope, culture, management, and economic roles of governments.<sup>2</sup> The original title of Polanyi's book was "The Origins of Our Times." What is happening during this third transformation in the role of government in the economy will, undoubtedly, be important in understanding the origins of the current period.<sup>3</sup>

We begin with a brief review and critique of, first, the essentials of a Public Interest version of Pluralist theory and, second, Public Choice theory. We explore the usefulness of these two widely used approaches in explaining both the growth in the role of government in the economy during the period 1830 to 1975 and the changes during the last two decades. We proceed with an analysis of forces of change that have impacted on the private and public sectors over the 1975 to 1995 period, and then examine why there is a convergence of forces driving the behavior of government and private sector organizations. That review raises the question: What organizational elements are necessary for government to succeed long term? This leads us to consider how the failure of government as a learning institution can explain many of the "failed" public policies of the past and many of the policy problems of the present without reliance on traditional Public Interest or Public Choice frameworks. Finally, we suggest that much of the New Public Management, which represents an effort to rehabilitate government, essentially involves making governments more effective learning organizations in some limited, but important, respects.

### THE PUBLIC INTEREST AND PUBLIC CHOICE PARADIGMS

Through the 1970s, political scientists and political economists in North America predominantly embraced "pluralist" models to explain the evolution of the role of government in the economy. In Pluralist Theory, public policy emerges as a consequence of the interaction, negotiation, and brokering among interest groups within their own organizations, within larger coalitions of organizations, within political parties, and within government itself (Dunleavy, 1991:14-27; Key, 1964). In these processes different interests are expected to emerge and counterbalance each other, and with time, the processes are expected to serve the "common" or "public" interest. Pluralist theory does, as Dunleavy notes (1991:22), recognize—but, arguably, does not emphasize—differences in motivation, focus, size, composition, cohesiveness, economic resources, preference intensities, organization, and strategic positioning of different interest groups; its focus is pragmatic.

Pluralist theory possesses an important underlying element of optimism, beginning with an assumed element of “civic culture” (Dunleavy, 1991:17; Kelman, 1987, 1987a). There is an implicit assumption that somehow the political process will result in the common interest being served in the long run. It may fairly be seen as a model that envisions people as slightly fallen angels capable of overriding or blunting the pursuit of self interest. This is not to say that self interest is not an *important* motivating force or that different interest groups are not perceived as varying widely in their influence on public policy. Nevertheless, Pluralists seem to believe that, on balance, “democracies have political competition among groups with relatively equal political strength” (Becker, 1985:344) and, even when interests are not equally balanced, Pluralists “... remain optimistic that stark influence imbalances will create systems of countervailing powers.” (Dunleavy, 1991:25)

From an economic perspective—and from the perspective of mainstream economics textbooks used widely through the late 1970s—the Pluralist approach was represented, or embodied, in what we label a Public Interest or Market Failure paradigm. It is fair to propose that prior to the late 1970s the Public Interest paradigm reflected most academic thinking in North America.<sup>4</sup> Within this framework, Government was viewed as an instrument to fix, buffer, or compensate for “market failure,” or as an instrument superior to markets. In any case, the government was seen as an instrument to serve, or promote, the public interest.

In this framework, a major rationale for public sector activity was to correct for “market failure.” Karl Polanyi captured the essence of the “market failure” approach when he analyzed the great transformations in Europe: first to laissez-faire capitalism and then, beginning in the 1830s, to the modern “mixed” economy. In that framework, as the public came to *perceive* that the market “failed” to provide socially and or economically acceptable results, alternative instruments (Trebilcock, Hartle, Dewees, and Pritchard, 1982) or working rules (Commons, 1968) were sought: regulation, taxation, subsidy, public ownership, competition policy, self regulation, and civil law, etc.<sup>5</sup>

In general, then, government was seen as a supporter and fixer: To the aggrieved interest group or groups, government could “fix” or, at least, take actions which would alter or buffer public consequences. Market failure, unfortunately, is an open ended concept. For example, historically, advocates of intervention in support of policies to meet “self sufficiency” requirements of national defense and policies to achieve “balance” in regional development suggest that these needs reflect responses to market failure.

The Public Interest or Market Failure model, in addition to correcting for perceived market failure, envisions governments establishing institutions, primarily a legal system with well defined property rights, that collectively provide for effective, efficient, and fair contract law, as well as public peace and order. Without these, transactions costs rise and markets cannot work efficiently: civil and/or criminal law must prevent or offer remedies for fraud and failure to fulfill under-

stood expectations of contracts—otherwise markets fail. In addition, government intervention could go well beyond cases of market failure to promote broader political objectives—this was an interventionist prone model.<sup>6</sup>

The Public Interest/market failure model provided rationales for expansion of government during and after the Great Depression, during World War II, which called for central economic direction, and during the period of post-World War II adjustment. There seemed to be abundant evidence to demonstrate the failure of market systems on a large number of dimensions.

The performance of these government functions in centralized, large state bureaucracies mimicked the performance of administrative functions in private industry in an age of bureaucracy. The growth of state activities related to providing “social justice,” income stability, and income redistribution addressed the presumed failures of the market to provide “equity” in income and wealth distribution and stability in employment. The belief that this could be done through large, centralized public bureaucracies reflected, arguably, what proved to be questionable assumptions that: (1) what was true for small groups with shared values would be true for larger groups, and (2) that large administrative organizations in government produced administrative economies without new—but less tangible and less immediately visible—costs. Those who could see market failure rarely envisioned, or gave much credence, to potential problems of State failure.

The Public Interest model was always vulnerable to criticism: It was pragmatic without any scientific argument for demonstrating why “good” should prevail; It was naive, because it assumed that people who were expected to be—almost naturally—self-interest driven in all aspects of their private economic lives, suddenly—at some point—became focused on the public interest or public good when they entered interest groups, when they entered the voting booth, or when they were elected to public office; It was open-ended in its definition of market failure—inviting intervention; It did not consider the “free rider” problem, the related problems of information and transactions costs, and the impact of these on individual and group behavior; It presented no theory to explain the administrative process of policy development and implementation; It gave little thought to behavioral motivation, communication, and learning problems of employees in the public sector responsible for implementing public policies; It was unable to easily rationalize the ever increasing number of examples of each of the rationalizations for public policy intervention having been used in the past to serve the interests of particular stakeholder (interest) groups to the disservice of the public; and, consequently, it did not systematically address the question of public sector failure. Its failure to provide systematic, historically valid explanations of many failed public policy interventions in the economic realm is perhaps its most serious deficiency. Research by economists and historians over the last thirty years reveals that while most acts of government intervention in the economy have been clothed in public

interest arguments, those promoting the interventions often have been influenced by their self interest.

This said, there remains a certain optimism in the Pluralist model and the Public Interest version based, ultimately, on the view of democracy, itself, as a pragmatic process in which the public interest is being sought by a “reasonable” electorate imbued with some sense of social or community welfare. Mistakes are to be expected: people must stumble often on the way to the promised land! Ideas were seen as important, and “good” ideas were expected to prevail—over bad ideas and mistakes—over time. Growth in government was not taken as inevitable under Public Interest theory, and a contraction in government over time was consistent with its fundamental philosophy—though not a focus. The optimism is rooted in the belief that the electorate is ultimately composed of humans who are slightly fallen angels—as opposed to apes recently down from the trees.

By the 1960s, the theoretical and empirical foundations had been laid for an alternative model: Public Choice. Since that time, the Public Choice model has come to dominate academic thinking in North America, particularly among economists. The intellectual foundation for the Public Choice approach is found in the writings of Downs (1957, 1967), Buchanan and Tullock (1962), Olson (1965), and Niskanen (1971). Dunleavy asserts that the Public Choice literature now offers a coherent picture of most aspects of the political process and provides a comprehensive theory of public sector failure.

The essence of Institutional Public Choice theory can be captured by identifying its key behavioral assumptions and considering their logical implications. Public Choice theory envisions public sector failure as a expected consequence of self interest behavioral assumptions about individuals, interest groups, political parties, politicians, governments, and public administrators/employees.<sup>7</sup> Public Choice Theory has eight key behavioral assumptions:

1. People are rational actors with defined, logically consistent preferences;
2. People are driven by self (or family) interest and are maximizers in the sense that they engage in activities which provide maximum net utility or “comprehensive net worth” as measured in non-pecuniary (psychic) as well as pecuniary terms;
3. The political process involves efforts by individuals and politicians, alone and in coalitions, to obtain economic rents through their ability to influence or control government in its initiation and implementation of public policy;
4. Coalitions are built to meet short and long term stakeholder needs with individual stakeholders being courted, marginalized, or ignored depending on the importance of their inclusion for the success of the coalition, the cost of obtaining their support, and the likelihood they would join or support the coalition without formal solicitation or compensation;
5. Some stakeholders win and others lose in what is largely a zero sum exercise. Some stakeholders are well organized, focused, cohesive, possess continuity

- (permanence), develop and nourish contacts and networks in government, develop and maintain networks of related stakeholders, and understand political—writ large—processes. As a result, when necessary they can act in a timely, cohesive, and focused manner with the assistance of other stakeholders with related interests;
6. Some interest groups suffer fundamental disadvantages in the dynamics of collective action due to the free rider behavioral problem: The successful stakeholders almost always suffer less from the “free rider” problem;
  7. Individuals within the State’s administrative apparatus are driven by self interest to expand and protect existing programs and develop new programs; and
  8. Due to the competitive nature of the political process, in seeking rents through the intervention by the government, interest groups will often, collectively, wastefully—from a social or allocative standpoint—expend resources to influence public policy equal to the present value of risk adjusted expected economic rents.

The Public Choice theory of government, then, is ultimately one which focuses on wealth distribution, or more correctly, redistribution. In its extreme form, there is an underlying assumption that individuals inside or outside government are incapable of altruism. The pursuit of self interest is seen as the driving force in private and public affairs. In the phrasing of economists: Every organization and individual is seeking economic rents. In this model, government economic activities are designed and implemented to prevent market solutions for resource allocation: Most individuals and groups turn to government as an instrument to assist them to receive or preserve economic rents (pecuniary and non-pecuniary benefits) which would otherwise not be available to them in non-coercive, competitive market settings.<sup>7</sup>

Most importantly, the Public Choice model is pessimistic about the public sector in general: Public sector failure is expected and is explained in terms of public policy programs corrupted in design to serve the private interests of rent seekers, who are facilitated in their efforts by information cost related problems of losing stakeholders, and corrupted further in their design and implementation by the self interest—rent seeking—motivations of elected and non-elected individuals and groups within government.

We can extrapolate from the Public Choice model and envision a society as having several common pools of wealth which can be tapped by interest groups.<sup>9</sup> Each stakeholder and each interest group attempts to use the collective, coercive power of government to adopt and implement public policies which transfer wealth in its favor. A convenient framework for this analysis is to stipulate that societies possess at least six pools of common wealth:

1. a personal and business current wealth pool;
2. a public sector current real and financial wealth pool, net of natural resources;

3. a pool of natural resources which is owned in the public sector;
4. a human capital resource pool;
5. an environment pool which is a measure of the “quality” of the environment writ large; and
6. the wealth of the future generations. The wealth of future generations is largely dependent upon the use of the first five pools currently held.

These six common pools, or commons, are sources of possible wealth transfers. The process of government then is one by which stakeholders attempt to hold on to what they have or to obtain the transfer to them of parts of these wealth pools, which are either held privately by others or in common. To be explicit, this pursuit of “unearned” wealth is rent seeking, and as in the case of the “traditional” commons problem (Hardin, 1968; Soden, 1988; Senge, 1990:294-298, 387-388), rent seekers are attracted by the proverbial “free lunch” where the marginal private cost is less than the marginal social cost. In theory, stakeholders will compete for necessary government coercive support to allow them to tap these commons and, in some situations, may bid away economic rents.

Groups most vulnerable to losses in this framework all suffer information disadvantages. The unborn—who will share the cost of state debt—obviously have no information and no direct representation. Consumers and taxpayers, individually and collectively, suffer information disadvantages related to the unavailability of information, the cost of obtaining information on potential losses, and problems of collective action related to the free rider phenomenon.

The success—and thus potential cost—of rent seeking is limited by the extent to which a society has a culture, institutions, and laws which compel accountability and transparency in stakeholder and government behavior and/or set limits. The problems are ultimately ones of scale and information cost.

