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The Interface Management Frontier: Modernizing Local Government. Part Three

ABSTRACT: At the beginning of the 21st Century, local government faces the major challenge of restructuring and managing a new interface with its social, economic, and political environment. The devolution of public tasks to society requires a redefinition of the role of local government. The shift from producing to guaranteeing the remaining services requires at least the adoption of best practices from private-sector strategic marketing, production, and purchasing management. The restructuring of local government for customer satisfaction and decentralized decision-making requires careful attention to the demands of democratic political control, as well as to legitimate public interests that may not be included in the customer-satisfaction model. Thus, public management of local government cannot be content with internal modernization, but must redefine its relationships with its environment.

In the first article of this series, we described several positive and negative trends observed in a broad international sample of local governments undergoing restructuring over recent years. In the second article, we argued that such governments face the major challenge of developing their strategic management capabilities while they modernize internally. This article deals with another major challenge facing local governments at the turn of the century, that of restructuring

and managing their relationships with their political, economic, and social environments.

Local government's external interface is under pressure from both sides. On the one hand, society's expectations of the role of local government and its services, particularly in economic terms, are changing dramatically. On the other hand, internal modernization creates stresses and conflicts both in the existing framework of political control and in the existing systems for acquiring resources. The challenge is to maintain a balance between constantly changing pressures.

This is also a strategic management challenge, but its focus is outward rather than inward. As shown by the Berlin Science Center (WZB) studies,¹ cities have made much more progress in internal modernization than they have made in modernizing their relationships with their environment. Seen as a strategic management problem or opportunity, the new interface management requires government to be proactive rather than passive in coping with broad social change. Thus, the development of internal strategic management capabilities, as described in our second article, is a prerequisite for successful interface management.

The new interface management consists of three broad areas of concern. First, the devolution of tasks from government to society requires a redefinition of local government's role and task profile. This redefinition cannot take place in isolation from the many cultural and social factors that make up the other side of the interface; different countries and cultures sometimes present very different challenges to local government.

Second, the movement toward a guarantor role in the provision of services, along with pressure for results-oriented effectiveness and efficiency, requires a restructuring of local government's systems for acquiring resources and distributing services. This includes a marketing management problem (who is our customer and what value do we offer?), and a production/purchasing management problem (do we make or buy, and how do we ensure quality?), both linked together in the new strategic management. As local government becomes more of a guarantor than a provider, it faces the need to manage both its supply chain and its value to the customer.

Third, the reforms of the New Public Management (NPM) in local government require a restructuring of the interface with democratic political authority. These reforms include the decentralization of local government, the corresponding downward distribution of responsibility for results, and the blurring of traditionally sharp distinctions between policy-making and implementation. Such changes raise important questions about democratic political control and public accountability, requiring that both politics and administration work to develop a new relationship between them.

An innovative interface management of this type proves to be something of a terra incognita, characterized by many unanswered questions, but so far few

overall problem-solving approaches. The challenge for local governments at the turn of the century is to move forward in an experimental mode, rather than waiting for a coherent theory or a body of public-sector best practices to be agreed upon.

THE DEVOLUTION OF PUBLIC TASKS TO CIVIL SOCIETY

The trend of removing task responsibilities from the public sector has received more attention at state and national than at local levels. However, it can be observed at the local level in almost all the WZB sample cities. This process is often called the “devolution” of government. It arises out of many factors: discourse on “lean government,” supposed or real problems of excessive burden on public administration, crises of public finance and taxpayer revolt, the idea of empowering citizens in place of the “nanny state,” and so forth. However heterogeneous these various factors might be, the trend amounts to a redefinition of the interface between the public sector and society. The new concept of government is that of enabling and guaranteeing the public good rather than providing public goods directly. Although there is no unanimity regarding how—or how much—such a guarantor government should divest itself of tasks, the phenomenon is unmistakable.

