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# Learning from the Pioneers: Modernizing Local Government. Part One

**ABSTRACT:** At the end of the century, we are in a position to look back over a decade of restructuring local governments. Our evaluation of the reform movement underway throughout the world indicates a “dialectic of modernization”: considerable progress in some areas, stagnation or erosion in others, and challenges that demand attention. Based on comparative case studies of local governments, this article identifies and discusses several major trends—positive and negative—observed in the experience of reform governments in various countries. It also identifies conditions for lasting success of local government reform. Two companion articles set out the central challenges that now face local governments: making the transition to strategic management, and redefining the interfaces between local administration and its political, social, and economic environment.

Administrative modernization has been described as a linear process: moving from feudal counsellors and political party machineries, to Weberian bureaucracies, to client-oriented and results-focused organizations. The last stage of this process is highly controversial. Proponents of the so-called New Public Management (NPM) assert that its reforms are effective, sustainable, compatible with democracy and distributive justice, and universally applicable. Opponents dispute

each of these claims, arguing that the reforms are merely symbolic, or short-lived expressions of fashion. Between the opposites, there is a shortage of intermediate positions, let alone evaluations based on alternative frames of reference.

One possible approach is to consider the path of reform not as a linear progress, but as a manifestation of historical dialectics. New ideas and practices confront those of the past, but are in turn confronted by the exigencies, dilemmas, and occasional futilities of real-world praxis—yielding new realities. Progress is neither inevitable nor monolithic, but it occurs because new ideas enlarge our menu of alternatives, and because our growing cumulative experience can inform our decisions. The linear view oversimplifies the goodness, the coherence, and the inevitability of the new, making an easy target for critics. In a more dynamic view, public reform is an experimental, multidimensional balancing act by autonomous actors in an uncertain environment; along with steady progress, we may also experience serendipitous breakthroughs, disturbing retrenchments, and structural contradictions.

The forms arising from such a process will be shaped by the specific combinations of innovations people are willing to attempt, and which of these survive the test of practice. Thus, the empirical question is highly relevant. In the NPM literature, less attention has been paid to local than to state and national government. However, studying local government offers the advantage of more cases, and may include more diverse innovations than are found in larger, higher-risk organizations. Both the problems and the opportunities of local government differ from the national level due to the very close proximity between local officials and their constituents. In the field of local government reform, enough experience has by now been accumulated for us to begin making some assessments on the basis of real-world outcomes.

## CUMULATIVE EMPIRICAL EVIDENCE

We are fortunate that we now have at least four evaluative studies of a similar orientation at our disposal. Each of these studies applies roughly the same normative criteria to a different set of cities. Altogether, researchers have followed the process of local government modernization over a medium-term period (six years) with a combined sample of several dozen cities. These provide a uniquely rich database for the evaluation of local government reforms.

### The Carl Bertelsmann Prize

The Bertelsmann Foundation (the largest in Germany) each year awards the Carl Bertelsmann Prize for exemplary and innovative solutions to socio-political problems. The 1993 award was dedicated to “Democracy and Efficiency in Local Government.” Research supporting the award began in 1992, conducted by an

international working group chaired by Gerhard Banner and including the primary author of this article.

This group first developed and approved by consensus a set of seven criteria, forming an analytical-normative profile of performance-oriented management systems in local government. These criteria were as follows (Pallach & Pröhl, 1993: 11–17):

1. *Performance Under Democratic Control.* Local government is an instrument through which citizens solve local tasks. It must not only provide services to solve these tasks, but also ensure the quality and efficiency of such services; and government must be accountable to the citizens for such services, whether offered directly or through other providers.
2. *Citizen and Customer Orientation.* Seeing itself as a service company, local government addresses its services to the needs of citizens. Services are rendered in a friendly way; citizen-customers are adequately informed about their choices; feedback from citizen-customers is used to verify the effectiveness of services; and possibilities are created for citizens to participate in the planning and provision of services.
3. *Cooperation Between Politicians and Administration.* Elected representatives set targets and monitor the performance of the administration, which in turn provides expert advice and operating information to the elected government. But the administration is fully responsible for reaching the defined targets under its own initiative and without detailed political supervision.
4. *Decentralized Management.* The relations between administration and politicians, as well as between different levels of the administration's hierarchy, are characterized by the delegation of responsibility along with monitoring of outcomes. Responsibility is moved downward toward the interface with the customer. Functional departments are given product-oriented budgets and discretionary scope for resource employment, and are rewarded for economically positive behavior.
5. *Controlling and Reporting.* Planning, coordination, and controlling systems allow continuous improvement and adaptation of services to local needs. Among other things, this means a product-oriented reporting system, which provides information from the functional departments to the central controlling unit and to the political leadership.
6. *Employee Potential.* As employees are the most expensive and sensitive resource within local government, management must continuously devote attention to human resources and their development. This is expected to be most successful in administrations with a flat hierarchy, a cooperative and employee-oriented style of leadership, open communication, quality-oriented recruitment and development systems, and performance-oriented reward and promotion systems.
7. *Capacity for Innovation and Evolution Secured by Competition.* In analogy with

the effects of competition on business performance, local government conducts performance comparisons in order to motivate and inform beneficial change. Such comparisons may refer to other local authorities, private providers, market prices, customer surveys, etc. This creates a self-regulating process that must be supported by modern management methods and freedom of action for employees.

On the basis of these criteria, preliminary investigations were conducted in eleven countries with identifiable municipal reform movements. After initial research and discussions, nine countries were each asked for first and second nominations of reform municipalities. These were selected by groups of about five experts for each country with the support of Bertelsmann staff, following an expert consensus procedure. From this pool of nominations, ten cities were selected for the second phase of the research. These municipalities were thoroughly investigated, with local authorities given the opportunity to produce documentation and other evidences. A consulting team from the Bertelsmann Foundation visited each city for about one-and-a-half days, and wrote a short research report. The international expert group checked all the available material, including site visit reports, and ranked the cities according to the criteria profile.