The Public Choice model is cynical as well as pessimistic; in its strongest form it suggests that humankind is incapable of altruism: people are apes only recently down from the trees, and nothing more, or they are driven—as some socio-biologists will argue—by nothing more than the desire to preserve and enhance their gene pools. In its extreme form, Public Choice effectively denies any role for what Steve Kelman (1987; see also Trebilcock, 1994:41) calls “public” or “civic” spirit, except to the extent that self interest is defined to include an interest in the welfare of others—an effort to make the concept even more open ended. As Professor Trebilcock argues, Public Choice also largely denies that ideas have power. Professor Trebilcock has pointed to the movements to privatize, to deregulate and to reform taxation by government as examples of policies which Public Choice theory, at times, is hard pressed to explain. To Professor Trebilcock, and as he reminds us to J.M. Keynes (1936:383-384), at least some ideas seem to have some force in the long run—relative to political interests. In this view democracy becomes a pragmatic system which tests ideas as well as interests. To Public Choice theorists, the

political process tests only the relative acumen and strategic placement of different private interests, private interest coalitions, and bureaucrats. Professor Trebilcock, for example, reminds us that "... politics, to an important extent, is partly about what are thought to be good ideas as well as what are thought to be politically salient interests." (1994)

The Public Choice paradigm also suffers a serious, scientific methodology problem in that it does not allow a test for refutation of its fundamental precept that all behavior is self (family or gene pool) interest driven. Once the concept of "psychic" or non-pecuniary benefits is introduced, and once it is taken as given that people have no incentive to do anything unless expected benefits exceed expected costs, it follows that anything they do must provide a net "gain"—otherwise, by definition, they would not bother to do it. Apparent heretical behavior is easily explained in this closed system. Public Choice theorists point out that individuals may obtain recognition and status benefits from "belonging" to apparent non-profit advocacy groups. They may experience utility through the "legitimization" of their own aesthetic, ethical, environmental, religious, sexual, or wealth distribution values when the state imposes those values on everyone through law.<sup>10</sup> Consequently, any behavior which appears to be altruistic or for the community good can be dealt with in "psychic" benefit terms.<sup>11</sup>

Finally, we note that once the socio-biological concept of gene-pool protection is introduced, any environmental protection activity becomes explicable in self interest terms. Similarly, public policies to reduce public sector deficits can be seen as contributing to the net wealth pool of future generation carriers of one's gene pool.<sup>12</sup>

These problems aside, and clearly they are not small problems, the Public Choice model is powerful, and we would argue extremely useful, in providing a frame for thought which leads to a healthy scepticism about the real goals of interest groups and political coalitions which clothe themselves in public interest assertions: We must always ask what is under the cloth.

The Public Choice model does more than explain the genesis of public policies. Its theories on implications of information costs, coalition formation, free riding, agenda setting, and bureaucracy are all important contributions to the theory of political economy. Public Choice theories on bureaucratic behavior which focus on self interest—rent seeking—behavior of individuals within the bureaucracy, as well as those elected to office, to explain public sector growth and implementation problems have been widely heralded—though these effects have been recognized by writers on organization behavior previously. Simply stated, Public Choice argues government programs have grown, the sizes of bureaucracies have increased, and the publicly articulated objectives have rarely been achieved because of self interest motivations of the implementers: Regulators want more to regulate—find new problems, the military wants larger defense establishments,



and social workers want more “victims” of family and society to nurture—preferably in smaller case ratios.

It should come as no surprise that those presenting the Public Interest case for intervention typically have pointed at *instances* of presumed “market process failure.” Those who take a Public Choice approach typically have pointed to “public sector process failure” which usually refers to examples of presumed public policy design, choice, and implementation *process* failure.

From an analytical standpoint, one of the greatest problems with the two frameworks is that they are presented as polar choices. We believe that it is possible to reconcile the two approaches to explain public policy and to augment them with an approach which provides additional insight into the policy process.

### LINKING PUBLIC INTEREST AND PUBLIC CHOICE

It is clear that many state interventions are inspired from the beginning by stakeholders who are rent seekers and who will benefit significantly. It also seems clear to us that many interventions have been primarily motivated by a widespread perception of market or institutional system failure. A few examples should suffice. First, while the railroads never opposed regulation to the extent that their owners public statements would have suggested at the time, it is clear that the main political pressure for regulation came from disgruntled railway customers who faced monopoly railroads. Second, while Theodore Vail and AT&T did support regulation of telephone service early in this century, the reason they did was out of knowledge that the public was going to insist on some type of state intervention, and independent regulatory commission regulation was much more attractive to Vail than the alternatives. Third, interventions which resulted in legislation to provide equal pay for equal work (not work of equal value) were primarily driven by a perception that the market failed, or, more properly, social values and institutions failed.

These three examples are useful in allowing us to develop a hypothesis which we believe allows us, at least to some extent, to reconcile the two apparently contradictory perspectives on state intervention. We propose that while early intervention proposals are often, if not typically, motivated by public interest-market failure considerations, that stakeholder groups which initially seem to be likely to be affected adversely will, with time, turn the intervention to their advantage. Similarly, as illustrated by cases of large capital—public power for example—projects and some social programs, where it is clear from inception that some groups will benefit more than others, the beneficiaries often will follow the foot in the door principle and turn the projects to their advantage in ways—perhaps—never anticipated.

In the case of rail regulation, the railroads realized even as the pressures for regulation grew, that a potential problem could be turned to an opportunity. A regula-

tory agency could control entry, ensure adherence to published tariffs, and—potentially—control intermodal competition. It is not unreasonable to assume that the railroad owners and managers also were prescient about the likely dynamic of the regulatory process: a dynamic which would give them major advantages as a stakeholder group in the regulatory processes. If they did not initially understand the advantages they would possess over other stakeholder groups in influencing the regulatory processes in their favor, they quickly learned.

Similarly, Vail realized that some reaction was necessary to the threat of public ownership: regulation by independent commission was certainly far more attractive. It is not unreasonable to assume that Vail had a better understanding of the potential dynamics of the regulatory process than did the Progressives.

In the case of work place equity—a dangerous phrase—a similar pattern prevails, but with a twist. Here, from the beginning, the likely beneficiaries of state intervention were actively involved, but their concerns were widely shared: a market failure problem. Having enjoyed success, those stakeholders then sought further gains: first to equal opportunity legislation, then to equal pay for work of equal value, and, ultimately, to preferential hiring in the form of employment equity. Without judging the merits of each of these stages of intervention, it is fair to say that, progressively, each was publicly more controversial and the subject of increased charges of special stakeholder rent gains.

We could explore other examples; however, the point should be made. The public choice model which explains the problems of collective political action by large, diverse stakeholder groups who suffer from free rider syndrome, may be more useful in explaining why the *process* of state intervention once initiated is more likely to serve to the disadvantage of losing groups than is the model in explaining the original rationale or impetus for state intervention. This is particularly true when the contributions of Public Choice (Niskanen, 1971) in explaining bureaucratic rent seeking behavior are considered as well as other problems of governments as learning organizations.

We believe that an understanding of these two perspectives on government involvement in the economy does provide useful insight into why governments overreached in economic interventions over the period of the second transformation and insured an eventual public reaction. However, we do not believe that these paradigms are wholly adequate to explain perceived public sector overreach and failure and the current transformation. In order to develop an acceptable paradigm, a better understanding of some of the forces which have been having an impact upon both the private sector and on government during the 1975-1995 period is required, as well as a better understanding of learning processes in government and, consequently, its problems in adapting to change. In the next section we examine some of those forces and their implications for development of a more complete model to explain public sector market intervention and its effects.

## MOVING TO A REFORMULATED THEORY OF GOVERNMENT BEHAVIOR

Like earlier periods of change in the relationship of government and the market, there is a clear pattern. The third great transformation, however, is differentiable from the previous two because of its near universal nature, the “reformist” driving forces, the time frame, and its transparency. The two previous transformations tended to be less focused in their change, to be spread much more temporally among countries, and to be documented after the fact.<sup>13</sup> In the case of the current change, the fundamental forces are all quite similar, virtually all industrialized and advanced developing countries are affected—though the rates and extent of change vary, and the time window is very short: 1975 to 1995.

The pattern of change has included: privatization, contracting out, economic deregulation<sup>14</sup>, reduction or stabilization of tax rates, greater use of payroll and excise taxes, freer trade, and—more recently—significant reductions in public sector employment. The pattern of policies on social (environmental, workplace health and safety, product safety, municipal land use and rent levels, and employment/workplace practices), private law, reproductive technologies, fisheries, financial, cultural industries, and competition regulation is much more mixed. Government, it appears, will continue with very substantial regulatory agendas in the latter areas; however, the adoption of reformed approaches—such as the use of incentives and more attention to costs relative to benefits—is already apparent in many countries.<sup>15</sup>

The new pattern of State management, however, goes well beyond these elements. The way the Government manages the affairs of the State—and the culture of Government itself—is in transition even in the areas in which government is not in retreat. This pattern of new behavior or new culture began to emerge in the late 1970s, and in its maturing form has been labelled the New Public Management, but more about this later.

Pressure for reform, fundamentally, derives from public perception of public sector failure. We believe, that the increased visibility or transparency of problems is a more important force during this transformation than during earlier periods and weighs heavily in accounting for the short time frame in which change is occurring. Furthermore, the sensitivity of the public to public sector failure has been heightened by income stagnation, high unemployment, and increased visibility and concern with mounting public deficits. These failures have become increasingly visible to the public due to the information/ communications revolution and, the related, Global Village effect. While rapid technological, social and economic changes have occurred in the past, the failures of government were not so quickly, so closely, so measurably, so visibly, so pervasively, and—probably—so selectively observed by and analyzed for the public at large. The communications/ information revolution has dramatically reduced the information cost disadvan-

tages often faced by stakeholders likely to be losers from public policies in place or proposed.

The reduced costs of obtaining and disseminating information and the related new and relatively inexpensive methods of communication have improved the ability of losing stakeholders and stakeholder groups to organize and act in cohesive, timely, and effective ways. More recently, the Internet system further reduces the costs and increases the effectiveness and efficiency of these communication and organizational activities.

To some extent this process is a natural continuation of the development of comprehensive special interest data bases which began in the 1970s and has been related to the continuous improvement in the performance capacity and dramatic reduction in cost of computer hardware and software and telecommunications. While these changes initially were developed and mastered by special interest rent seeking groups and political parties, the capacity has become increasingly available to broader based stakeholder groups as well. They are reflected in the organizational and lobbying successes of diverse groups with concerns about long-term environmental, natural resource, tax, and debt implications of existing and proposed policies and related public administration.

The effectiveness of these mechanisms was highlighted in 1995 by the experience of Intel with its flawed Pentium chip. In the past its policy of largely ignoring the problem might have worked. In this case, however, the Internet system was used as a vehicle for different potential losing consumer stakeholder groups to communicate and mount concerted actions which resulted in a policy reversal by Intel within a few days.

We propose that this increased ease and reduced cost of information dissemination and joint action has contributed to the pressures on government by stakeholders who have incurred losses or are at risk of loss. It is fair to argue that most special interest stakeholder groups have always had the lobby vehicles available to be effective participants in the political processes. These groups have also benefited from the changes in information management of the last two decades. The future, however, promises further improvements in the abilities of losing groups—particularly those composed of individuals who perceive particularly remote and tenuous losses—to organize and act in cohesive, timely, and effective ways.

In any case, with the changes in the information economy which we have discussed, the burden of effective response by potential or actual losing stakeholders from intervention is reduced at each stage of the political and administrative process. It is, therefore, an important factor in understanding the shifting roles of government and the market in the Third Transformation.

Along with the reduced costs of information and communications (organization) for stakeholders who previously faced high information/transactions costs has come a new mindset. The new mindset is one of increased scepticism about government: a deeply rooted cynicism. This change in mental frame may well be

related to the Vietnam experience as reinforced by the Watergate experience. Prior to Vietnam and Watergate, it can be argued that the mental frame toward governments in their paternalistic and market correcting roles was much more positive and trusting. This change in cognitive framing may also have been affected by the influence of the ideas and empirical work of the Public Choice school which is uniformly cynical about the role of government in serving the rent seeking activities of special interest stakeholders to the disadvantage of policy losers who face high information and organization costs that deter effective reaction. Thus the Vietnam and Watergate episodes and revelations in Public Choice theoretical and empirical work may have contributed to lowering the cost of information about political issues and political systems and encouraged action by providing a new frame of reference for voters and stakeholders to use in accessing and evaluating declining cost, increasingly available information: they know what questions to ask and where to, economically, look for information.