International Differences in Task Profile and Personnel Density

Trends toward devolution are found in all the sample cities and their respective countries in a wide variety of forms and with varying intensity. The WZB study revealed significant differences in the breadth of the task profile between the sample cities. If this scope of tasks is considered in relation to relative staffing levels or personnel density, some approximate findings emerge (based on what is currently a preliminary stage of research, given the difficulty of international comparisons).

For the overwhelming majority of the cities studied, the correlation is remarkably linear: the broader the task profile at local government level, the higher the personnel density (Tables 1 and 2). Cities in the U.S. and New Zealand have far narrower task profiles than typical Scandinavian municipalities, and have personnel densities about half as high. German local authorities occupy the middle ground in both respects. Of course, to refine these observations, it would be necessary to distinguish between task-assignment effects and efficiency effects on the relationship, which has not been done at the current state of research. Given the variation in the distribution of public tasks among tiers of government in different countries, it is often misleading to consider one tier in isolation. An additional problem is that of converting staffing levels to full-time equivalents. Only modest progress has been made in dealing with these issues.

Table 1. Public Sector Employment

Country	Public Sector Employees per 1000 Inhabitants	Public Sector Employees as % of Total Employment
Japan	3.54	6.68
USA	7.34	14.76
The Netherlands	5.31	15.20
Germany	8.01	16.18
New Zealand	7.87	16.88
United Kingdom	7.55	17.39
France	9.55	21.62
Denmark	12.55	24.65
Sweden	15.69	32.71

Source: Naschold, Oppen, & Wegener 1997; from OECD data.

The two major exceptions to the linear relationship between task breadth and personnel density are the cities of the former German Democratic Republic, with a high personnel density and a low task profile, and the cities of Japan, with a low personnel density and a high task profile. In the case of the former GDR, the evidence seems to suggest that they faced a perverse combination of a narrow actual task profile—because many “local” public tasks were performed either by firms or by central government—and the internalization of employment risks. The really interesting exceptional case is that of the Japanese cities, exemplified here by Mitaka.

THE JAPANESE DEVOLUTION PUZZLE: THE CASE OF MITAKA²

Among the developed countries studied, Japan has by far the lowest proportion of public sector workers, both per thousand inhabitants and as a share of the labor force. However, according to the WZB study, Japanese local authorities have at the same time the broadest task profile and a correspondingly large budget volume. The city of Mitaka has by far the broadest task spectrum of all the local authorities studied, and accordingly also has the relatively largest budget volume.

Table 2. Breadth of the Local Government Task Profile and Personnel Density

		Personnel Density: Employees/Inhabitants		
		Low	Medium	High
Scope of Local Task/ Expenditure	Low	Netherlands New Zealand USA		former German Democratic Republic
	Medium		Germany	
	High	Japan		Finland Sweden

Source: Naschold, Oppen, & Wegener, 1997.

At the same time Mitaka has by far the lowest personnel density, significantly lower than even Phoenix. (This excludes the core administration of Christchurch, which has an even lower personnel density than Mitaka. At the current state of research this appears to be due to a narrow task spectrum, the pioneering and widespread use of outsourcing, and the difficulties of converting employee numbers into full-time equivalents.)

The low Japanese personnel density can hardly be explained in terms of efficiency superiorities over other cities. Even in Japan itself, the administration of Japanese cities—and of government as a whole—is considered to be rather traditional, although it is characterized by highly flexible labor deployment (Naschold, 1995). Local government modernization on the western model has been periodically discussed in Japan, but has not been initiated to date.

Drawing together various analyses of Japanese local government with WZB research in Mitaka itself, the Japanese puzzle—extremely low personnel density and a broad task spectrum together with rather traditional administrative structures—can be resolved with reference to historical and sociocultural factors (Naschold, 1996):