The 10 cities in the final phase of the competition were:

Braintree, Great Britain	Hämeenlinna, Finland
Christchurch, New Zealand	Neuchâtel, Switzerland
Delft, Netherlands	Phoenix, USA
Duisburg, Federal Republic of Germany	Québec, Canada
Farum, Denmark	Tilburg, Netherlands

Christchurch and Phoenix obtained the best scores, and the two cities shared the prize equally. Phoenix had implemented local administrative reform without special support or guidelines from state or national authorities, and thus was viewed as exemplary for cities in nations without strong central support for reform. Christchurch, on the other hand, was integrated into a nation-wide reform movement sponsored and supported by the New Zealand government, viewed as exemplary of the kind of consistent support that national governments could provide for local reform (Pallach & Pröhl 1993: 20–21).

### **The Saarland Competition**

On the basis of the above research, the Bertelsmann Foundation developed an instrument for intermunicipal performance measurement (Adamaschek, 1998).

**Table 1.** Norwegian-Swedish Replication Study, 1996

	<i>Phoenix, U.S.</i>	<i>Duisburg, FRG</i>	<i>Hämeenlinna, Finland</i>	<i>Farum, Denmark</i>	<i>Nacka, Sweden</i>	<i>A, Norway</i>	<i>B, Norway</i>	<i>C, Norway</i>
Performance under democratic control	100	56	58	70	78	52	60	52
Citizen and customer orientation	100	54	58	68	56	27	33	17
Cooperation between politics & administration	95	45	55	52	87	40	64	56
Decentralized leadership	98	28	64	55	79	26	43	14
Controlling and information systems	93	28	35	32	64	27	21	4
Staff potential	91	33	35	50	51	26	41	21
Innovativeness	86	34	54	60	53	28	35	30
Total	663	278	359	387	468	226	297	194
Rank	1	6	4	3	2	8	5	7

Source: Baldersheim & Ogard, 1996.

The German Local Government Center for Management Studies (KGSt) has adopted this instrument, and more than 150 cities and regional councils now participate in the program.

The pilot project was a competition sponsored by the State of Saarland, in cooperation with the Bertelsmann Foundation, beginning in 1994. More than 50 of the state's 58 local and regional governments participated. This was more than a competition; the objective was to organize a reform of the entire local government system of a federal state in one initiative, thus also creating a reference model for other states. The competition was won by the community of Eppelborn, the city of Bexbach, and the district of Saarlouis (Henke & Kaehlbrandt, 1998: 25).

The reform initiative and competition in Saarland followed the Bertelsmann criteria, and promoted the concept of local government as a service company. This program stimulated a number of concrete improvements by communities, including citizens' offices with flexible schedules offering a variety of licensing, registration, and problem-solving services across a spectrum of traditional departmental functions.

## THE NORWEGIAN-SWEDISH REPLICATION STUDY

The 1996 Norwegian-Swedish replication study applied similar criteria to leading cities in Scandinavia. The results of the study, summarized in Table 1, illustrate this type of approach to empirical analysis and evaluation. The results also

demonstrate the wide variation found in performance, not only between cities, but also between different criteria across cities, a point that will be discussed later in this article.

### **The Berlin Science Center Study**

The Berlin Science Center (Wissenschaftszentrum Berlin für Sozialforschung, or WZB), with the primary author of this article as a director, has been conducting a comparative and longitudinal study of modernization in local governments since 1994.<sup>1</sup> The focus of this research is on innovation, the processes of modernization, and the impact over time of administrative restructuring.

This project began with a review and analysis of the studies described above, then it substantially expanded and deepened the set of criteria and applied them to a larger sample of reform cities. It particularly covered recent developments in leading cities from among the participants in the Carl Bertelsmann Prize 1993 and selected examples from Sweden. In addition, the WZB team conducted a more intensive investigation of nine select cities twice during a four-year period. In the first round, they spent about five days in each city. In the second round, they spent about two days, not covering cities that were not developing well. They are currently engaged in a third wave of visits.

The WZB study—the basis of this article's provisional evaluation—is characterized by an explicit normative modeling. Current practice in the evaluation of private sector companies is dominated by two approaches: purely process-based approaches such as ISO 9000, which lacks a normative modeling; and normative structural modeling approaches such as the U.S. Malcolm Baldrige Award model and the European model of comprehensive quality management. In both of these normative models—the European model only differing from the Baldrige Award model by including operative and financial results—great emphasis is placed on customer satisfaction, core processes, and political-administrative leadership, followed by employee orientation and satisfaction. The combination of operating result, customer satisfaction and core processes shows that the dominant private-sector approach is both inwardly integrated and outwardly oriented. Increasingly during the 1990s, this approach has been adopted for the evaluation of public sector reform. The European model, the basis for the WZB study, rates organizations according to the following schedule:

Leadership 10%

Employee orientation 9%

Politics & strategy 8%

Resources 9%

Processes 14%

Employee satisfaction 9%

Customer satisfaction 20%

Social responsibility/image 6%

Operating results 15%

### **Assessment of the Methodology**

It is rare in empirical social science research to experience such an accumulated database. To this extent the findings described in this article can be seen as relatively robust and generalizable. However, as may be clear by now, the studies are inappropriate for statistical approaches to validation—the samples are not only small but biased, and the data are largely qualitative. The goal of the studies was to identify replicable best practices, not average practices.

Nevertheless, the data provide a very strong basis for evaluation using comparative case study methodology, with expert rating and benchmarking techniques. The WZB study explicitly follows this approach, with the added dimension of longitudinal studies over a period of four years. As the observations reflect a range of national, temporal, and institutional perspectives, they offer the opportunity for validation by triangulation. The following conclusions are generalized, not from a normalized sample, but from a normative concept as observed across multiple cases. This is indeed learning from the pioneers (see Yin, 1992, 1994; Johnson, 1997).

### **GENERAL OBSERVATIONS**

From both a longitudinal and cross-sectional comparative perspective, five central conclusions can be drawn from the WZB study—in conjunction with those of the prior studies already mentioned, along with results of the recent quality competition in Speyer, Germany—regarding the trends of local government modernization.

#### **Overall Trends of Reform**

The confusing multiplicity of measures implemented in these cities can be brought together in three broad trends.

The first trend involves the internal modernization of local government. This includes results controls, quality assurance, budgeting variants, and the development of flexibility in the organization of work and personnel policies. This

movement has seen steady growth throughout the 1990s, and has achieved broad acceptance and success.

A second trend concerns the orientation toward market forces. This involves instruments such as competitive tendering, market testing, organizational autonomy, and, as the strongest measure, privatization. This trend has always been much smaller than the first, but it exhibits a very rapid rate of growth. Although national privatization became popular in the 1980s, local governments have only in the latter half of the 1990s seen a swelling of enthusiasm for a broader-based market orientation for their core services.