The end of mercantilism and rise of laissez-faire capitalism, Polanyi's first transformation, does in some ways parallel our current experience. Governments were demonstrated, by Adam Smith in the *Wealth of Nations*, not to work very efficiently or in the public interest—as he defined the public interest. Smith did not need a Public Choice model to explain government failure, though he certainly understood the concept of pursuit of self interest and the problems of agency. Recall that Smith was no admirer of the large charter companies with their close ties to the State, and he foresaw—wrongly, or prematurely?—the decline of large corporations with too many layers of management of questionable motivation: Where was the eye of the shop master? Smith did see pressures emerging from the new merchant class in the private sector. He wrote in a period of change; and he was surrounded by governments and large organizations that he saw as failed planning and regulatory institutions: failed learning organizations.

In the past, both government and business failure could continue undetected and unpunished for long periods. Eventually business management failure would result in recognition to the extent that annual reports were released and market values of shares ultimately declined. Public sector failure was, typically, not similarly recognized, measured, and penalized. The forces driving change in the public and private sectors typically were not related by the public, except to the extent that some type of private sector failure might lead to demand for public sector intervention.

More so than in earlier periods in world history, many of the forces driving public sector reform today are the same as those driving private sector reform—or failure. To develop this point, we draw on some models created primarily to explain organizational effectiveness in the private sector: Some of the same models that explain success and failure of private organizations can serve to explain the success and failure of the public sector generally, and its operating organizations specifically. Our belief is that governments, for systemic reasons, have lacked the

ability—or will—to learn or adapt fast enough in a period of rapid change such as that experienced during last 20 years.

In the next section we identify some of the recent forces for change in the private sector. In the current period, what is happening in the private sector directly impacts on the public sector, the general public's perception of government, and the nature of demand for change.

### **THE NEW PRIVATE SECTOR REALITY OF 1970-1995**

During the quarter century 1970 to 1995, fundamental changes occurred in private sector product and labor markets which in some important ways have transformed the market economy. The stability in relations and status of labor, business, and government that prevailed in most industrial countries in the West during the post-World War II period (Galbraith, 1956, 1967) began to collapse in the late 1960s (Reich, 1991). Global competitive pressures driven by technological change, changes in industrial economics, changes in the cost and productivity of capital relative to the cost of labor and management, changes in transactions costs, and increased international trade forced fundamental change in operations in the private sector. These changes in the private sector have ultimately played a key role in forcing fundamental change in the public's attitude toward and expectations of government and, consequently, driven demand for basic change in the substance and process of public administration. In this section we review some of those forces of change in the market economy and their impact on the public sector.

Expanded global competition was made possible in recent decades by improvements in transportation and telecommunications. Declining global and domestic transportation costs and dramatic improvements and innovations in the speed and efficiency of passenger and commercial transportation made integrated global operations efficient from the standpoint of transportation of people and goods. Of particular importance was the declining cost and increasing efficiency and reach of air freight in the 1970s and 1980s. Improvements in telecommunications, which allowed low cost global communications, facilitated improved management, marketing, and logistics.

New global competitors quickly emerged to take advantage of these changes. With post-war recovery largely complete by the early 1960s, Japanese and European companies had the incentive and resources to move into global markets. Their entry into the American market was facilitated by geo-political considerations dictated to the Americans by the Cold War and by long-term GATT trade liberalization commitments. The Viet Nam conflict from 1963 to 1975 further opened the North American market to Asian competitors as the United States placated allies.

Additionally, the Asian competitors—particularly the Japanese—developed methods to circumvent, at least partially, non-tariff barriers put in place by North

American and European countries during the 1970s. Hong Kong, Taiwan, and Korea based firms quickly embraced opportunities to expand during the 1970s and 1980s. As the Cold War neared an end in the mid-1980s, increasing political and economic stability and new market orientations—resulting in the reduction of political and economic risk—in many third world countries made them more attractive sources for manufacturing—particularly Singapore, Thailand, Malaysia, Indonesia, and, recently, China and India.<sup>16</sup>

In general, North American companies which had enjoyed competitive advantages and pursued competitive strategies based, fundamentally, on technology, quality, product differentiation, customer intimacy, and specialty market niches found themselves challenged by Japanese and European competitors; North American competitors who possessed competitive advantages and strategies based, fundamentally, on low costs found themselves challenged by other foreign competitors. Many new—potential and actual—global competitors found themselves benefiting from the improving quality of labor forces in developing countries,<sup>17</sup> diffusion of technology globally, technologically driven changes in the economics of production, quality improvement, new forms of strategic alliances, and improved marketing technologies.

The “diffusion of technology through multinational companies...put less-developed countries and advanced countries on roughly similar production frontiers” (Freeman, 1995:20) by the late 1980s. Pure technology was becoming less of a barrier to developing country competition. The computer hardware and software revolution in manufacturing facilitated flexible manufacturing and often resulted in major reductions in minimum competitive scale in production and operations. Smaller and mid-size firms everywhere increasingly became competitive on a world scale in a broad range of industries, though increasing returns and scope economics grew in importance in some others. The quality revolution broke the traditionally assumed link between quality and high cost; thus, management learned to compete at lower scale with relatively high quality in many industries. A broad range of new corporate alliance instruments permitted groups of small organizations to overcome research, development, production, and marketing scale and scope barriers where size remained an important competitive factor. Reduced scale requirements combined with new, sophisticated—but relatively inexpensive—national, regional and global marketing information data bases allowed smaller firms to identify and to market to relatively small market segments worldwide.

Firms that a generation earlier would have faced substantial competitive handicaps due to research/development costs, production/operation economies of scale, locational disadvantages related to transportation costs, communication/managerial disadvantages, quality disadvantages, and/or marketing/distribution disadvantages, by the mid-1980s often had the potential to become viable competitors in multi-country regions or globally. Put another way, companies that a generation

earlier would have enjoyed competitive advantages based on these factors found themselves increasingly vulnerable.

Competitive pressures were enhanced by production cycle Meyer (1993), distribution, consumer, trade treaty, political change, and global village effects. Sharp reductions occurred in cycle times in industry with product, process, and technology life cycles declining: Competitive advantages related to particular products or technologies became increasingly short lived. Expanded competition and restructuring in retail and service industries placed more leverage in the hands of retailers and increased their incentive to search out the best suppliers—a process greatly eased by the information revolution: Competitive advantages rooted in distribution became more tenuous. At the same time, consumer organizations continued to place pressure on governments to reduce trade barriers.

GATT agreements mandated significant moves to liberalization of trade.<sup>18</sup> The movement to the political right in the United States and Britain beginning in the mid-1970s reinforced freer trade tendencies: Corporate competitive advantages based on government trade restrictions came under growing threat. In addition, the movement to the political right brought about deregulation and privatization of industry which stimulated competition and consumer focused service: Corporate competitive advantages based on government competition restrictions became increasingly vulnerable. Finally, the globalization of the media allowed consumers, producers, and distributors to almost immediately become aware of new products and services as well as the strategies of competitors almost anywhere in the world for relatively low (transactions) costs: Competitive advantages related to time, distance and, in general, information failure were quickly eroding.<sup>19</sup>

For practical purposes, the only source of traditional competitive advantage left relatively unscathed was intellectual property. Even that can be seen as under increasing threat as technology allowed competitors to more easily find substitute materials, processes, and products. In addition, trademark and copyrighted brand equity was constantly threatened by high quality, low cost competing products.

All of this is not to suggest that national borders ceased to matter or “effectively disappeared.”<sup>20</sup> Nevertheless, from a competitive standpoint, the changes in technology, transportation, telecommunications, industrial economics, product quality, information, and media—the later six driven by the first—resulted in an intensification of competition and, as a result, the erosion of many—if not most—traditional sources of sustainable competitive advantage.

Pressures on management also arose due to changes in the financial sector. The globalization and growing competition in banking and other segments of the financial industry and the resulting increase in efficiency of financial markets allowed easier access to capital outside traditional money markets. Thus, new competitors could erode these types of financially-based competitive advantages. As global investors sought out opportunities in foreign equity markets, the ability of new companies to raise risk capital at competitive rates was enhanced. At the same



time, the increased sensitivity of institutional investors and mutual fund managers, as well as improvements in information disclosure requirements and stockholder rights in most countries, resulted in greater investor pressures on management to perform—in North America in particular.<sup>20</sup>

The effect of these changes on industry was to increase competition dramatically. In Robert Reich's (1991) terminology, business organizations had to discard a hundred and fifty years of "volume" orientation in favor of becoming "value" oriented. We would add consumer and "net-contribution" oriented as well. Traditional oligopolistic industries facing traditional industry-wide unions with traditional government support and protection could no longer continue business as usual. Management responded to these new competitive pressures in a number of ways which will have relevance to our later analysis of government.

First, the new competition compelled management to become value and customer driven. Improvements in computer and information technology allowed improvements in management accounting and information systems, which, in turn allowed more accurate measures of costs and contributions of different organization activities. With aggressive competition in most markets and product segments, it became essential that every product, service, and activity meet a marginal or net-value contribution test.

Having faced a value test, two additional cost tests were mandated. First, advances in, along with major reductions in the cost of, computer hardware and software, joined by related advances in telecommunications and information systems technologies, allowed organizations increasingly to substitute capital for labor across the board. The cost of capital was falling very rapidly relative to labor, its productivity rising, and the ease of substitution was increasing, particularly for less skilled workers in manufacturing at first, but later in service activities as well. Labor had to meet an ever more demanding cost/productivity (net contribution) test against capital.

Second, management then found itself with new options for out-sourcing as transactions costs related to out-sourcing of goods and services fell sharply: The calculus of choosing to rely on in-house production (within the hierarchy) or contracting through markets shifted sharply in favor of markets. (Malone and Rockart, 1995; Malone, Yates and Benjamin, 1987; Bradley, Hausman, and Noland, 1993). Not only did the advantages of contracting out rise relative to in-house production through vertical integration, but new options arose with respect to the location of that production.

Many of the changes described previously, along with increased stability and manufacturing capability in emerging third world countries in Southeast Asia and a general move to freer trade and free trade groupings allowed management greater capability to shift production abroad. Competitive pressures often mandated these shifts. The opening of China and Indonesia as major manufacturing sources for

lower and medium technology intensive goods further increased the competitive pressures.

Companies were compelled to concentrate on higher-order functions such as planning, finance, design, coordinating, control, and marketing while seriously considering contracting internationally for much of everything else—Nike shifted to designing and marketing athletic equipment, it ceased manufacturing the equipment.<sup>21</sup> They also profitably contracted out many of these higher-order or dynamic functions as well. In each case the evaluation was compelled by the new, competition mandate.<sup>22</sup>

By the mid-1990s, the implications of these changes were reflected in the observations of four leading writers on business strategy: Henry Mintzberg, Gary Hamel and C.K. Prahalad, and Richard D'Aveni. Their private sector observations have relevance for our later discussions on the public sector.

Henry Mintzberg (1994) argues that the rate of change in markets is so fast that traditional approaches to strategic planning are no longer sustainable: planning must be continuous and incremental. The rate of change and the frequency of discontinuities are so great that corporate strategic planning as such often runs the risk of imposing greater costs than benefits on organizations. In his view the process has often failed and frequently the failure has been dramatic. Often failure is reflected in the discouragement of learning. Mintzberg's analysis focuses on planning as decentralized action and informal learning within the context of a strategic vision closely tied to the core competencies of an organization. A strategic plan becomes only a flexible framework that is always in the process of adaptation to changing economic and political environments. In Mintzberg's world it is easy to see why organizational re-engineering and re-inventing are continuous learning processes. It also follows from his analysis that the problems facing strategic planning in the private sector are no less than those in the public sector.

Hamel and Prahalad (1989, 1990, 1993, and 1994) offer several insights on the changed environment in the private sector which have relevance to the public sector. First, they, like Mintzberg, place emphasis on continuous organizational and individual learning. Second they offer the view that business organizations must identify, develop, and fully exploit core competencies (those which will likely provide sustained competitive advantages, make substantial contributions to stockholder value, and have clear strategic intent). Third, they suggest that for success firms must go further and find ways to compete against themselves. They cannot rest on competitive advantages of the moment or they will be displaced by aggressive competitors. Thus, success now requires, among other things: (1) identification and focus on core competencies with most other activities contracted out, and (2) the move to a dynamic analysis where firms must continuously compete against themselves. These pressures to identify and exploit core competencies apply equally to the public sector.