- Shortly after the Second World War, Japanese cities and central government embarked on a relatively continuous, pragmatic policy of contracting out.
- Administrative reform in Japan has largely concentrated on and been limited to requirements for quantitative reduction in staffing levels, under the premise that reducing labor input would induce appropriate structural reforms.
- The Japanese government has never intended to install a welfare state on the European model; political discussion refers to a welfare “society” rather than “state.”
- Japan’s specific social structure, with its relatively high degree of social control over deviant behavior, has meant that so far a whole series of problems—particularly involving young people, the labor market, and crime—have not appeared to an extent anything like that experienced in comparable western countries. Thus, the public departments dealing with youth work and social policy at the local level are not nearly as well developed as in European cities.
- The extent to which public tasks are performed by private individuals, volunteers, neighborhood groups, social groups, and associations appears to be far higher than in comparable western countries. Central areas of local government activity in Japan rely heavily on the involvement and cooperation of society, largely involving the work of non-employed middle-class women, retirees, and the self-employed.

All these factors are observable both at the central government level and in the Mitaka local authority. Thus it is structural factors of Japanese society that serve to explain the Japanese puzzle: the high degree of integration, the macropolicies

of central government, the decision not to adopt a welfare state on the western model, a specific employment policy in both the private and public sectors, and especially the considerable degree to which public tasks are either performed by civil society or rendered unnecessary by social control. In formal terms, the defining characteristic of the relationship between public sector and civil society lies far deeper within civil society itself than is the case in comparable western countries and cities. (Naschold, Oppen, & Wegener, 1997)

Local Government Devolution Trends in Western Countries

As the example of Mitaka clearly shows, devolution in practice depends less on political decision-making than on the extent to which civil society stands ready to take over vital services. This, in turn, varies with the characteristics of society, both over time and across different societies. Developments in the direction of service displacement were found in all the countries from which our sample cities were taken; however, the underlying reasons and the degrees of diffusion and intensity vary considerably across the sample.

Against this background, recent developments in a number of local authorities in Germany—a country known for its rather authoritarian state tradition—appear especially remarkable and in this context largely unrecognized. Such cities have been awarded first prize in two very different competitions, gaining fame largely on the basis of the devolution of public services.

The city of Eppelbom was awarded first prize in a 1996 competition conducted by the state of Saarland in conjunction with the Bertelsmann Foundation. This award was largely due to various measures of creative saving implemented by the city as part of a budgetary consolidation program. In contrast to traditional linear budget cuts, such creative saving involved the devolution of public tasks to civil society, particularly in the area of tending parks and gardens and in the cultural sphere (Horstmann, 1997).

The Administrative Management Award in 1996 was won by Arnsberg, a city that has oriented its entire vision and corresponding instruments to active-direct democracy and social devolution. Arnsberg describes itself as the “Citizens’ City,” its prime concern being to “incorporate citizens into the processes of opinion forming and administrative service delivery.” Thus, the reform philosophy of the city goes beyond popular participation in policy-forming and aims to incorporate service delivery itself. An explicitly customer-oriented administration means providing services in a way that addresses the needs of customers. In Arnsberg, the aim is not only to provide high-quality products, ensure legal security when required, and define and monitor standards. What is sought—in the face of enormous fiscal pressure—is a “redelegation to the sovereign [i.e., the citizen]. . . .

By applying appropriate instruments the customer changes from being a consumer to producer, indeed he/she becomes a 'prosumer'. . . . Comprehensive citizen activation from an early stage, above and beyond the participation required by law, avoids substantial administrative expense and costs. The activation of private individuals, small 'life-circles,' such as families, neighborhoods or districts enables services to be provided in ways that completely satisfy the customer. . . . The self-regulatory power of citizens and of small circles comes first. The administration functions as an impulse-provider, initiator and supporter." (Arnsberg Council, 1996)

Here are some examples of practical citizen activation and the new forms of participation introduced in Arnsberg:

- in the area of youth and social work: transfer of responsibility for playgrounds to neighborhoods and playground guardians; a large number of day-care centers for children run by private initiatives, and an association for child-care workers; recruitment and training of voluntary care workers for adults; women's services including a women's house and an advisory center, run on a voluntary basis
- in the field of education and sport: the transfer of sports grounds to sports clubs; voluntary financial participation of clubs in equipment for gyms and schools; club responsibility for running open-air baths; a leisure sport program organized and run by sports club and private groups; user participation in planning for and maintenance of sports facilities; public participation in designing and equipping classrooms, school-buildings, and yards
- in the field of the environment and transportation: collection of waste paper by associations (at a cost saving of 50%); adoptions of streams by school-classes, fishing clubs, and individuals; adoptions of trees by citizens; and citizen support for a stream re-naturing program