A third trend is to be seen in the democratization of local government. This includes both the involvement of citizens in traditionally administrative decision-making processes, and the devolution of government tasks back to civil society. This trend is both small in size and growing at weak rates.

In international discussions of reform, it is important to emphasize that the new reform movement includes much more than mere internal modernization; above and beyond internal change, it aims to change the interfaces between government and the market on the one hand, and between government and society on the other. However, of the three trends, internal modernization has consistently from the outset played the predominant role in local government reform. Of course, the decisive question is whether these three trends, and all the buzz words with which they are associated, constitute merely another cyclical and passing fashion of management concepts, or new and sustainable reform developments that are indeed becoming established in public management practice. At this time, the trends vary in the extent to which they have taken root, with internal modernization clearly dominant.

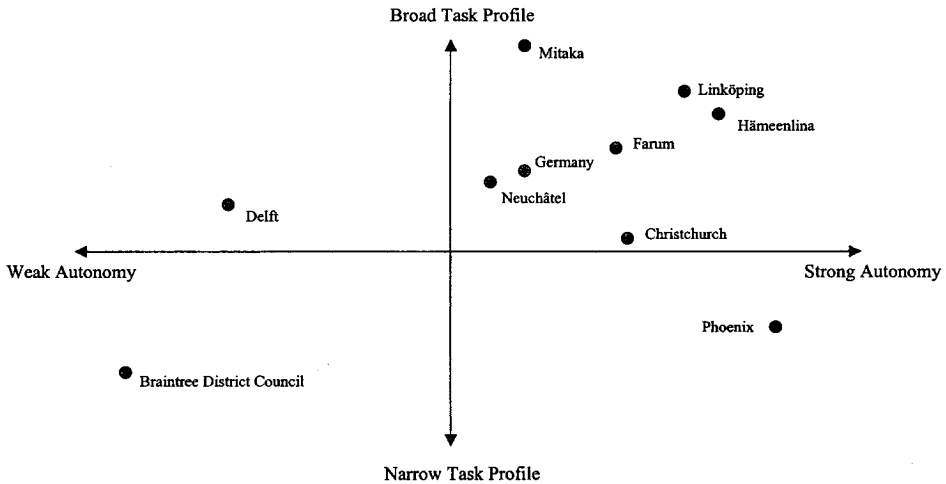
### **Sustained and Effective Modernization Over the Medium Term**

In as many as half of the reform cities studied, the restructuring of public administration has been achieved with a high degree of goal attainment, in which far-reaching structural innovations have been successfully implemented. The fact that these innovations have proven relatively stable over the observation period suggests that such processes are sustainable at least in the medium term. The frequently propounded counter-thesis—that administrative modernization is a passing fashion of largely symbolic importance—seems to be refuted by the continuing success of these cities.

### **Generalization Across City Types**

Given the range of these studies, the conclusions drawn are highly generalizable. This can be shown for selected cities from the WZB sample in Figure 1. The effectiveness and sustainability of reform are distributed across virtually all city types, defined here in terms of task profiles and degree of autonomy.





Task profile: Breadth of own local government tasks, tasks assigned by central government, and tasks performed by commission.

Autonomy: Degree of legal independence, direction of own tax revenues as a proportion of total revenue, and independence of central government financial allocations.

Source: F. Naschold, WZB, 1998.

**Figure 1.** Task Profile and Autonomy

Although there are indications that the reform mode currently predominant can be most successfully achieved in cities with a relatively narrow task profile—that is, particularly in the English-speaking world—Scandinavian cities, with their typical profile of a broad task spectrum and considerable decision-making autonomy, have also generated major innovative developments. No significant differences emerge with respect to the size of the cities: the modernization process is distributed over virtually all local government size categories. However, the “megacities” were not incorporated into the analysis, so generalizations may not apply to them.

### **Substantial Variation in the Level of Development<sup>2</sup>**

There is strong empirical evidence that local government reform can be effectively implemented and can be stabilized over time in a wide range of city types. On the other hand, the WZB study reveals a wide variation in level of development. One way to measure this is capacity maturity, defined as the degree of process control achieved, starting from an initial status, then proceeding through “defined,” “repeatable,” and “managed” process control, culminating in the “learning organization.” In about 20% of the cities, a high level of breakthrough innovation was identified across the entire scope of activities, achieving levels rated at “repeatable” or “managed.” In about 30% of the cities,

innovations were identified in individual areas, usually at a reduced level of development, achieving levels between “defined” and “repeatable.” In about half of the cases, symptoms of stagnation or even erosion of the modernization process were identified—at levels below “defined” process control—albeit alongside interesting examples of innovation. Thus, there is an inverse relationship: at each higher maturity level, fewer instances are observed than at lower levels.

Substantial differences in process control maturity emerged in all the empirical studies mentioned. Very different development speeds were also observed in various cities when studied in longitudinal-comparative perspective. Thus, the existing variance between reform cities is increasing over time.

### **De-Modernization Processes**

Upon comparing the WZB study with its predecessors, clear signs became evident of a stagnation—and even an erosion—of the restructuring process within about half of the cities studied. In these cases, the modernization process has become bogged down and is in danger of regressing toward traditional administrative patterns. Processes of de-modernization, such as frequently observed in studies of developing countries, are evident in local government reform. Thus, modernization is not merely a linear institutional evolution involving cumulative differentiation, specialization and innovation at ever-higher levels, but also exhibits strategic discontinuities, reversals, and signs of disintegration in some cases.

### **Structural Ambivalences**

In the cities observed, the modernization process was not a homogeneous and cumulative upward trend, but rather one subject to structural ambivalences. Some of these will be identified here, and discussed in more detail later.

- Quality policy as a cornerstone of local government modernization all too easily degenerates to the political “creation of acceptance” by the administration among the population, even in the absence of client-oriented quality improvements.
- The commercialization of public tasks often amounts to a swift and ideologically driven “dumping” by local government of its responsibilities, or it may consist of seemingly pragmatic cost-cutting strategies that achieve at best only short-term successes, not long-term savings.
- Results control is always subject to a trend of regression back to rule control, albeit under a different name. In fact, it can become a rule control of activities instead of resource inputs, a form of control that is then all the more intrusive and resilient.