Richard D'Aveni (1994) borrows heavily from Joseph Schumpeter and the Austrian School concepts of competition and strategy. He argues that competitive pressures in today's markets are destroying non-government protected competitive advantages of firms at rates which will force most industries into highly competitive—he heroically suggests perfectly competitive—states. In effect, the consumer can look forward to high quality and the lowest possible price with fast rates of technological improvement as the norm in industry; while industry can rarely expect to enjoy economic rents for any but the briefest periods of time. Sustained economic rents for firms and resource suppliers not protected by government regulation or intellectual property rights become tenuous in this hyper-competitive world. D'Aveni argues that even intellectual property is much overrated as a sustainable source of competitive advantage. Government becomes the only source of medium to long-term economic rents. From a public policy perspective, it is clear that governments are becoming increasingly reluctant to provide the type of insulation from competitive market forces that D'Aveni is discussing.

These same competitive pressures that impacted on business had a derivative effect on resource markets—particularly labor markets. The same net-contribution or value test that had to be applied to each line of business, each division, and each department also had to be applied to each resource input—including each employee or group of employees. In hyper-competitive industries, firms cannot carry employees who do not produce competitive value outputs equal to or greater than their costs (net contribution): cross-subsidization becomes competitively impossible over time as does failure to substitute capital or contract out.

In this process, lowered skilled production/manufacturing workers lost bargaining power as they found themselves caught up by: (1) the declining cost of capital and its increasing capabilities, substitutability and productivity; (2) increased ease of out-sourcing domestically; (3) increasing numbers of low cost non-union competitors domestically; and (4) increased ease of out-sourcing and producing abroad.

Service sector workers also lost bargaining power as they were caught by: (1) new technology;<sup>23</sup> (2) displaced traditional blue collar workers; (3) new, poorly educated, labor force entrants; (4) some foreign competition facilitated by improvements in telecommunications; and (5) young relatively poorly educated females returning to the labor force. In North America, except in the public sector, the power of labor unions was increasingly undermined by these market forces, a tradition of hostility to organized labor—relative to Europe, and by accommodating public policy. The slight growth of a “just-in-time” part-time labor force—accounting for ten to fifteen per cent of the labor force in North America in 1995—with minimal bargaining power and claim to few fringe benefits further reduced labor bargaining power on issues of compensation, work schedules, work rules, and health and safety.

White collar, middle management faced the same value squeeze as new technology-driven management software and information systems capital, which was also rapidly declining in cost as it rose in its range of uses and productivity for analysis and control, made large numbers of middle managers redundant. As we noted above, the move toward the virtual organization also reduced the need for management. It is reasonable to argue, as well, that the erosion of the ranks of management was accelerated by the realization by senior management of the reduced need for managers as the benefits of placing decision making power in lower level employees, teams, and groups and—in general—decentralizing were appreciated.

As Reich notes, not all labor groups were adversely affected by these pressures. Households in the top twenty percent, typically, gained significantly. Workers in jobs with a high knowledge, or discretion, or high—as cognitive psychologists describe thought processes—symbol manipulation content tended to benefit with real income gains—at times substantial. Unfortunately, for the majority of workers in most industrialized countries the new competition often meant declining and, at best, stable real income levels over the period 1975-1995.

To a large extent, the effects on real income levels of this increased substitution of capital and competition in global labor markets along with relatively restrictive unemployment insurance and low levels of social assistance was most noticeable in North America and particularly in the United States, while the effects on employment were more observable in Europe and in Canada. The United States probably had fewer rigidities in labor markets and moved quickly in the early 1980s to remove existing institutional rigidities. With the collapse in power of organized labor and rapid decline in the real minimum wage, the American labor markets were exposed to the full effect of global competition and substitution of capital. This led to what is now referred to as the immiseration of labor problem where, as we noted above, the real incomes of less skilled workers in all sectors of the American economy fell dramatically from 1972 to 1992 (Berman, Bound, and Griliches, 1992) as did the demand for less skilled workers in all economic sectors. Similarly the production in sectors which used low-skilled workers more intensively fell faster in the 1980s than in other industries (Sachs and Shatz, 1994).<sup>24</sup>

While the exact relative roles which capital substitution and the shifting of production abroad played in the so-called immiseration process is unclear (Freeman, 1995) the combined effect was to reduce real incomes of the lower two quintiles of households in the United States significantly over the 1972 to 1993 period, to increase inequality in income distribution, and to increase employment and income uncertainty for the lower 50 % of households.<sup>25</sup> High levels of individual and family anxiety and stress followed. We saw hyper competition in labor as well as product markets.

What we observe is a dramatic move from hierarchy to contract and to high levels of individual uncertainty and instability both in product and labor markets accompanying the movement to individual contracting. In an historical context,

this has importance that is difficult to understate. In 1861, Sir Henry Maine, in an important book on ancient law, traced the history of the evolution of institutions of western societies from ancient times from relationship, position, rights and responsibilities based on group status to relationship and position based on contract as *laissez faire* capitalism emerged in the nineteenth century. The growth of the modern welfare state and large public and private, hierarchical organizations and institutions during the period of Polanyi's second great transformation from 1830 through the 1970s may reasonably be pointed to as a period of return to increasing emphasis on group status, rights, entitlement and order—as opposed to the dominance of contract and uncertainty. The events of the period 1970 to 1995 clearly revealed a pattern of historical reversal—of return to less certainty, to less status which is group based, to relationship which is individual contract based—as major public and private organizations restructured and contracted out, and when all entitlements were increasingly challenged.

Some social—and, derivatively—public policy consequences of these processes are important. First, as Handy has argued (1994:47-48), much unskilled labor is quickly assuming little value. We may face a situation where there is a large pool of labor in many western societies that is so low in relative productivity as to be incapable of attracting a real wage sufficient to maintain a socially acceptable minimal standard of living. Second, downward pressures on wages from global competitive forces and the computer/technology driven capital forces, accompanied by weakened or collapsed unions, may result in an inability of labor to capture any significant portion of gains in productivity which it has been able to enjoy in the past. Even business periodicals admitted surprise that labor failed to share in productivity gains as the economic recovery of the 1990s moved into its later stages. This should have been no surprise: The difference is that in the past capital was not as easily substituted for labor, labor markets were nationally and regionally segmented with large institutional and geographic barriers, and unions played important roles in affecting the income/benefit distribution of productivity gains. Third, half of Americans were insecure about the stability of future employment.<sup>26</sup> Finally, trends toward greater inequality in income distribution, which followed moves to greater equality during the period 1948 to 1968, are likely to continue.

These changes in the private sector product, service and labor markets in North America in particular were bound to have an impact on the way the public viewed the performance of the public sector and its expectations of the public sector. Perhaps the most important set of effects has been related to the performance standard set by the private or market sector of the economy. First, as the level of product and service quality provided by the private sector improved, it was only reasonable that consumers in their other roles as taxpayers and citizens should begin to expect similar levels of services from the public sector: a value test which government continued to fail. Second, as the price/quality ratio for private sector goods and

services stabilized or fell, the ratio for the public sector seemed to continue to rise: a second value test.

A second set of forces reflects the uncertainty created by the economic change itself. First, the uncertainty about current employment, future employment opportunities, and future real income growth in the private sector came to be seen in stark contrast to the perceived situation in the public sector and this bred resentment. Second, with—at least short term—stagnating real incomes and anxiety about future prospects, it should not have come as a surprise that the lower class working poor and middle class would soon more critically examine the value and benefits which they were receiving from their tax dollars and then more critically examine whether other beneficiaries of government employment and social programs were more deserving. Expressed another way, the economic and social transformation which was accompanying the economic transformation seems to have resulted in an attitude of resentment toward the State and many of those who benefitted from its programs as employees or wards—those who continued to achieve benefit and stability due to perceived group status and who were perceived as insulated from the uncertainties of individual contract.

In the following section we examine how these and other factors created an environment that demanded fundamental change in the substance and culture of government.

### **THE ENVIRONMENT OF CHANGE: THE PUBLIC SECTOR**

Collectively, the changed circumstances of the private sector have played an important role in explaining the shift in the role of government in the economy during the third transformation. These have, moreover, combined with a number of other forces. In this section these are explored. The following forces have played important parts in the drive for value and change in government, and, therefore, the nature and scope of its role in the economy:

- The power of ideas: the development of the Public Choice framework, as well as academic and other studies that revealed public intervention in the market to have often led to the transfer of wealth to special interest groups and the promotion of inefficiency, with attendant costs to consumers and taxpayers.
- Public perceptions of government—public policy—failures in the 1960s, 70s, and 80s; the media/communication/broadcasting technological revolution and globalization, and the private media's financial incentive and ability to identify and publicize public sector failure world-wide as well as to provide information, inexpensively, to stakeholders who are—or who potentially may be—losers under existing or proposed public policies.
- The growth in social regulation in the 1970s which, unlike economic regulation, was generally opposed by business, was expensive, and was viewed by small business as unacceptably intrusive.

- Relatively stagnant productivity growth and stagnant, or negative, growth in real incomes for large portions of the population in North America in the period following 1972, leading many to question the value and cost of large government.
- Rising taxes accompanying stagnant incomes, which caused government to be increasingly seen as a threat to economic welfare.
- Perceptions of unreasonable use of economic power by organized labor groups which might be gaining due to government cooperation as other groups slipped behind.
- New technologies which led to the emergence of new interest groups—like the new merchant groups under mercantilist economic systems prior to 1776, which saw government increasingly as a barrier to their ability to meet legitimate consumer needs.
- Increased private sector competition and performance globally which established new standards for customer service and value—often with an individual orientation;
- The decline of organized labor (in the United States to a proportion of the private sector labor force below levels of the early 1930s), which had always been a major supporter of activist government.
- The technological revolution in computerization and telecommunications and their implications for economies of scale, and organizational size, management, and control—the end of the age of bureaucracy.
- The ascendancy of the new institutional economics with its emphasis on transactions costs and the dichotomy between market and hierarchical approaches, the modern theory of the firm, with its view of the firm as a nexus of transactions, and the managerial concept of concentration on core competencies—all with implications for public sector contracting out;
- A broad consensus on the apparent failure of modern public welfare programs;
- The rise of interest groups driven by religious, social and/or cultural agendas, which prefer smaller government and expanded roles for local Governments;
- A decline in the perceived economic importance of the large nation state as freer trade and multi-country trade groups increased in importance.
- Perceptions by key stakeholder voting groups that big government had engaged in excessive transfers of wealth and opportunity to “preferred” groups—at a real cost to themselves and increasingly threatening in time of perceived limited quality job opportunities.
- The realization by some groups—many manufacturing and service sector workers—that their real incomes might continue the post-1972 decline and the realization they lacked the leverage to induce governments to transfer increased wealth to them from other groups—thus leaving them with the possibility of increasing their real disposable after tax incomes only by inducing governments to contract the size and/or the cost of government, without reducing their own entitlements and, thereby, reducing taxation levels.

- Related association by some middle class groups of stagnating real incomes with intrusive, inefficient and high cost government.
- The elimination of the Soviet global threat and, thus, a lessening of the need for big government to address national social, economic, and technological problems, particularly in the United States.<sup>27</sup>
- The mandate of public sector debt financing (Reich, 1991; Handy, 1990; Trebilcock et al, 1990; Drucker, 1993, 1994; Malone and Rockart, 1995).

These are the key forces which collectively drove the post-1975 transformation in the roles of government and business in the economy. With an understanding of the two leading paradigms used to explain government involvement in the economy and an understanding of the forces driving business and government during this period, we now turn to the development of a new framework.

### **THE LEARNING ORGANIZATION FRAMEWORK IN THE PUBLIC SECTOR**

In previous sections we have elaborated on the strengths and weaknesses of the Public Choice and Public Interest paradigms and have attempted a reconciliation. It is possible, we believe, to develop a more benign and more managerially/operationally based model of reasons why governments tend to have difficulties in early on diagnosing problems correctly, selecting policy directions, designing effective and efficient programs, implementing those programs, and avoiding what is commonly called public sector failure.

There is a management literature which suggests that successful business organizations are those which are flexible and are particularly effective in adapting to change. Peter Senge has chosen to call these "Learning Organizations." In his book *The Fifth Discipline*, he provides a framework for understanding why some organizations succeed while others fail. While not the focus of his work, Senge does include numerous examples of public sector failure and in his *Field Book* (Senge et al., 1994) provides one study of problems of the public sector as viewed by an Australian public administrator.