A comparison of Mitaka, Japan and Arnsberg, Germany reveals interesting differences. The devolution of public tasks in Germany occurred in the context of a high level of welfare state protection and security, whereas in Mitaka the average level of primary income is higher. The administration's personnel density in Arnsberg is twice as high as that in the city of Mitaka. Consequently, the historical degree of involvement by citizens in service provision has been far less pronounced in Arnsberg than in Mitaka. As the above examples illustrate, Arnsberg is moving toward citizen involvement, but doing so through a deliberate program initiated by the government itself. In the German context, such devolution presents a deeper challenge than in the Japanese context, making these successes all the more notable.

Devolution: A Dead-End, Corrective, or Perspective for the Future?

It is extremely difficult to make even a provisional evaluation of devolution trends so far. This is because devolution measures involve fundamental questions of the welfare state versus privatization, and the role of the state as a regulatory

apparatus, as a service company, or as a guarantor. In this context, too, the debate in Japan exhibits the broadest spectrum of social projects involving devolution and therefore contributes to the debate in the West (Yamaguchi 1997; Annals of the Institute of Social Science, 1990; Foljanty-Jost & Thränhardt, 1995).

Many observers consider the devolution regime in Japan to be an historical dead-end. It is based, they argue, on the relative scarcities characteristic of Japanese society until well after the Second World War, and is thus doomed to lose both its basis and its economic legitimization in the face of structural social changes and economic changes including rising income levels.

Japan's mainstream considers the forms of devolution currently prevalent there as necessary correctives to the still highly bureaucratized administrative apparatus. In this view, social devolution improves the flexibility of service processes by adding options beyond those of contracting out and material privatization. Thus, devolution in Japan constitutes a correction mechanism within the framework of administrative modernization.

On the other hand, there are important voices in both political and academic discussions who consider the far-reaching assumption of public tasks by civil society as a vision for the future. A "welfare society"—as opposed to a "welfare state"—can and should take into its own hands as much responsibility as possible for the value added to public services, both upstream through the supply process and downstream through the delivery process.

It is not at present necessary to harmonize these views of the process of social devolution, whether in the Japanese or the western discussion. What is important is to determine the potential and the dangers of such changes in the interface between administration and civil society. To this end, what is required is an experimental politics at local level, and a broad-based discourse on the role of society—a discourse primarily conducted not by academics, but by the population whose values must set the foundation for any successful program of devolution.

PUBLIC MANAGEMENT AND THE ECONOMY

Despite devolution, a considerable number of public tasks are still performed by the public sector itself; the proportion varies substantially between countries and cities. However, a trend toward separating the programming and the delivery of services is evident in all the sample cities. The outsourcing of public tasks out of the core administration can consist primarily of a straightforward privatization program, the policy favored during the central phase of Thatcherism (Pirie, 1988), but can also involve innovative hybrid arrangements in public-private partnerships and in public-private competition. In all cases the trend toward a guarantor government marks a far-reaching redefinition of the relationship between local government and the economy.

Our case-study cities provide examples of both painful and extremely successful

models. These cities have progressed much farther in internal modernization than in restructuring their relationships with the economy; in this dimension, many are only now beginning to develop. The creation of a competitive environment in the context of the local government guarantor regime has far-reaching effects that are only now being addressed, even in the reform cities (Oster, 1994).

In such a competitive environment, strategy must always consider the counter-strategies of fellow players; in other words, the situation is one of dynamic disequilibrium. Thus, the traditional range of rationalist strategic planning instruments are of limited value. Given that market systems—with their cultural biases, incentive structures, and entry and exit barriers—differ from one policy arena to another, strategic management and local government policy makers must adapt to a wide range of different competitive processes.