Thus, although local government reform can be effective and sustainable, there is no guarantee of on-going, continuous optimization, or of a structural barrier

preventing de-modernization. The hybrid and complex governance structures of local government often prove less stable than the often simpler structures of private sector companies. Reform cannot be viewed as a one-time fix, but as an ongoing struggle with various ambivalences and forces of decay.

## EXAMPLES OF INNOVATIVE DEVELOPMENT

Against the background of these general trends, some striking innovative developments can be identified. Three strategic areas are highlighted here, illustrated with concrete examples: the most hotly debated, *commercialization*; the seemingly least controversial, *quality policy*; and, finally, that to which the greatest attention has probably been paid, *resource management*.

### Commercialization

That local government reform is not always a win-win situation from which all benefit is evident from the controversy over commercialization. The fiercest battles are fought here, between proponents of the privatization of public tasks and those who believe such functions should be performed primarily by the public sector. Rather than recite arguments we will describe practical experiences with commercialization. Table 2 outlines three approaches to commercialization.

In Braintree, commercialization consists of a central-government-controlled, ideologically motivated, material privatization program. This program involves the compulsory competitive tendering of *all* local government services, with the market price as the central, indeed often the sole parameter. By inducing a change in property rights, Great Britain has relied on material privatization and thus on a shift in the balance of social power—a national transformation implemented as part of local government policy!

In Christchurch, the framework is set by central government, but the aim is to free up competition in pluralistic market forms ranging from oligopolistic-monopolistic markets (e.g., energy supply), through mixed competitive markets containing both private and public contractors (e.g., construction and waste), to internal markets for administrative support benefits. Christchurch bases its strategy on market testing using pragmatically deployed, pluralistic methods: in addition to market prices, other tools include benchmarking, customer surveys, and expert experience. It is the mechanism of competition that is the center of attention, and with it improvements in local government services, not merely cost cutting.

In Hämeenlinna, change involves a central-government framework offering options for local legal forms and flexibility, resulting in an internal rationalization of service structures. The central instrument is the flexible legal form, aiming to bring about more flexible management and consequently a cut in

**Table 2.** Three Ways of Commercializing Public Tasks

	<i>UK (Braintree)</i>	<i>New Zealand (Christchurch) U.S. (Phoenix)</i>	<i>SU (Hämeenlinna)</i>
Regulatory form	Central government steering of a material privatization program	Central government regulation of framework with decentralized/ pluralistic market forms <ul style="list-style-type: none"> <li>● oligopolistic-monopolistic market</li> <li>● mixed competitive markets</li> <li>● internal markets</li> </ul>	Central government regulation of framework with local options regarding legal form
Instruments	Compulsory competitive tendering of all local government services as the central parameter	Market testing with pluralistic methods <ul style="list-style-type: none"> <li>● market price</li> <li>● benchmarking</li> <li>● customer surveys</li> <li>● experience</li> </ul>	Internal-administrative cost-reduction program
Causal mechanisms	Change of ownership → material privatization → shift in social power relations	Flexible legal form → competition → improvement in performance and cost reduction	Change in legal form → flexibilization of the managerial function → reduction of local government costs → relocation
Commercialization	= material privatization	= regulated competition between public and private organization	= internal rationalization through flexible legal forms

Source: Naschold, Oppen, & Wegener, 1997b.

costs or a shift in the cost burden. Thus, the provision of services remains largely within the public sector, and commercialization means that agencies gain flexibility to function as service companies without actually privatizing their tasks.

Fierce controversy surrounds the effectiveness of all three strategies in the theoretical literature. Yet the experiences gained so far, and preliminary attempts to measure efficiency, are converging on a relatively unambiguous finding. First, in more or less open market structures, competition between private and public providers with respect to price, quality and customer orientation proves to be the most favorable solution in terms of the interest of customers and citizens. Second, material privatizations have a substantial direct cost-cutting effect, but this advantage is often reduced significantly within a short space of time (two to three years). Little is changed with regard to structural cost-increasing factors. Third, changes in legal form, and the increase in flexibility this approach generates, taken alone, exhibit a disappointingly modest potential for improvement.

**Table 3.** Three Forms of Quality Policy

	Norway (A)	New Zealand (Christchurch) U.S. (Phoenix)	UK
Approach	Organizational development and employee participation	Internalization of consumer utility within the organization	Generating customer/citizen acceptance
Orientation	Internal	External-interactive	External-manipulative
Instruments	Quality circle movement and instruments including spatial deconcentration	Market research via focus groups and detailed customer surveys Surveys of internal customers/employees Standard setting via service agreements Renewal of processes and structures Spatial deconcentration	General customer surveys (degree of satisfaction) Citizen charter movement Spatial deconcentration

Source: Naschold, Oppen, & Wegener, 1997b.

### Quality Policy

All the cities and countries exhibit an apparent consensus regarding quality policy. After all, who could possibly be against service quality? Practical experience, however, reveals major differences in quality policy. What is decisive is whether a government focuses on the technical and legal norms of producers, or on customer utility and its realization in concrete activities. We will consider three variants of practical quality policy. Table 3 lists the approach, the orientation and the instruments of three forms of quality policy.

The approach to quality policy in A, Norway, is based on an internal administrative orientation. The aim of quality policy here is to induce an organizational development process within the administration, with the broad participation of public sector employees, but rather distant from citizen-customers. The classical internal instruments of a quality circle movement have been implemented.

Quality policy in Great Britain, though, can be interpreted as the generation of acceptance among citizen-customers by the administration. Although the orientation is external, the approach is instrumentalist in nature. Great Britain operates with rather general customer satisfaction surveys and the Citizen Charter, a general declaration of intent by local government to its citizens.

The situation is very different in Christchurch. Quality policy here is decidedly external in its orientation, based on interaction between the administration and citizen-customers. In accordance with the original Japanese quality management idea, Christchurch aims to internalize customer utility into the process of administrative service provision. The instrumentation is highly differentiated, ranging from complex market research—detailed customer surveys are preceded

by focus groups, which decide autonomously on the questions to be asked—to internal customer and employee analyses and complaints systems. Administrative standard setting is treated as a binding service agreement with the public. The overall collective learning process is then used as a source of continuous improvement in the sense of Total Quality Management properly understood. Quality policy in Christchurch, the city with the most highly developed practice in this area, thus consists of a bundle of instruments, the aim of which is constantly to compare and contrast citizens' attitudes and expectations with government service and performance processes.