While we do *not* consider the application to the public sector of the Senge "recipes" for converting organizations to effective learning institutions, we do believe that his analytical framework, at a minimum, is useful as a diagnostic tool. It is in that context that in this section we (1) offer the following analysis of the characteristics which we expect in a learning organization, (2) consider the extent that we find these in public organizations, and (3) identify some of the reasons why public sector organizations might be particularly vulnerable as learning organizations. In the subsequent section we explore ways in which the new public management, from an instrumental standpoint, provides a vehicle which addresses some of the problems we identify in this section.



It is important to note that developing a model which examines special problems of governments as learning organizations and which may explain public sector failure does not displace the Public Choice or Public Interest models as general theories of public policy formulation and implementation in the economic domain. The analysis does, however, complement those models and, unlike Public Choice in isolation, holds out the possibility that there may be ways to improve the performance of government in the economy. This explains, in part, the attractiveness of the New Public Management.

Most managers would surely agree that to be effective over time an organization must have the ability to adapt to change. To do so, Peter Senge argues that they must achieve some reasonable level of competence in five learning disciplines. These are: (1) the possession of a Shared Vision throughout the organization; (2) the use of Systems Thinking; (3) a desire for and a sense of Personal Mastery by staff; (4) the utilization of valid Mental Models about people and activities within the organization and about the environment, institutions and people outside the organization in thinking by staff; and (5) capacity for and willingness to engage in Team Learning.<sup>28</sup> In addition Senge and followers have identified "system archetypes" and common "learning disabilities" which tend to be found frequently in failed organizations.

In the following section we develop this framework with particular application to public sector organizations.

## **APPLYING THE LEARNING ORGANIZATION MODEL IN THE PUBLIC SECTOR**

In his two books, Senge (1990, 1994) has focused his analysis on the private sector; though he uses a large number of examples of learning problems in the public sector. Senge identifies five disciplines which he maintains are essential for organizational learning. We explore each of these in the context of public organizations. We also examine some of the special "learning disabilities" and system archetypes (generic structures) which are frequently encountered in organizations.

### **Shared Purpose and Vision**

Purpose explains why organizations exist, while Vision is the What or Where To. To Senge, strong visions shared widely in an organization are "compelling and overriding." Shared visions provide common concern and commitment. "Shared vision is vital for the learning organization because it provides the focus and energy for learning. While adaptive learning is possible without vision, generative [creative] learning occurs only when people are striving to accomplish something that matters deeply to them." (Senge, 1990:206) A shared vision, to be effective, becomes an incentive and elicits voluntary commitment as opposed to commanding compliance. It elicits voluntary risk taking and experimentation (209), encour-

ages maximum sustainable productive behavior as opposed to minimal acceptable productive behavior, and encourages taking the long term view.<sup>29</sup>

On occasion governments do present unified visions; unfortunately, these usually seem to occur mainly when crises arise: wars, depression, “excessive” inflation, and problems related to public debt. Obtaining support for a particular unified vision by members of the executive, legislative (when they are separate), regulatory (when independent), and administrative/bureaucratic elements of government is especially challenging. Democratic governments seem to often have problems with vision.

While we do not want to exaggerate the importance of the vision problem, we do want to point out why the problem may be greater within government than in the private sector. Achieving a unified vision in government and one that changes marginally and predictably is complicated by:

- The focus of government is on the process of obtaining, using, and retaining power—not in offering serious vision;
- The multiplicity of articulated and non-articulated goals;
- The large number of stakeholders, many (most) of whom are rent seekers and many of whom will be in conflict;
- The existence within government of many conflicting stakeholders who have departmental or ministry bases;
- Changing leadership politically, and in the American case, at the heads of the bureaucracies—which raise questions of commitment and continuity;
- The agency problem with management in the public sector (Jensen and Meckling, 1976); Shifting coalitions—the general problem of coalitions;
- Time horizons—the opportunity window to the next election unless there is a crisis; At any level of government, there must be sensitivity to interests of stakeholders at other levels of government, to regional interests that cross party lines, to special issue stakeholders, and to values, myths and symbols of importance to various groups; and
- An employee problem which is considered shortly.

If a government lacks a shared vision and purpose, if there is not a shared vision of current reality and a common construction of future reality, then there will be problems in motivating people, in inducing a shared commitment and capacity to act effectively and efficiently, and to innovate. In broader terms, there will be a “missing synergy” necessary for fostering productivity growth, cost control, risk taking, experimentation, and innovation.

The problems of bureaucracy can restrict a government’s ability to “reach” with a vision in ways that a large bureaucracy can inhibit in the private sector. The problem of the bureaucracy is aggravated by three other related factors: (1) even if there is a shared vision, staff are aware it may change by, or after, the next election;

(2) the risks of “buying in,” thus become much greater; (3) purpose for the bureaucracy is found in presenting politically acceptable alternatives, implementing policy, and avoiding unnecessary embarrassment or alienation for the government—these are not “dynamic” functions.

Finally, as Senge notes (1990:228), there is a tendency in private sector organizations for a “diversity of visions [to] grow until [they] exceed the organization’s capacity to harmonize diversity.” This diversity problem—and the problem of setting priorities that it creates—may be more severe in government with each stakeholder holding its own vision.

### **A Systems Approach**

If government can overcome the Vision problem, it then faces the most important discipline of all, as seen by Senge: It faces a dynamic which induces the analysis of problems in pieces, not as wholes. As Senge notes, a fundamental problem for business organizations is a failure to see problems as elements of system failures; the problem in government is even more serious. Public policy problems by nature of their “publicness” tend to be complex with interconnected elements and interests. There are many classic examples from the public sector including the cold war and its escalation process.<sup>30</sup>

While public policy issues tend to be “systems” problems, the public policy making process tends to favor non-systems approaches. The public tends to want simple, linear—cause and effect, good and evil answers. Public Choice theory reveals that it is not in the interest of a rational citizen/voter to spend the necessary time mastering the details, much less the systems nature, of policy problems. The media finds it easier, and often necessary due to time constraints, to focus on narrow problem definition and possible quick fixes. The media tends to present “symphony of sound bites” analyses and solutions. The “emotional,” “real people,” or “traditional value” representations, while important, can distract attention from the complexity of issues. One consequence is for the media and voters to focus on symptoms.

Within the political system, often there is little to be gained politically by addressing core or system problems. System problems may be large and may impinge on interests, values, or mental models of current or future coalition stakeholders and may be financially expensive to address: to the politician, the proverbial “can of worms” and reminder of the virtue of “letting sleeping dogs lie.” The reluctance to address issues broadly may be reinforced by the knowledge of potential gains to be made fixing blame rather than fixing problems. There is, as well, a timing problem. In politics the long term is the time to the next election, which is more likely to be time sufficient to deal with symptoms or immediate effects, not systems type problems.

Compartmentalization in government also discourages systems approaches—in spite of efforts to overcome the problem with interdepartmental and intergovern-

mental task forces. Public sector departments tend to be more rigidly divided up into fiefdoms, and turf battles are more common than in the private sector—where they are significant as well. Individual departments either do not see or do not want to see the whole picture. An individual's department can become the center of her universe. We are often looking at a zero sum game in government among departments. This environment discourages cooperation and encourages competition. Learning, as a consequence, in any one department will be independent of other departments. The view of external stakeholders that they "own" the interest of certain departments or ministries simply accentuates the compartmentalization problem. Put together, the effect is that employees within the bureaucracy frequently lack incentives to think in systems terms. But the effects on policy makers and employees extends further.

All systems tend to be characterized by "naturally" reinforcing and "naturally" balancing tendencies. In many systems growth and contraction tend to accelerate. This is true of systems as a whole and of parts or variables. Forces of growth or of contraction seem to feed upon themselves. Examples are found in business cycles, compound interest, house and land market price movements, stock market movements, and organizational and individual success or failure. In a virtuous loop: "we are on a run," or "the sky is the limit." In a negative or vicious loop: "Can things get worse?" "Is there a bottom?" An individual skilled in systems analysis tends to look for and seek to understand reinforcing elements which may be at work in a given situation.

An individual skilled in systems analysis also knows that, typically, as reinforcement processes accelerate, balancing forces of resistance begin to develop—a plateau is approached or a pattern of oscillation emerges. In economics, the principle of diminishing returns in the short run and increasing (and decreasing) returns to scale and scope in the long run are well understood. In economic, environmental/ecological, animal-predator, and almost all other system situations, self regulating and self correcting forces tend to come into play in time.<sup>31</sup> An important part of a systems approach involves seeking, identifying, and appreciating the roles, timing, and importance of balancing forces.<sup>32</sup>

The nature of the political process described above tends to undermine the examination of reinforcing and, especially, balancing force dynamics.<sup>33</sup> In public policy, the failure to examine balancing system dynamics can lead to unnecessary or inappropriate economic interventions with quick fixes that ultimately backfire. Common effects of quick fixes<sup>34</sup> in the public sector can be described as follows:

"The easy way out of a problem often leads back in."

"Today's problems often come from yesterday's solutions."

"A cure often is worse than the disease."

"Faster may tend to be slower in the long run."

"Results may improve initially, and then deteriorate long term."

Quick fixes often fail and backfire with unintended consequences, mainly because they involve attacks on symptoms. The quick fix problem often results from related behavior patterns: (1) an undue fixation on events; and (2) a need to present an “illusion” of being in charge.

Management and policy makers often have an undue fixation on events: The public wants simple problem definition and quick fix solutions. The political clock—the government need only get to the next election—tends to encourage attention to symptoms and meets the need for government to get credit for having done something before the next election. Interest group and media pressure demand proof that something is being done; accordingly, the system requires that snap shots be taken and dealt with. Unfortunately, low leverage decision making results from treating symptoms. Individual or organizational failure will not necessarily result from failure to address long term or system problems—and the public seems to have a much shorter memory for failure than do stockholders or boards of directors.

Related to the event focus is political pressure to present the illusion of taking charge. Image, particularly for the political leader, but for government in general, demands the illusion of taking charge (be at the disaster site). But the reality of the system of policy formulation and implementation inhibits effective taking charge. Organizational effectiveness (better problem/opportunity definition processes, shorter response times, superior decisions, and superior implementation) requires that those closest to the problem have the power to make decisions and deal with a problem; unfortunately, such empowerment and discretion will rarely be allowed due to fear of loss of control: the localness problem we explore later.

Another method for avoiding systems approaches involves the use of tactics to shift the burden or responsibility. People can avoid identifying fundamental or potentially embarrassing problems and seeking relevant systems’ solutions by shifting the burden somewhere else. One variant of this system failure archetype was explored above: the quick fix. As a pattern of quick fixes is adopted, the burden of and interest in identifying and resolving the fundamental problem fades. The result may be alternating improvement and deterioration in the problem symptom. A second variant involves “crises heroism” in which crises are regularly dealt with by organizational “crises actors” who are viewed as responsible for handling—and owning—the problems. A third variant involves shifting the burden to intervenors.

Government is increasingly being compelled to address the problem of direct and indirect incentive effects of programs. To the extent that government intervention and programs either build a belief that society and government are to blame for the problems of individuals or groups or businesses, or that government agents are responsible for finding solutions, the act of intervening clearly has the potential to build dependency and undermine self-sufficiency (build “addiction loops”) while possessing, as well, the potential, at times, to lessen dependency. Thus,

many acts of intervention have the potential to carry with them systemic second order responses which will serve to negate many of the expected first order effects and lead to new public demands for further intervention.

A final variant of the Shifting the Burden frame involves attribution of blame: The enemy is out there! There is temptation and ease in “shifting the blame” or “shifting the burden” in the public sector—fundamental system problems need not be addressed. In government, the enemy is out there in the past administration (inherited the problem), other levels of government, other political parties, agencies, labor, the courts, bureaucracy, unions, stakeholder groups, the media. Since major change is difficult, “the enemy is out there” is handy and natural. In some ways this is an extension of the stereotypical politician’s basic approach to accountability: pass the buck. For the civil service employee, all of this is encouraged by the “I am my position” mental model and compartmentalization which we discuss shortly.

Systems thinking and approaches are also undermined by the presence of organizational “Tragedy of the Commons” problems. There is a mini-tragedy of the commons problem within organizations where individuals and departments draw excessively on common resources which are fixed in supply and are underpriced relative to the real value to users within the organization and to the organization itself. Consequently, individuals—collectively—excessively draw down or exhaust the resource pool. Senge suggests it is the dark side of localness: “...what is right for each part is wrong for the whole,” since, in these situations, “...the logic of local decision making leads inexorably to collective disaster.” (1990:294-295). If there are common pools of valued resources within organizations without individual ownership, adequate accountability for use, or proper internal pricing, then there will be an incentive for each individual or department to draw excessively on those common reserves. In a very real sense a short run focus in decision making can be seen as drawing on the long run resources of the organization and, thus, on a commons.<sup>35</sup> At a broader public policy level, policy solutions to problems may have resulted in commons problems because of underpricing and inadequate accounting for public goods and services.