As examples of market-related issues for local government, we will discuss the management of the supply chain and the management of customer value.

Public-Private Competition and the “Smart Buyer” Challenge

One of the most important decisions to be made in the process of rendering public services is the fundamental choice between in-house production and outsourcing. The choices made by local authorities are often dominated by reflex reactions. In the Scandinavian countries (but not in Denmark), for example, it has long been considered self-evident that the overwhelming majority of services must be produced in and by the public sector. In Thatcherite Great Britain, on the other hand, the ideological program of privatization predominated, irrespective of local conditions. A similar pattern of ill-considered reactions is currently to be observed in Germany, where a veritable flight into the privatization of public assets has begun, with a view exclusively to short-term cost cutting. A more thoughtful approach would be based on strategic, long-term calculations of portfolio costs and earnings in the context of the overall development of the city, but these considerations are hard to communicate when public discourse becomes dominated by a single, simple criterion.

In transitioning to the guarantor role, government must still guard against waste, fraud, and abuse, while ensuring that public services are still delivered according to quality and timeliness expectations. To this end, both central and local government must adopt the role of strong and strategically versed participants in the competitive marketplace, or “smart buyers,” following the positive example of the private sector.

In private-sector management, the purchasing function is no longer considered a minor support function, oriented toward getting the most favorable prices for what are considered commodities. In today’s globally competitive, high-technology environment, the vertical supply chain has gained more layers, which are both more differentiated and less formally integrated than before. Modern manage-

ment, sensitive to the cost of capital and to the dilution of effort caused by trying to do everything in-house, is turning away from institutional vertical integration and toward outsourcing. At the same time, the demands for rapid custom product design, extremely high quality standards, and "just-in-time" availability impose more stress than ever on the supplier-purchaser relationship.

In response to this challenge, the best-practice firms have made the supply issue a key element in corporate strategy. They recognize that "smart buyers" must be strong players in the marketplace, instead of leaving critical supply variables to chance. The establishment and communication of quality standards have become commonplace, along with systems for testing and evaluating the quality performance of vendors on an ongoing basis.

Beyond such quality measurements, two more innovative practices are included in the "smart buyer" strategy: Internally, management creates direct linkages for cooperation between marketing, manufacturing, and purchasing functions, with total customer satisfaction as a shared goal. Externally, management undertakes the proactive development and cultivation of supply sources, creating partnership networks for a cooperative vertical integration of the supply chain. Both of these innovations require genuine mutual good will and the sharing of detailed information between entities that traditionally would have operated at an arm's length if not antagonistically.

These ideas are not entirely new to the public sector; leading military organizations have pioneered such concepts, even if they have not always successfully practiced them. Local governments, though, have a great deal to learn about how to specify clear targets, create an intelligent network of suppliers, and deal simultaneously with price and quality issues in a market-based competitive process. A study of cost and quality outcomes in the construction of general hospitals (Leucorea, 1996) showed that public construction programs required more time and more investment than private construction programs, while achieving lower quality of results. Many of the traditional incentive systems in local government budget, procurement, and personnel processes are counter-productive for decision-making in a competitive environment.

Both Christchurch and Phoenix are good examples of new approaches to a "smart buyer" policy. For example, both cities have managed to create a public-private competitive market in the area of waste removal. This system offers the city an element of strategic control over a market of considerable political importance. It also has brought about significant reductions in costs and improvements in service quality through competition with private firms (Naschold, 1995). On the other hand, even in these cities there remains a huge potential for improvement in the various operative stages of the competitive process. These two pioneering cities have employed a relatively modest range of instruments in strategic and operative procurement, compared with the elaborate tools used by advanced private sector firms.

“Customer-Value Management”

One of the distinguishing characteristics of the NPM movement is the idea that the final aim of services in the public sector is to raise customer utility. In the private sector, the transition from a producing concept to a marketing concept has become widely acknowledged, if not always practiced. However, even where this paradigmatic change has been implemented, many questions remain. One can be found in the so-called “paradox of customer satisfaction:” despite rising customer satisfaction, the market share of a product can in some cases decline (Gale, 1994: chap. 2). Given that private-sector marketing faces such complexities, the public sector cannot merely adopt a customer orientation as a simple matter of policy; many management challenges remain.