### **Resource Management**

Much of local government in Germany and elsewhere is so fixated by fiscal consolidation that administrative reform is equated with fiscal consolidation, and this is equated with cost reduction. Although it includes structural measures to raise additional revenue or reduce expenditure, the central element of a policy of fiscal consolidation is seen as a strengthening of the budgetary instrumentation. Specific elements include a move away from cameralistic (receipts-expenditure) accounting to double-entry accrual accounting, and decentralized resource responsibility. Such measures are desirable and difficult to implement, but they only deal with pieces of the problem. Besides the need to improve budgeting in the narrow sense, the solution to the problem makes three requirements:

- Costs and benefits need to be understood not as mere monetary savings, but in terms of the net social value created as the final output of a budget.
- Structural cost-increasing factors need to be identified and controlled.
- Not only treasury officials, but also other forces within and without the administration need to be active in support of the resource management process.

Again, let us look at work done on the ground; here, too, it is in Christchurch that resource management is most highly developed. Figure 2 illustrates the principles used here. In the middle is the traditional budgetary process in the narrow sense, and its development from classical input budgeting to output budgeting with cost, performance, and impact budgeting. Grouped around this core budgetary process is a whole array of supplementary, indirect resource management instruments. These range from strategic management, quality policy, and competition policy to cultural change within the organization as a whole. These indirect resource management instruments are applied to the structural cost-increasing factors in local government.

Of course, Christchurch had to do its homework, difficult as that was, in the traditional area of the budget. To the best of our knowledge Christchurch was the first city with a complete output-based budget on the basis of accrual accounting.

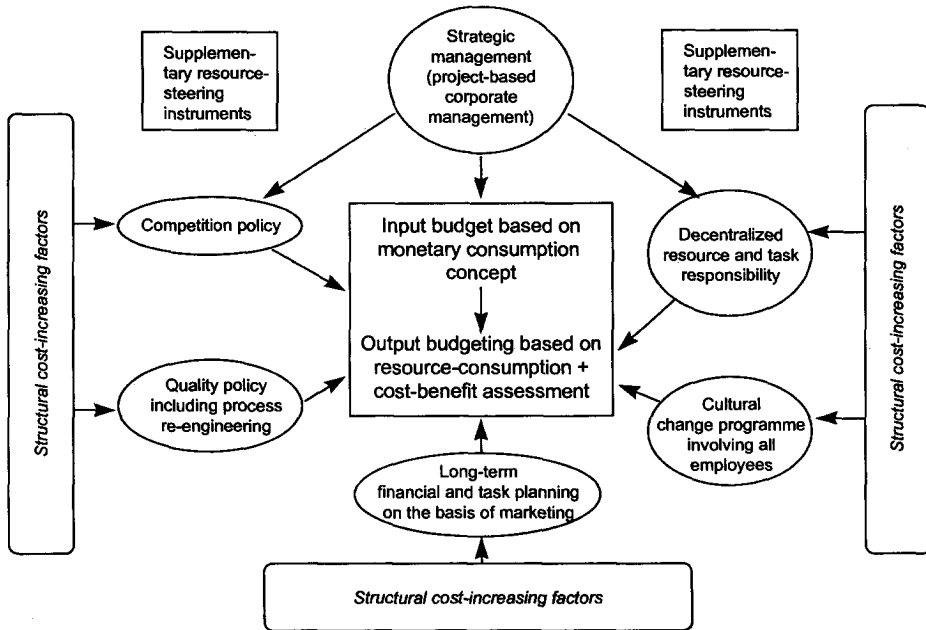


Figure 2. Resource Management in Christchurch

Closely linked to this is a comprehensive cost and performance accounting system. The most recent development aims to move from output accounting to impact measurement and accounting.

The decisive breakthrough achieved by Christchurch, however, lies in its mobilization of new political forces for resource management. This involves non-treasury officials and citizens in the resource management process, addresses structural cost-increasing factors, and incorporates the citizen-customer perspective in the measurement of results.

Within the framework of resource management the following causal mechanisms are involved alongside the traditional budgeting process in the narrow sense:

- The top management team focuses centrifugal departmental forces by means of project-based management.
- Strategic long-term planning gives the budget an operational orientation based on consumer-related priorities, in conjunction with decentralized resource and task responsibilities.
- Competition policy is a continuous source of performance improvement and cost cutting.
- Quality policy aims to reduce waste, as measured against consumer utility, and generates a force for on-going rationalization.

- The program of cultural change aims to overcome dysfunctional barriers formed by the unwritten rules of status and power, and to mobilize employees from the bottom up through participatory influence on services and strategy formation.

In sum, Christchurch has developed the traditional management of budgetary control into a broad-based system of resource utilization. In this system, the treasury plays a serving role, the top management team develops generative mechanisms that exert a multifaceted and lasting influence on structural cost-increasing factors, and employees in the various departments are integrated along with market forces and citizen involvement into a powerful process of resource utilization. Fiscal consolidation in Christchurch has not been without its administrative and political conflicts, but the path taken by Christchurch clearly leads toward a more effective and efficient use of scarce resources than that possible under traditional local government.

### **NEGATIVE DEVELOPMENTS**

Even in the world's leading reform cities the history of reform is not merely a succession of victories and achievements. Along with all the innovations we also find a number of negative developments and unachieved expectations, reflecting the structural ambivalence of the modernization process mentioned earlier. These developments are discussed in great detail in the WZB study; here, we will point to five problem areas that threaten to slow, restrict, or even undermine the effectiveness and the sustainability of the restructuring strategy.

#### **The Predominance of Managerialism**

Most of the organizational forms, methods and instruments applied in the course of administrative reform are oriented to the managerial process. The aim of budgeting and controlling instruments, quality assurance and competition strategies, personnel and organization development measures, and similar reforms is to increase the efficiency and effectiveness of administrative management. This is consistent with the previously described centrality of internal modernization among observed reform trends.

Analogous attempts at rationalization are not found in the area of political leadership or the representation systems of local government. Consequently, administrative reform threatens to shift the balance toward professional managerialism over the democratic political leadership. Even where the governance structures remain overtly unchanged, the shift in roles results in a latent change in governance. As the New Public Management enhances the managerial function, perhaps a New Public Governance is needed to enhance the democratic political leadership.