Finally, time and lags in timing discourage systems viewpoints. From a systems standpoint, public policy and administration suffer from several learning disadvantages related to recognition, learning period, election cycle, and implementation/effect lags.

The public sector, as a system, is especially vulnerable to problem recognition lags—particularly, as we have observed, where problems are elements of a system. Phrases common in government (and business) reveal the problem: “we can get by to the next election;” “things will hold together;” and, “if it isn’t broke, don’t fix it.” Classic time and communication problems are typical of large bureaucracies as messages move from source to the ultimate decision makers. The problem is accentuated by the realization that to recognize a problem is to risk being forced to

act upon it. It is better to allow others to own the problem. Thus, some situations must deteriorate significantly before recognition that action is required. Problems of the environment, education, infrastructure, and debt all fall here (see: Senge, 1990:25, 44).

As well, the electoral cycle, the changing agenda or composition of key issues, and changing actors undermine learning by the consequences of experience. Arguably, the managers in the public sector, relative to those in the private sector, may tend to be more removed in time and space from the effects of policies and fail to see, directly, the repercussions of decisions: they do not witness the outcomes and have responsibility for the effects—an important part of learning experiences.

Implementation and effect lags discourage action for some of the same reasons. Action and effect are often not closely related in time. After implementation, there may be further delay or deterioration before there is improvement. In most programs there are always delays after a decision is made and funding is provided related to capital purchase, installation, staff hiring, training and placement.

The preceding are the more important of the system characteristics or frames which Forrester (1961), Senge (1990), Kim (1993a, 1993b), and others (Lannon-Kim, and Innovation Assoc. 1992) have developed, and which they see as particularly dysfunctional in organizations in preventing learning and adaptation to change. The public sector system is susceptible/vulnerable to most of these. These system's frames, however, are problems in the public and private sector, and are dysfunctional for all organizations under pressure to produce value efficiently—short and long term. Unfortunately, each is part of the system that tends to come with government. They do not reflect self-interest motivation or a conspiracy as is implied by Public Choice administrative theory; they are simply dangers faced by all organizations. In some very real sense, failure by individuals to take systems approaches reflects a failure of another learning discipline: personal mastery.

### **Personal Mastery—Initiative and Innovation**

Governments fail a third test of learning organizations: They often provide little incentive for personal mastery by employees. Senge argues that business organizations will not succeed if the employees do not enjoy success themselves. Personal mastery is the discipline of continually clarifying and deepening personal vision, of focusing energy, developing patience, seeing reality objectively, and having the self-generated incentive to take initiative. In Senge's words: "an organization's commitment to and capacity for learning can be no greater than that of its members." Unfortunately and understandably, many incentives exist within the bureaucracy to satisfice and produce a minimally acceptable level of productivity—adequate to ensure progress through the ranks. This contrasts with the ability of learning organizations to motivate employees to reach for maximum *sustainable* individual and group productivity and innovation levels which lead to continuous growth, or upward ratchet effect, in individual and organizational potential.

Government functions, as Osborne and Gabler observe, tend to become routinized—standard forms and standard procedures. Rules and procedures provide for control and direction. There is fear of localization of function: empowering people is dangerous due to unclear or changing purpose and vision—or too politically risky. In an unaligned, weak visioned organization, empowerment can be counter-productive: the dark side of “localness” of decision making.

As Osborne and Gabler further point out, the civil service rules and regulations were designed to prevent nepotism, discrimination, political preference and bias: The rules of the bureaucracy were to ensure meritocracy and fairness and to protect against arbitrary dismissal. They also minimize discretion and suspect initiative. The rules ensure standard and uniform treatment of consumers or clients: a standard product or volume. Ironically, as they also have observed, given the intangible nature of many government services, providing incentives for initiative and interest in productivity gains needs extra attention, not less.

In general, any interest in personal development or mastery by individuals within government, which will contribute to potential organizational change, is dampened by the knowledge that, once entrenched, rules, regulations, and values will change slowly; and they will face political tests before facing effectiveness or efficiency tests. The former, of course, is a far less predictable test.

Godfrey sees reconciling the requirement of rules and the expectation of service as “the heart of the problem.” He notes that, historically, the English “public/civil service” tradition emphasized “quality outcomes—delivering a service,” while the “European” view focused on “quality of process—how well the organization conforms to regulations, rules, and policy dictates of functionaries.” (1994:495) As he points out: “Designers and critics of government ... want perfect service and perfect adherence to the rules. But in a fast-changing world, this is not an option. ... Empower the front-line staff to deliver, and orient them to customer service, and ordinary common sense will recognize that some of the rules will cease to be relevant.” (1994:495).

Further, there is an awareness that there may be no resources or commitment of capacity to allow proposed innovation or change. Unlike industry, resources will not necessarily be found for high yield or high profit proposals. Moreover, there may be no overriding purpose in these areas and no bonuses.

There are additional reasons why governments fail in promoting personal mastery: First, employment and advancement, typically, reward education, written test performance, years on the job, and—at times—ethnic, physical, age, or sexual characteristics. Complicated and rigid pay and classification systems are problems in mobility and reward. Salary increments tend to be automatic and promotion possibilities limited. Overall performance continues to play too limited a role. Thus, salary and advancement constraints discourage personal mastery and team learning. There is an incentive to identify with the box a person fills: “I am my position—that is all!” Godfrey observes that in Australia, “the Australian Public



Service Act even defines a public servant as simply ‘the holder of a position’.” (1994:495)

These rigidities contribute to compartmentalization. The size and complexity of organizations and constraints on rewards encourage locking into the domain of the job and department, and avoiding risk taking. Mistakes will stand-out—risks of going out on the limb are great, so individuals become their positions to the book—“cover yourself” is the theme. All these forces reinforce the tendency to see the enemy as all around and to be prepared to shift blame. These forces in the system tend to weaken the drive for personal mastery, to take a systems view, to build team linkages, and, as we discuss later, look for leverage opportunities. In this sense they undermine the need for a “creative tension” in individuals: The need to continuously consider the relationship between the way things are done and the way they might or should be done.

Second, Osborne and Gabler note the problems raised by the time dimension of work. The time dimension is less clear on some work, but totally event response oriented on other work—thus there is an incentive, in their view, to become less time sensitive. Third, The big career risk is the risk of failure: thus, do only the safe. And, fourth, William Godfry suggests that the ever present atmosphere of possible public investigation of even small details of day-to day operations by a large number of different entities, within and outside government for their own political advantage, inhibits personal growth and experimentation.

Thus, doing more of the same and building larger bureaucracies may reflect following the old, safe course as much as a desire to pursue self interest by building empires!

### **Team Orientation**

In the absence of organizational vision, systems thinking, and a culture that provides incentives for personal mastery, team or group learning becomes tenuous, at best. Team learning requires alignment, complementarity, harmonization of individual efforts, and commonality of direction. The complexity and interconnectedness—systems nature—of many problems and interests in modern organizations require team approaches. The lack of purpose or vision and the lack of continuity in vision and purpose, even when it exists momentarily, hamper team learning. Perhaps even more so than in industry, the public sector participants are not a team but are resource competitors in what—we previously observed—is often viewed as a zero sum game. As Senge emphasizes, empowering individuals without common vision and group alignment is a formula for chaos. (1990:235) Organizational success requires team learning. There must also be insightfulness, innovation and coordination in relation to other teams. In a simple statement that captures the essence of the team concept, Senge suggests that successful organizations have team learning where the team IQ is greater than the mathematical sum

of individual IQs of the members; unfortunately, many teams have collective team IQs less than the sum of IQs of the team members.

We can envision a relatively simple model: There is a public bureaucracy made up of members subject to the constraints discussed on personal mastery. There is a competitiveness element, but in the context of a zero sum game. There is little recognition of the concept of a growing pie. The focus is on compartmentalization and the department's and individual's shares of the pie. Thus: "I am my position no matter, and my interest is in maximizing that position," easily becomes the norm. This attitude breeds distrust: "the enemy is out there." This leads to resistance and distrust of shared visions: "Are we being co-opted?" This also leads to a tendency to shift blame and minimize risk taking. Dialogue and cooperation, therefore, are difficult given the priorities of public sector workers and their perceptions of how the system works. The existence of complex hierarchical structures further deters team building.

There is also a dark side to teams, particularly in organizations with tight cultures: the problem of groupthink and a related unwillingness to engage in critical, collective inquiry or dialogue. Argyris (1982, 1985, 1991, 1993; Argyris and Schon, 1978) identifies the problems associated with inducing constructive, critical dialogue as the most fundamental for learning in organizations. It is not clear that problems of group think—or non-think—are more severe in government than in large private organizations; however, it is at least equally dysfunctional in government (Whyte, 1989).

When all of this is considered, we are left with some unanswered basic questions: (1) About our ability to define a typical team in the public sector in the same way we do in the private sector; (2) About whether public sector teams can interact, challenge, and change ways of doing things as effectively; (3) About whether differences can be readily bridged and dialogue and cooperation motivated; and, (4) About whether individuals can be convinced that there is a meaningful potential for long term payoff from team learning. That these remain unanswered questions serves to partly explain public sector failure in the past.

One question answered clearly from organizational analysis is that team learning can be effectively undermined by dysfunctional mental models.

### **Mental Models**

In government and in private industry, as well as in interpersonal and intergroup relations, mental models can facilitate or retard cooperation and effectiveness of performance. Mental models are the ways we cognitively and socially construct reality (Berger and Luckman, 1980) It is through mental models—images, assumptions, frameworks for organizing thought—that people make sense of the world. Mental models reflect assumptions about human behavior, family values, what is normal, the market, time horizons, religion, styles of human interaction, and much more. Within organizations, mental models and the organizational met-

aphors which embody them constitute integral elements of organizational cultures. The mental models are, typically, reflected in the language and metaphors used by individuals within organizations. It is through mental models that individuals and groups stay aligned with reality and the possible—or, in the extreme, become fundamentally out of touch with reality.

In government, is it “them and us”, or “them versus us?” “Them versus us” is a natural in the public sector. Rarely, in the past, did employees identify themselves as being driven by the need to meet client/customer needs: delivering services to identifiable customers and, thus, of being customer oriented. There are too many mental models and stereotypes in the same departments, different departments, different levels of government, and, among outside stakeholders that inhibit organizational success.

When business deals with business, there tends to be a common sharing of values and culture. Even in dealing with consumers, there is a common playing field. But, when business deals with government, mental models become a serious problem. The mental models held by business of government are probably less dysfunctional for business, as learning organizations and in dealing with government, than are the mental models of many in government of business in preventing government from dealing effectively with business and other stakeholder groups. Unfortunately, the mental models of the private sector probably reinforce the sense of defensiveness and concern held by employees and managers in the public sector and harden their stereotypical mental models of the private sector. Consequently, distrust, conflict, and debate readily substitute for understanding and dialogue.

Prior to drawing conclusions about the full implications of the preceding discussion on the five learning disciplines as applied to government, we address two other critical concepts which emerge in the learning organization literature: leverage and localness.

### **Leverage and Localness**

Simply stated, leverage means seeking out the small change or instrument that delivers a relatively large impact: the right little effort as opposed to the wrong Herculean effort. In a public sector context, leverage is about what House and others (1990) refer to as governments thinking “smaller and smarter.” In a learning organization the pursuit of leverage becomes part of organizational culture. Since people seem to pursue leverage in their own personal affairs and since it might reasonably be seen as a reflection of what W. E. Deming has referred to as the “intrinsic motivation” in people to take pride in their work, to experiment, and to improve (1993:111; Senge, et al., 1994), it is obviously there to be tapped by the intelligent organization.<sup>36</sup>

Usually, achieving maximum leverage requires understanding systems and motivation. Given the forces that we have described in the government process, do government and individuals within government have the freedom and incentive to

identify and utilize the policies and policy instruments which possess the highest leverage potential and to apply them so as to achieve maximum leverage? Our previous discussion would suggest that the freedom and incentive have been limited in the past.