Still, if customer loyalty on the basis of customer satisfaction is in most cases the central explanatory factor for a firm’s growth and profitability, the management of customer value is clearly *the* central operative process that must permeate the entire organization. Based on the experience of well-run private sector firms, the phases of customer-value management have special relevance for local government in a competitive environment.

Four phases can be distinguished in the development of customer-value management (Heskett, Sasser, & Schlesinger, 1997; Gale, 1994):

Phase 1: In the 1970s, the concept of “conformance quality,” a producer-oriented perspective, spread through leading firms.

Phase 2: With the “customer satisfaction concept,” originating in Japan, a more customer-oriented perspective established itself in the 1980s, and this remains the predominant concept in the private sector.

Phase 3: The concept of “market-perceived quality and value,” which was increasingly adopted from the mid-1980s, marks several conceptual and methodological improvements over the previous phases:

- the microeconomic underpinning of value management by a model of consumer behavior in which the purchase decision is independent of views taken by the producer
- the extension of the concept of the consumer to cover the entire market, including non-consumers and potential consumers
- comparative product evaluation between competitors and potential competitors in the relevant market, and not merely the evaluation of the firm’s own product on the basis of its existing customers
- the evaluation of all relevant product dimensions, including quality, delivery, service, packaging, and pricing, in accordance with the stages in product life cycles

- an integrated utility evaluation, in place of the traditional separation of the assessments of price and of quality

Phase 4: Since the start of the 1990s, leading firms have begun to link “customer-value management” to their strategic management discussions and decisions.

The existing evidence suggests that Phase 2 has been fully adopted in the private sector, progressive firms have reached Phase 3, and a small number of firms have managed, at least in part, to enter Phase 4. In contrast, the public sector is largely still concerned with introducing “conformance quality,” or Phase 1, as exemplified by the ISO 9000 movement. The reform cities in the WZB sample have just reached Phase 2, the customer satisfaction concept, although only in some areas and not yet systematically. Christchurch has just begun to address the Phase 3 issue of value planning, but its focus is still very much on questions of internal organization and human resource development, and less on the external task of analyzing, evaluating and managing customer utility.

Examples of Restructuring Local Government

Redefining the relationship between a guarantor local government and the economic environment generates substantial pressure on the core administration to adjust in ways that go far beyond the goals of internal modernization pursued so far. The sample cities in the WZB study show a wide variance in the degree of development in this dimension.

At the start of the 1990s, the city of Linköping undertook a far-reaching program of organizational restructuring as part of a radical implementation of the smart buyer and customer-utility perspective. Two characteristics, in particular, define the organizational revolution in Linköping: First, there was a transition to a consistent client-contractor or orderer-producer model, with a radicality that is almost certainly without precedent in the history of local government. It is politicians themselves, the elected representatives in the various local council committees, that procure the services required. Second, the procurement model is combined with competition between private and public providers, i.e. a mixed-economy model, albeit one that has yet to achieve the sophisticated state of development reached in cities such as Phoenix and Christchurch.

A second example of innovative development within the framework of the smart buyer perspective is found in the partnering contracts introduced by the city of Phoenix. In the extremely tough competition between cities to attract large investors, those cities whose planning and approval procedures are in accordance with the quality standards of potential investors clearly have an advantage. The intercity competition in the western U.S.A. to attract firms such as Motorola and Sumitomo, with their high quality standards for process management and

contracting, inspired Phoenix to restructure its planning and approval procedures. The city has established partnering contracts with private firms in order to take greater account of customer demands, as well as to realize the city's own acquisition targets more effectively.

A New Product Strategy for the Public Sector?