Such tendencies can be seen in all the cities in the WZB sample. They are



particularly pronounced in cases in the English-speaking world, where the trend seems to be justified by a certain political consensus. However, the trend toward managerialistic predominance is also found in the Scandinavian and continental European cities. In Europe, though, issues surrounding the compatibility of such trends with democracy are far more likely to be the subject of political debate, particularly in Switzerland and the Scandinavian countries, and more recently also in Germany.

### **Neobureaucratism**

One of the central thrusts of administrative reform, both in the theory of NPM and in the concrete practice of the cities in the sample, is the transition of the administrative process from input control to output control. The aim of this management by results is to improve the goal-orientation of the managerial process, involving the greater participation and empowerment of the workforce in the provision of services. However, what is decisive for the effectiveness of such systems is the way in which they are designed in practice. Two main forms of the implementation of such results control systems can be distinguished.

In the interactive form of results control, relatively broad-based targets and goal-attainment indicators are established, with the help of an interactive working and discussion process. The wide scope for decision-making permits a high degree of goal attainment. The targets have a double legitimization: that of hierarchical adoption and that of employee participation. Control systems are designed as feedback mechanisms for cooperative learning strategies.

A very different form of output control occurs where highly detailed targets are set, where these are based on work output rather than impact indicators, and where they are set for the individual employee and not at the level of a work group. The targeting process is then extremely hierarchical and expertocratic. Such a targeting system allows staff very little scope for decision-making. Accordingly the control system consists of traditional monitoring of goal attainment on the basis of a deviation analysis and the imposition of sanctions.

Results control of the second type leads to centralistic detailed intervention by means of the precise formulation of product definitions, job descriptions, and target catalogs. Thus, it tends toward a form of neobureaucratism that is actually much more rigid than the traditional system of bureaucratic input control. This trend is particularly pronounced in Great Britain and in the German-speaking countries of continental Europe, although the threat is present in local governments in the Netherlands, the USA, New Zealand, and Scandinavia.

### **The Manufacturing of "Satisfaction"**

Perhaps the central target variable for administrative modernization is the degree of customer and citizen orientation, as reflected in higher levels of

satisfaction among clients and citizens. Traditional methods to produce and measure citizen-customer satisfaction are found in the mechanisms of representative local democracy, reinforced to varying extents by participatory elements and referenda. Into this context, the reform movement has introduced an important new instrument—market research, in the form of customer and population surveys, conducted in a systematic and professional manner, and applied both in individual policy areas and for city developments as a whole. Customer surveys at a highly developed level are especially common in cities in the English-speaking countries (Phoenix, Christchurch, and Braintree). Signs of a move toward customer surveys are evident in Germany and Switzerland. Delft and Hämeenlinna, on the other hand, suffer from a conflict between centralized and decentralized methods.

Professionally designed, implemented, and evaluated surveys of customers, particularly following the use of focus groups to identify relevant issues, make a vital contribution to the client orientation of local government. This, at least, is the experience of Phoenix and Christchurch. One striking fact, however, is that consistently high satisfaction ratings are reported from client surveys conducted in all cities. This finding is in stark contrast to the generally far lower and much less stable customer satisfaction figures in the private sector (Gale, 1994).

To a certain degree this consistent difference can be attributed to the monopolistic position prevailing in much of the public sector. To a greater extent, though, the difference is due to methodological weaknesses underlying local government survey techniques, compared with the best practices in the private sector. These deficits include:

- failing to precede the surveys with focus groups, such that questions tend to be formulated from the perspective of the administration
- positive instead of neutral formulations of the items
- vague and general formulations of the items
- little scope for voicing alternative opinions
- few comparisons against actual or potential competitors
- sample bias due to the exclusion of large parts of the relevant population (children, the poor, the ill, the elderly, commuters, tourists, etc.)

This list of inadequacies in the market research undertaken by local government applies in varying degrees to almost all the cities in the sample. Even in such highly experienced local government administrations as those in Christchurch, Delft, Tilburg and Phoenix, market research suffers from many or all of these deficiencies. Whether it is intentional, careless, or brought about by distorted incentives, the manufacturing of high pseudo-satisfaction ratings by such techniques will systematically lead politicians and administrators astray. The results

may include over-optimism about the level and stability of public satisfaction, and failure to consider without bias any alternatives to prevailing service systems.

### **Decoupling of the Work Process and Personnel Management**

At the current stage of reform, administrative restructuring largely consists of the modernization of managerial processes and structures. A comparatively underdeveloped management capacity in the public sector has been one of the central deficiencies of traditional administration. However, the widespread effort to improve managerial processes has not been linked to a restructuring of work organization and personnel management within administrations. Indeed, a decoupling of the management process from the organization of personnel and work is almost a defining characteristic of local government modernization. This has been shown by all of the comparative studies of local government reform.

Among the examples of this decoupling: issues of work organization and personnel development have played a subordinate strategic role in the reform process. Any restructuring of work organization tends to be along conventional or even neobureaucratic lines, rather than modern forms of work process organization. To a large extent, personnel development continues to use external non-process-linked training and traditional promotion within narrow categories, instead of being oriented closely toward the work process and new career paths.

The conclusion reached by an in-depth evaluation of this issue in Finland, namely that "the management by results process has not reached the shop floor" (Arnkil & Naschold, 1997: 167), still applies to practically all the cities in the sample, although developmental differences are opening up. In some cities strenuous efforts are now being made to link management reform with a restructuring of the work process, leading to new forms of work organization and personnel development. In the overwhelming majority of reform cities, though, the danger of an even more pronounced bureaucratic dichotomy between managerial strategy and operative execution is still present.

### **Questions of Distributive Justice**

The proponents of administrative modernization along the lines of New Public Management have repeatedly stressed its distributive neutrality. The reforms emphasize performance criteria rather than seniority in staffing decisions. At most, any segmentation between the winners and losers of modernization, among government employees, will be along the lines of this new performance-related legitimization basis. If so desired, performance-based incentives can be funded out of the productivity growth achieved.

However, the reality of the restructuring process in reform cities points to counter-trends. The modernization process tends to be accompanied, either causally or in historical terms, with cost-cutting measures. The resulting layoffs

(redundancies) tend to be concentrated in blue-collar and lower-skilled white-collar areas and are far less common in the higher managerial functions. Particularly affected by restructuring are those departments organized to compete either with other public organizations or with the private sector. This competitive process leads to far-reaching changes in the work process and working conditions, that is, in the central dimensions of working life. This applies especially where the competitive strategies are successful.