The New Public Management as it has evolved over the last 15 years has provided evidence that freedom and incentive to seek out and to use leverage can be dramatically increased. The most compelling evidence is found in the search for and application of new and newly rediscovered regulatory instruments designed to encourage maximum voluntary compliance by regulated firms in lieu of traditional command and control instruments. Given limited program resources and given sufficient statutory flexibility, regulatory agencies can be directed to devise compliance strategies that achieve maximum voluntary compliance from a fixed regulatory agency budget.<sup>37</sup> Some governments have prepared operating manuals to focus the attention of all agencies on the pursuit of leverage in all compliance programs. The Canadian Government's guide, to paraphrase, notes that the primary responsibility of the legal advisor to the compliance strategy group is to develop an array of enforcement options that will best contribute to the group's overall objective of maximizing leverage in securing compliance...by enhancing the natural incentives to comply and by minimizing the disincentives available to the regulated group.(Canada, Department of Justice, 5)

Localness is ensuring that decisions are made at the lowest level possible in an organization. Flattening organizations, restructuring, empowering and devolution all have localness as a major objective. Again we return to the reality that the forces for positive change impacting on government administration are the same, or very similar, to those impacting on the private sector. In management theory, localness supplements leverage in that every individual is motivated to practice the learning disciplines and seek high leverage opportunities for change on behalf of themselves and of the organizations. Local decision making in smaller organizations lessens likelihood of alienation of the employee from the organization and its objectives; responsibility, cooperation and appreciation of tragedy of the commons situations are more likely. The more localness, the potentially more effective and efficient the organization—the less potential for alienation and, thus, a loss of responsibility and accountability.

Localness also implies learning from mistakes and looking at systems. Unfortunately, localness without shared vision and personal mastery is a negative force. The challenge is to balance independence and governance/control. But this has been the challenge for a long time in the private sector as well. The problem of localness is found in the tension between the drive for localization, empowerment, devolution on the one hand, and the need of an organization to achieve coordination, synergy between units, and collaborative efforts toward common organization-wide objectives, on the other (Senge, 1990, 288). Bluntly: there is often a tension or outright conflict between localness and control.

Godfrey captures the essence of the localness problem as well as the more general problems facing implementation of steps to instill learning organization characteristics in government when he asks:

Can large governments redefine their accountability and control mechanisms in the interests of becoming more effective? Will mechanisms for building unity—such as shared vision and articulating mental models—help, or does the political fixation on error undermine those too completely? The debate has particular urgency, because the viability of nations and communities depends on the ability of governments to learn. If we don't learn, people will seek to bypass the political process. (Senge et al, 1994:495-496)

The preceding discussion has focused on the characteristics of learning organizations using the diagnostic side of the framework developed by Senge. We are led by that analysis to the conclusion that governments and organizations within government have been, and are, seriously disadvantaged as learning organizations. This raises the question: Can government organizations be rehabilitated and developed into effective learning organizations? We believe that the New Public Management is a reaction to the events of the third transformation, which we explored earlier, and proposes to add elements to public administration which address many of these learning disabilities which we have identified.

### **THE NEW PUBLIC MANAGEMENT AND THE THIRD TRANSFORMATION—OPERATIONALIZING THE LEARNING ORGANIZATION CONCEPTS**

There exists a large literature on processes by which private sector organizations can become more effective learning organizations. Indeed, much of the work in organizational change, team building, total quality management and reengineering involves organizational learning; unfortunately, many of these efforts have failed in the private sector (Hammer, 1995). A review of our preceding discussion of the five characteristics of learning organizations, as well as a review of the literature on methods developed and used by consultants and business organizations, suggests just how difficult it will be for government in its operations to become an effective learning organization. On the other hand, voters can compel government, writ large, to learn or change through the ballot box. As recent elections in the United States, Canada, and elsewhere suggest, the importance of this kind of learning cannot be underestimated: Voters can redefine strategic intent for government.

From a managerial perspective, we are optimistic that within government effective learning organizations can be developed: There are many opportunities for change. At a fundamental level, these are attitudes, values, and methods of doing things which directly facilitate the processes of change for individuals and groups within organizations. Much of the existing literature and the training programs on learning organizations concentrate on these. Programs on techniques to assist indi-

viduals and organizations to better understand learning processes and common individual and organizational barriers to learning; to develop improved communication and dialogue processes; to identify, analyze and—at times—alter existing mental models; to build strategies and incentives for systems thinking; and to promote team learning and functioning are currently found in industry and in the public sector (CCMD, 1994; Beldon, 1993; Garvin, 1993; and Hodgets, 1993).

These changes progress slowly and face the obstacles we discussed previously; progress varies widely among organizations and is difficult to measure. At a public policy level, changes have been mandated by legislative or executive directives, by budget policy, and by either a sensed need by public administrators for survival or a sense that the time was right to allow the kind of changes and policies they had long desired as good managers. These are the changes which are highly visible to policy analysts, to politicians, and to the general public—and to which we now turn our attention.

As we have noted, some of the same forces that have been driven organizational change in the private sector over the last twenty years are now driving change in the public sector. In the same sense, the changes that have allowed many private sector organizations to thrive in the new environment can benefit public administration. It is no longer accepted that large bureaucracy and hierarchy are desirable, much less necessary for efficiency and effectiveness. The same forces that have driven private organizations to think in terms of concentrating on core competencies and ways in which these competencies can be leveraged while divesting or contracting out for everything else makes as much sense in government as in industry: being a hollow or virtual organization can make sense for governments in many of their activities. (Milward, 1994). Changes in computer and information technology, which have led to dramatic reductions in transactions costs, have facilitated and invited increased reliance in public service provision on contracting or other market oriented methods.<sup>38</sup>

In this changed environment, the real issues become: (1) What are the core competencies of government today? (2) Is its strategic intent clear? (3) Can governments effectively determine when core competencies match strategic intent and when there is a mismatch, and when there is a mismatch to evaluate and objectively chose among their alternative options? This is the crux of the problem: Even when the strategic intent is clear, the core organizational competencies often are not clear, are mis-matched, or do not exist.

The New Public Management (Rhodes, 1991; Hood, 1991; Osborne and Gabler, 1992; Barzelay and Armajani, 1992; Gore, 1993; and Ball, 1994) addresses these questions and problems while developing proposals which will allow governments and organizations within government to become more effective learning organizations, and, thus, more effective in adapting to change. To this extent it is directed at reducing public sector failure.

It should be noted that government in the past often took on functions because of the assumption of the absence of non-government alternatives. In the same way many large private organizations often did things in-house because of the assumption they could not be done outside as effectively, efficiently and/or profitably. One of the benefits of the experience with the modern state of the post-World War II period is that many alternative options have been identified and technology has made some increasingly feasible and attractive. Additionally, time has allowed the public to view many generic public policies in more systemic ways and to understand that some have failed and others have had unintended—and at times costly and dysfunctional—consequences.

The New Public Management represents an effort to rehabilitate government; a roadmap to allow it to respond to the flaws which the Learning Organization model reveals; and a practical, managerial response to the crises in the role of the state in the economy presented by the third transformation. Ultimately, it is that crises to which the State must respond, as Godfrey observed above. The crises of the State in the third transformation is driven by a demand by the public that it receive more value from the public sector; a demand by taxpayers that taxes not rise—and ideally fall—in a period of near static real incomes for most taxpayer households; a demand by business for tax reductions due to the pressures of global competition; demands by the public at large that government activities cease to be a drain on the growth of real incomes and real wealth of current and future generations; a general challenging by the public of many institutions—of which government obviously is only one—and how they do business; and, the demand of financial markets that public deficits be brought under control by contraction of public sector expenditure.<sup>39</sup>

The New Public Management with its emphasis on “performance appraisal and efficiency; the disaggregation of public bureaucracies into agencies which deal with each other on a user-pay basis; the use of quasi-markets and contracting out to foster competition; cost-cutting; and a style of management which emphasizes, amongst other things, output targets, limited term contracts, monetary targets and incentives, and freedom to manage” (Rhodes, 1991:11) reflects fundamental change in the way governments govern and, consequently, in the choice of governance instruments. The New Public Management’s basic theme is stated conspicuously in the *National Performance Review* when it calls for delegating authority, replacing rules and regulations with incentives, developing budgets based upon results, exposing government operations to competition, searching for market rather than administrative solutions, and, whenever possible, measuring the success of government in terms of consumer satisfaction (Gore, 1993:7).

Trebilcock points out that Osborne and Gabler, two widely cited practitioner contributors to the new public management, were to some extent stating the obvious in explaining that the time was right for change: if taxes have reached levels which the public finds unacceptable; if further increases in the finance costs of

public debt are being resisted by the financial community and by taxpayers; and further reductions in public services and entitlements are resisted by voters; then "by a process of elimination, this leaves as the only viable option the provision of the same, or more, or better quality public services at less cost, i.e. a dramatic enhancement in the efficiency and productivity of the public sector." (1994:2) A reduction in public services is, obviously, another option.

The New Public Management solution is to borrow from the "learning" of the private sector over the previous twenty years, the new institutional economics (Williamson, 1975) we discussed earlier, and the new information technology (Michael, 1992). Fundamentally, it envisions, as Osborne and Gabler suggest, governments "steering," or planning and directing, more and "rowing," or doing, less.<sup>40</sup> Governments must increasingly ask themselves: What should we be doing and how can we do it most effectively and efficiently? Second order questions then are: (1) How can governments overcome "agency" problems related to the management of government employees?; (2) Under what circumstances, and to what extent, should governments rely on the private (market) provision of public services?; and (3) What institutional—planning and control—arrangements are optimal when a private supplier is used in any given situation?

We note many of the proposals for "reinventing" government made by Osborne and Gabler have been made in previous studies of government in the United States and elsewhere (Trebilcock, 1994:5-6; Thompson and Jones, 1994). Osborne and Gabler provide a wealth of practitioner examples and focus on state and local government—though their theory is weak and many experiment outcomes unclear. They also bring to bear, though at times—as Trebilcock notes—they may not be aware of it or acknowledge it, new knowledge from the new institutional economics and from the writings of a number of management theorists, as well as the experience of many organizations in the private sector over the last twenty years.

Nevertheless, Trebilcock has argued and provided examples to demonstrate that there are short term limits to the financial savings which are possible from rethinking how governments and public administrators can do their work (1994:86). Long term the benefits are potentially huge.

Finally, it is clear that the New Public Management does not call for more public sector market intervention and is wary of comprehensive planning. As Mintzberg (1994) has demonstrated in his recent analysis: comprehensive strategic planning in business and in government has the potential of—and a demonstrated record of—preventing learning and discouraging innovation. In the past, the public's and international organization's demands for comprehensive plans and strategies may have had unintended consequences—in that plans and strategies were generated which required, or provided incentives for, rigid adherence by public administrators. In the extreme situation, administrators often became focused on the rules and output targets of the plan. Thus, concepts of clear purpose and strate-



gic vision are more appropriate for the learning organization in government than are traditional strategic plans.

## CONCLUSION

We believe the model of government as a flawed learning organization in its role as an intervenor in the economy adds many insights into past government performance not provided by either the Public Interest or Public Choice models. It adds a rational, benign explanation for public sector failure. It suggests that failure can be reduced. We believe that the adoption of a learning organization approach to understanding many of the problems of government in devising and implementing public policy and complementing it with the New Public Management is an important step forward. Indeed, what becomes possible is the rehabilitation of the public sector—for itself and for the taxpaying public—and the re-framing of public sector programs and management in a positive context—as opposed to the largely negative and cynical context which the Public Choice framework has produced—and the public has readily accepted—and the relatively open ended Public Interest framework. It also provides an administrative/management avenue for positive change; as a result, it fits constructively with the New Public Management which, in large measure, attempts to make the public organization a learning organization—particularly one with operational mental models and new tools.

The conversion of governments to effective learning organizations is dependent, however, on the conversion of politicians, public sector employees, and the public. This is a difficult challenge in a period of crises—employment reductions, compensation freezes, rollbacks, and distrust. The failure to respond effectively will be even less attractive to public administrators and, in the long run, possibly to the public itself. The real challenge will be for politicians and public administrators to find management solutions if public administrators are to survive the third transformation.

## NOTES

1. It might reasonably be argued that another, earlier transformation of some significance occurred during the four hundred years from the fourteenth to the eighteenth century as most western European countries moved from local, tradition based economies to mercantilist states (see Heilbroner, 1980).
2. This transformation is driven and accompanied by technological, economic and social transformations (see Reich, 1990; Handy, 1990, 1994; Drucker, 1969, 1993, 1994).
3. The term transformation is rapidly becoming overused. We feel our use is appropriate to describe a paradigm shift and as a natural extension of the Polanyi framework developed 50 years ago.
4. Some will argue that other models are more appropriate for some countries: see Presthus (1967) on elite accommodation in Canada. The elite accommodation model, however, can be seen as

a special case of “elite” pluralism. In any case, long-term optimism seems characteristic of elite accommodation and corporatism models, as well.