In most cases such reform leads to a reduction in the number of hierarchical levels along with the restructuring of work, both of which serve to destroy promotion channels. Experience and empirical findings have consistently shown that this development hits the blue-collar and less-skilled white-collar workers hardest, whereas at higher managerial levels a number of new and attractive positions and thus opportunities for promotion are created.

The micropolitics of implementing modernization thus lead to relatively well-defined winners and losers among employees, and consequently to increasingly pronounced lines of segmentation within government. Modernization is not distribution-neutral after all. Incisive questions of distributive justice are being raised, particularly in those areas affected most profoundly by organizational change; such issues threaten to undermine the moral basis of reform.

### **CONDITIONS FOR IMPLEMENTATION AND SUSTAINABILITY**

One remarkable finding of the WZB study is that about half of the sample of cities showed evidence of stagnation or regression over the period of years studied. There may be multiple reasons for this. The sample cities are far from uniform in the strategies employed, and the relative degree of development or regression varies among types of reform, with internal modernization more broadly successful than efforts at the market orientation and devolution of services. One hypothesis is that cities vary in their needs, and some "overshooting" of local needs may have occurred in the rush to adopt innovations. Another hypothesis is that institutional and political obstacles to successful reform vary across cities. There may be some truth to both views; if progress should not be viewed as monolithic and linear, then neither should failure.

One approach to understanding the observed results is to analyze the conditions common to successful implementations of reform. The absence of these conditions helps to explain cases of stagnation or regression. The WZB study of reform cities has identified a number of conditions for success, grouped here into six major categories, roughly in order according to the phases of development of the reform process. The conditions for initiation and implementation are relevant to cities in the early phases of restructuring. In the current, more mature phase of the process in the leading cities, the critical question instead relates to the perpetuation or sustainability of reform developments.

**Table 4.** Initial Conditions of Successfully Implemented Reform Processes

City	Modernization of local government administration was initiated by:			
	Political Crisis	Economic Crisis		Other Developments
		Fiscal Crisis	Economy/ Labor Market	
Phoenix, U.S.	X (1977)			
Delft, Netherlands	X (1984)			
Hämeenlinna, Finland	X (1989)			
Farum, Denmark	X (1990)			
Linköping, Sweden	X (1992)			
Neuchâtel, Switzerland		X (1992)		
Duisburg, Germany		X (1980's)		
Braintree, Great Britain			X (1984)	
Angers, France				Decentralization (since 1983)
Christchurch, New Zealand				Territorial reform (1989)

Source: Naschold, Oppen, & Wegener, 1997b.

### Political Leadership

It is political initiative, and not impersonal economic crisis, that is the driving force behind reform. There is a widely held belief, particularly in Germany, that economic-fiscal crisis is the initiator and motor of government reform. Yet it is equally widely held to be common sense that in times of crisis organizations react with structurally conservative behavior, the opposite of reform. The empirical evidence, illustrated in Table 4, shows that in a majority of cases it has not been economic crisis, but rather endogenous political events and central government impulses, that created the impetus for change. Politicians and administrators cannot escape their responsibility by pointing to external, supposedly automatic factors leading to reform.

In both private and public sectors there has been controversy over the effectiveness of various change strategies. One of the few areas of consensus is in the critical view taken of a "grand design strategy" (Downs & Larkey, 1986; Brunsson & Olson, 1994). Reforms announced with great political fanfare frequently fall prey to the "fallacy of programmatic change" (Beer et al., 1990: 60), as they fail to work their way into the operative procedures and incentive systems of the administration. In opposition to this romantic view of a grand design strategy, some commentators have argued for a "low profile strategy", a

“modest and technical reform approach” (Downs & Larkey, 1986: 42), one that seeks to bring about a change in administrative processes below the level of “big-time” politics.

The experiences observed in the WZB sample cities, on the other hand, paint a picture that can be seen as lying between these two extremes. This view draws particular attention to the importance of politicians and strategic management in the change process. In all the reform cities, it was small number of highly competent and often charismatic leadership personalities from strategic management and in some cases from the political sphere that played a decisive role. In each case an effective leadership made “more policy decisions and put more social and economic institutions into motion” (Osborne & Gablert, 1992). Thus it is of vital importance for all change processes that an “effective civic leadership” stands at the start of the process: “Leadership is the activity that most clearly articulates the government’s function in action and yet it is surprising how little attention the leadership role has received following the reorganization of local government. To some degree it is one of those areas which appear to be taken for granted.” (Reid, 1995). Political leadership in this sense of the “government’s function in action” is thus one of the central conditions for the success of local government modernization.

### **Political Co-Evolution**

Without the commitment of local top level politicians, local government reform will never achieve a breakthrough. But commitment is not enough. Government restructuring can only succeed through a co-evolution of politics and administration, in which modernization is implemented by both sides as a joint venture. Where such co-evolution does not take place, we see the phenomena of managerial domination or neobureaucratism.

Ideally, this co-evolution involves the central state and not just local government. An enabling and evaluating central state can help stimulate local reform strategies, though this is not an essential condition. In contrast, excessive attention or restrictiveness from the central authority can handicap local reform efforts. If local politicians take an attitude of wait-and-see toward the central state—whether anxious for support, or wary of interference—the effect is to make local government restructuring efforts incomparably more difficult and limited.

The increasing competition between cities due to globalization and the increasing interdependencies of politics can exert considerable pressure on local authorities to innovate and cut costs. However, under restrictive external conditions and stagnant internal politics, such a competitive environment leads to superficial differentiation and to a reconventionalization of local government. Under such pressures, the incentives to produce change can result in distorted

forms of change, such as the manufacturing of pseudo-satisfaction as described above.

### **Cooperative/Participative Strategies**

On the other hand, the emphasis on political-administrative leadership must not be allowed to degenerate into an heroic overestimation of solo personalities in the change process. From both the theory and observed practice of the reform cities, we know the importance of forming advocacy coalitions (Sabatier & Jenkins-Smith, 1993), in which cross-departmental clusters bring together leadership personalities from the administration, politics, the economy, and the media.

It is seldom that economically or socially motivated pressure from below drives ahead change processes within the administration. Political-administrative leadership and advocacy coalitions are, however, only successful if the change process is supported by an endogenous political mobilization of strategically positioned segments of the workforce and important segments of the population. The experiences of recent years show that it is precisely this seemingly impossible combination of strong political-administrative leadership, advocacy coalitions, and broad-based mobilization from below that is effective in driving local government modernization forward.

In implementing the details of reform, participative reengineering strategies are required; top-down change, even in the name of reform, results in neobureaucratism rather than innovation. The decoupling of work organization and management process noted earlier is an example of incomplete reform, because it does not successfully integrate the contributions of front-line employees and high-level management.

### **Networking**

The cities that have been successful in government reform have become involved in support networks for the sharing of information, ideas, and encouragement. These networks include meta-organizations of cities, scientific research institutions, and information resource providers. Because of the emphasis on comparative performance measurement, or benchmarking, access to evaluative information on other local governments is a critical resource. Inter-municipal cooperation, rather than a stand-alone strategy, is necessary for successful implementation of local government reform.

### **Integrated Solutions**

There is no single road to administrative reform, but rather a plurality of modernization paths; however, incrementalism is not one of the successful strategies. One striking result of all the case studies is the number of specific innovations generated at the grass-roots level of city governments, given an

environment of reform. However, isolated solutions by themselves are insufficient; integrated and time-compressed total solutions are required, with intensive participation by both public sector employees and citizens. The Christchurch budgeting model illustrates the importance of an overall approach to dealing with structural cost factors. Thus, while decentralization is one of the major themes of the New Public Management movement, the co-ordinating and integrating overview of strategic management is still necessary for success.

### **Institutional Embedding**

History is full of examples of large-scale reform projects that stagnate or even fail completely after a short period of initial success. One recent example is the international reform phase in the public sector during the 1970s, with its efforts to introduce far-reaching new budgeting and planning procedures—from Management by Objectives (MBO) to Planning, Programming, Budgeting Systems (PPBS). This phenomenon is also seen in the 1990s, in the numerous cases of local government reform stagnation and erosion described earlier.

One single condition has been responsible for such failures in the vast majority of cases: the lack of an institutional embedding of the innovations. North (1991) has shown the strategic importance of social institutions for the economic development of highly industrialized societies. He shows that institutions constitute “incentive structures” that, through formal or informal constraints, restrict or promote action by various actors.

Accordingly, the process of local government modernization can only be sustainable and successful if—in contrast to historical examples of stagnation and erosion—it proves possible to institutionalize the reform impulses by establishing a lasting incentive structure. Based on the so far successful process of administrative modernization in the leading sample cities, it is possible to determine, in provisional fashion, some promising approaches toward institutional evolution as a means of stabilizing the actions of the actors involved.

- The framework of conditions set by central government—as in the case of New Zealand—can provide such an institutional framework, one that not only initiates, but also stabilizes local restructuring programs.
- The creation of competitive markets and cooperative partnerships between public and private suppliers with their new networks, rules, and practices has become established in the most advanced cities to such a degree that the institutions formed are no longer so subject to damaging and opportunistic influence by individual actors.
- The extension of representative and participative responsiveness mechanisms in the political sphere has generated an incentive structure for a citizen-oriented politics and administration that should prove difficult to dismantle.
- Cultural change programs, once introduced, can lead to a lasting empowerment



of employees and their organizations, constituting a substantial resource potential within administrations—one which is no longer vulnerable to arbitrary manipulation.

A multicentered institutional evolution of this type can in time become aligned with the long-term development path of local government modernization, and so overcome the historical arbitrariness of decisions by specific actors and the “passing phase” characteristic of many reforms. In sum, the transition from the initiation phase to the institutionalization phase is the central challenge in establishing sustainable local government modernization. Multi-centered institutional evolution may well constitute the decisive orientation and the critical prerequisite for such sustainability.

### **CENTRAL CHALLENGES FOR THE 21ST CENTURY**

All the reform cities have at least one thing in common: the partial or full replacement of traditional bureaucratic centralization with decentralized, quasi-autonomous results centers. Yet it is precisely this development that leads to a critical problem: how to coordinate and integrate these results centers, with their departmental egoism and their distinctive sub-optimal strategies, without at the same time blocking their internal dynamism, which is one of the desirable results of government restructuring. In other words, one central challenge that local reform governments face at the turn of the century consists of developing a strategic management over the centrifugal forces of decentralization.

In all the reform cities we also find, albeit at different degrees of intensity, a development away from a “producing” form of government to a “guarantor” form of government. The latter sets targets and standards, and watches over and monitors production, but is flexible in the ways in which services are actually provided: in-house production, contracting out, or various forms of public-private partnership. Yet a guarantor government of this type leads to very different forms of exchange in the relationships between local government and its environment, and thus changes the established conventions for such relationships.

Furthermore, as the government delegates responsibility for public services down toward the interface with the citizen-customer, the traditional linkage of democratic authority—from the electorate to the elected government, and from the elected government to its instrumental administration—becomes attenuated and bypassed by more direct forms of customer satisfaction. This raises problems of democratic political control. So a second central challenge facing local governments at the turn of the century consists of a redefinition of the interfaces between government on the one hand and politics, the economy, and society on the other.

To summarize, far-reaching breakthrough innovations are inevitably accompanied by important negative developments and cases of underdevelopment. This simultaneity of modernization and de-modernization, innovation and negative developments, winners and losers, serendipity and stagnation constitutes the “dialectics of modernization.” Such a dynamic process contrasts starkly to the simple worldview of linear institutional evolution, as well as to the straw target of many critics of reform. These complex contradictions within the modernization process give rise to new forms, but also to new challenges. Strategic management as a “missing link” in internal modernization, and the redesign of the interface between local government and its political, economic, and social environment are the two central challenges facing local governments undergoing reform as they enter the 21st century.<sup>3</sup>

### NOTES

1. The Berlin Science Center (WZB) is supported by the Hans-Böeckler Foundation in this research project, entitled “Neue Städte braucht das Land (Public Governance)” (Naschold, Oppen, & Wegener, 1997a, 1997b). Some of the case studies are also available from WZB.
2. The following is based on the “resource approach” to organizations, which has proven its superiority with respect to dynamic development processes over the previously dominant “industry structure approach” (Porter & Hjern, 1981). In its operationalized form the study resembled the scale used to measure industrial software development organizations (DeMarco & Lister, 1990).
3. These two challenges are discussed, respectively, in the two companion articles in this journal.

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