5. Classic categories of perceived market failure include: (1) macroeconomic instability; (2) the inability of consumers or resource owners to make decisions in their own best interests due to information disadvantages (information asymmetry); (3) the adverse selection problem related to information asymmetry; (4) the inability of some consumer groups to make decisions in their best interests due to intellectual infirmities; (5) monopoly power problems; (6) “natural” monopoly; (7) externalities or third party effects including “tragedy of the commons” situations; (8) externalities related to industrial “feedback” or “diffusion” effects; (9) income distribution problems; and (10) discrimination and other “unfair” practices in labor markets, which often, arguably, reflect the absence of competitive conditions and/or the failure of firms to maximize profits combined with “systemic” institutional, non-market related factors.
6. For example, in the Canadian case market failure—at least as envisioned by economists—never explained most government intervention in the economy. Indeed, much intervention was designed to ensure that certain stakeholder interests overrode normal market forces; in effect, to ensure markets failed to work. The country’s “National Policy” of 1878 was composed of economic policies designed to deter “natural” market forces which would likely have led to closer economic integration with the United States which, in turn, was perceived as likely to lead to pressures for cultural, social and—ultimately—political integration. Parallel behavior patterns are found in many countries.
7. Given information costs.
8. It is worth noting that consumers, as well, may pursue economic rents by seeking larger “consumer surpluses.”
9. W.T. Stanbury credits Aaron Wildavsky (1980) with introducing the concept of government as a commons in the sense used by Hardin (1968). Our use of the multiple commons concept does not meet all the characteristics of the traditional commons concept, since marginal private cost is not necessarily less than marginal social cost in these cases. Patricia Adams (1991) uses this framework in examining, in a Public Choice context, the destruction or drawing down of various “commons” from mega-project developments by governments—mainly in the developing world—during the 1970s and 1980s. As she notes: “The tragedy of the commons is a tragedy of scale. Commons in which rights are often informal and self-policed, and where price alone doesn’t govern resource use—exist everywhere...,” (189) including within business organizations, (189) “...when the beneficiary and the victim are obscured by space, time, and loose accounting” (14) and “... need not face each other.”(14) The framework is an extension of Hayek’s (Barkley, 1989).
10. See Stanbury (1993) for an insightful discussion.
11. Perhaps the popularity of Public Choice theory with economists is largely explained by similarity of assumptions. The assumptions that individuals pursue their own self interest and seek to optimize are basic propositions in economics and allow predictable and precise equilibrium outcomes.
12. Other criticisms have been made of the Public Choice model, see: Dunleavy (1991) for an extensive discussion.
13. In each of the three transformations, changes may be seen as ultimately driven by technology (Reschenthaler and Thompson, 1995).
14. Button and Swann (1989) refer to the period 1970 to 1989 as the “Age of Regulatory Reform.”
15. This does not include the increased requirements of cost-benefit analysis combined with restricted budgets, the use of self-monitoring by industry with low penalties, provision for civil actions with low limits or without requirements for bonding/insurance, and multiple warning systems combined with underbudgeting, which are transparently designed to subvert enforcement.

16. In 1995, according to the *Wall Street Journal* (November 10, 1995), China produced half of the world's toys, two-thirds of the shoes, and most of the world's lamps, power tools, and sweaters. By 1995, China was expanding exports in higher end electronic products and machinery (60 % annual growth rates) and experiencing a trade surplus projected to exceed \$20 billion in 1995.
17. The average years of schooling for work forces in developing countries rose from 2.4 years in 1960 to 5.3 years in 1986 (Freeman 1995:20).
18. The Uruguay round changes in 1994 reduced barriers to trade in services and agricultural products and—to a lesser extent—intellectual property.
19. These effects were increased by the explosive growth in the general public use of the internet communications system beginning in 1993.
20. As McCallum (1995) demonstrates, even where they should not matter, such as in the case of the American-Canadian border after the creation of the North American Free Trade Area, they seem to continue to matter a great deal. Continued American concern over a wide range of non-tariff barriers in Japan, South Korea and China highlights the continued importance of these barriers. Of course, cultural, language, public ownership, economic regulation, and other institutional barriers unrelated to public policies continue to loom large in some markets.
21. Some would argue these pressures served a long term disservice to industry as they compelled a more short term focus on performance. Business organizations have a wide range of choices for accessing foreign markets and “offshore” production. Many factors affect the choice. Some researchers suggest that the primary reason for choosing direct foreign investment today is the need to protect intellectual property rights including process technologies and marketing information (Reschenthaler, 1993; Morck and Yeung, 1992).
22. While Reich maintains that international business organizations are flexible about locating higher order functions outside home countries, he provides no statistical evidence to show that this is a common practice. We have not found any research that provides empirical evidence that organizations are very willing to place higher order functions outside home countries except for political reasons or because—in case of research and development by foreign companies investing in the United States (Graham and Krugman, 57-80)—of clearly superior concentrations of world class universities and major research clusters.
23. Bank tellers, telephone operators and receptionists, secretaries, data entry and processing clerks, cashiers, ticket processors, and parking lot attendants have been at risk. As the quality and ease of use of on-line data bases and voice recognition systems improve, the need for a wide range of lower level information providers will also disappear.
24. One result of these American labor market policies—including restrictive unemployment insurance and social assistance policies relative to Europe and Canada—and moderate monetary policies, has been that unemployment by the 1990s fell to much lower percentages of the work force than in Europe which provided institutional support for barriers to global competitive forces in labor markets and in Canada where the institutional protections were also stronger, but where higher unemployment was driven primarily by restrictive monetary policy and high levels of public debt. As Freeman points out (18) one of the consequences of this is that through the 1970s European countries consistently had much lower unemployment rates than did the United States, but during the period from 1983 to 1991 unemployment averaged 6.3 % in the United States compared to 9.3 % in OECD Europe. As Freeman also notes, the duration of unemployment exceeded a year for over half the unemployed in contrast to 10 % in the United States. Also see: OECD Jobs Study (1994).
25. Mishel and Bernstein (1994) provide a number of measures that clearly show the decline in the relative compensation levels of lower skilled groups. Freeman notes (18) that “the economic position of low skilled men has fallen by staggering amounts. For instance, the real hourly wages of males with 12 years of schooling dropped by some 20 % from 1979 to 1993; for entry level men with 12 years, the drop has been 30 percent!”

26. Thus, while unemployment in the American economy in 1995 was under 6 %, over 50 % of American reported concern about employment security.
27. The interstate highway , the domestic airline manufacturing industry programs were tied to national defense. The federal education, and many of the employment, racial, and income programs were, arguably, attributable in large measure, to the perceived need to demonstrate to the developing countries that the American system worked better than the communist economies.
28. These five core characteristics of learning organizations are appropriately viewed as the characteristics of the people in learning organizations. Organizational learning should—but need not necessarily—occur concurrent with individual learning. Strategies, policies, and programs for developing learning organizations are to be found in literatures ranging from education to cognitive psychology to creative processes to team building to managing organizational change to industrial engineering to total quality management: from Dewey to Deming. In an effort to minimize the risk that the concept might become so general as to become unmanageable, we build on the approach developed by Senge. Focused inquiry should begin with *The Fifth Discipline: The Art and Science of the Learning Organization* (1990) for an understanding of the overall concepts. *The Fifth Discipline Fieldbook* (1994) addresses questions of techniques and processes. Moving back in time, the Autumn 1993 issue of *Organizational Dynamics* explores specific techniques and related case studies. The work of Argyris extending back to the 1960s is particularly useful. The 1991, vol. 2, no.1 issue of *Organizational Dynamics* explores specific techniques and related case studies and delves into a number of theoretical issues while relating many of these to practice. In general, these papers focus on generic tools and tool building. Other important sources on organization learning include Brown and Puguid (1991), Cochane and Useem (1992), Fiol and Lyles (1985), Hedberg (1981), March (1988), McGill and Slocum (1994), and Ventriss and Luke (1988).
29. Some business writers have gone further and suggested that more than vision is required for business success. Hamel and Prahalad (1989, 1994) introduce the concept of “strategic intent.” Their concept, however important, places strategic intent as vision more in a competitive context; on the whole it is compatible with the Senge concept.
30. Other classic examples, many of which are examined by Senge, include: environmental and ecological problems, crime in general, narcotics, prostitution, education programs, fiscal policies and economic development, labor policies, urban policies, telecommunications and broadcasting, infrastructure deterioration, poverty and welfare related policies, and regional ethnic conflict resolutions.
31. For an insightful discussion of these forces at work in financial markets from the 1960s to 1990s, see: *Fortune*, September 4, 1995:91).
32. Some writer’s have introduced a separate growth frame or archetype which they refer to as the “Limits to Growth” model because of the importance of understanding balancing forces that tend to naturally come into force with growth.
33. Another aspect of this problem is raised by Handy (1994:50-64) in examining life cycles of public and private sector organizations and programs. The standard cycle is depicted with a Sigmoid—S rotated ninety degrees—curve. It depicts the following stages: initiation, growth—reinforced and then balanced, maturity, and, then, decline—reinforced or accelerating. For a variety of reasons organizations and individuals fail to sense that they—or programs—need to change while they are still in the growth stage well short of maturity—when resources and energy are high, but incentives for change low—rather than after they have started into decline—when change becomes imperative and, often, too late. In any organization anticipatory change is difficult; in government, it is particularly so.
34. Systems writers characterize quick fix solutions with descriptions very familiar to public policy analysts.

35. In a tragedy of the commons situation the returns to individual activity decline as the total community or group effort increases. Classic examples are found in public grazing lands and fisheries (Hardin, 1968). Other examples are found: in the use of open space; roadway use; drawing on common facilities, staff, production capacity, and financial capital in organizations.
36. An intelligent organization should be a learning organization (Quinn, 1992).
37. Alternative categories of instruments, in ascending order of intrusiveness, include: advance consultations, education and research, publication-dissemination, financial incentives (both positive and negative), regulatory compliance advice, compliance monitoring (self, agency, and third party) and reporting, negotiated assurances of compliance (with public transparency), financial assurances of compliance, and private and substitute enforcement actions. In some cases highest leverage may be found in "ticketing" or criminal prosecution; however, in many instances the highest leverage is to be found somewhere in one of these alternative instrument categories.
38. We have proposed elsewhere (Reschenthaler and Thompson, 1995) that many of the traditional arguments for government intervention due to market failure are fundamentally cases of high transactions or information costs. As the costs of computer and information technologies fall and the capabilities rise, the rationales for intervention fall and alternative instrument options arise.
39. We believe it is a mistake to attribute the changes in the role of government primarily to the pressure, and, in some instances, the excuse of escalating public debt in a number of countries; though it has served as a lightning rod for focusing attention in some cases. If this were the case, then it might well be argued that there is no fundamental transformation in progress; but, on the contrary, we are witnessing fine tuning of instruments used in the public sector in the presence of a crises. We note that Sweden only recognized a crises in debt after 1992; the United States after 1993-1994; Canada after 1994—some might argue it still has not recognized a problem exists; and Italy is still thinking. Even New Zealand, an alleged beacon of enlightenment, only reacted in 1987. Most of the changes of the third transformation were well underway by 1987. Clearly some of the shifts in the developing countries have been driven by the IMF, World Bank, and other lenders; but those countries are not the center of our analysis. We are aware that there are, reportedly, wide-spread reservations about privatization and deregulation in Europe.
40. As other writers in the new public management, Osborne and Gabler envision "reinventing" governments by mandating them to: (1) more clearly define their purposes, more carefully lay out their visions, and more thoughtfully and specifically set priorities; (2) become consciously customer, mission, results, and systems driven as contrasted with being budget, inputs, or process driven; (3) aggressively seek out or create instruments, vehicles, institutions, and "points" of greatest potential leverage for meeting objectives; (4) decentralize—localize—at every opportunity and empower, provide incentives. and give discretion to people as managers, as employees and as teams—and in the process seek out change agents as opposed to system managers; (5) inject internal and external competitive pressures in the provision of services; (6) be entrepreneurial and imaginative in pursuing non-tax and non-traditional sources of revenue; and (7) be sensitive to and take advantage of leverage possibilities presented by, or through, "third sector" organizations.

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