Until the early 1990s in the U.S., and until at least the mid-1990s in Europe, cost-cutting strategies were the predominant trend in the private sector, the model being the lean, highly focused firm with flat hierarchies. More recently, however, a change in strategic orientation has occurred, particularly in the U.S.; cost-cutting is no longer seen as a cure-all. A 1996 study by Mercer Management Consulting shows that, of 131 firms conducting intense cost-cutting drives between 1985 and 1995, 37% survived as shrunken, unprofitable versions of their former selves; 26% were growing but unprofitable; 10% were still engaged in cutting costs; and only 27% had emerged as successful and profitable. The disappointing outcomes of pure cost-cutting strategies have forced firms to rethink their strategies in favor of new products and innovation-driven growth strategies.

Following the earlier lead of the private sector, and intensified by the fiscal crisis facing most cities and countries, a far-reaching cost-cutting strategy has predominated in local government since the start of the 1990s, particularly in Europe. These strategies have served to exacerbate the already disastrous situation on European labor markets, the effects of which are felt particularly strongly in the cities. Yet here too, in analog with developments in the private sector, the idea of a strategic reorientation toward developing new products is gaining ground, implying a new growth strategy on the part of the public sector.

The traditional path of local government "product" and employment policy starts with the local council or parliament, as the central body responsible for development. It then proceeds via the monopolistic public sector administration, as the locus of employment and production. In redefining the relationship between local government and the economy, however, new paths are being opened up for a combined local growth and employment policy. Examples include innovative developments for urban space adapted to local needs by means of:

- product development through highly differentiated representative and direct-democratic political institutions, rather than through a single central body
- various public-private partnerships or public-private competition
- innovative financial engineering that mobilizes both local and private resources to a greater extent than ever before for the provision of public goods

This trend is to some extent blocked by legal constraints such as competition laws. In Germany, for example, restrictions of this type have been imposed on a

number of prominent local initiatives. The experiences of other countries such as New Zealand and Finland have shown, though, that such initiatives toward a combined employment and growth strategy, based on both product and financial engineering innovations, do indeed have a good chance of success. Moreover, these initiatives offer the public sector, particularly local government, the opportunity to set a positive role model for its task structures in place of the prevailing negative, minimalist conception of the role of the public sector with respect to the economy.

This redefinition of the relationship between the guarantor government and the economy raises a number of fundamental questions regarding governance and political control. However, unlike political control issues, the smart buyer and customer value challenges give local government recourse to the vast experience of the private sector. There is considerable evidence that this experience is relevant and fruitful for local government; learning from it requires work, but less adjustment than is frequently feared or assumed.

POLITICAL GOVERNANCE AND PUBLIC MANAGEMENT

Cutting across the issues of devolution and the guarantor government is the “stakeholder” problem, the question of who is to be served by local government. Easy answers include voters, taxpayers, clients or “customers” of services, and the business enterprises that power the economy. Public employees also have a stake in local government, as do central government and nonlocal corporations doing business locally. What makes public management difficult in developed, pluralistic countries is that these overlapping sets are far from identical. Serving one group may harm another, and political change often involves shifts of power from one group to another—as when taxpayers revolt against funding generous programs for disadvantaged clients of government services.

Much of the popular literature of results-oriented public reform implicitly assumes that satisfying citizen-customers is a good thing, without addressing such conflicts between different classes of citizens and customers. Making government more responsive to customers may at times make it less responsive to the will of the voters. At the same time, the movement toward decentralization of authority within public administration means that the traditional line of demarcation between policy and execution is blurred, also potentially reducing the degree of democratic political control. The new interface management requires attention to such issues as local governments enter the 21st century. This section will concentrate on selected political control problems as revealed by the WZB study in its preliminary evaluation of international local government modernization.

Central Structural Problems of Political Control

The greater the progress made in the internal modernization of local government administration, the greater is the danger of a corresponding underdevelopment of political control. In the WZB sample of local governments undergoing structural modernization, there is a distinct trend toward managerial predominance. This empirical result parallels the analytical insight that the reform movement is based on a seemingly contradictory pair of values: managerialism and representative-democratic leadership. The strengthening of management by separating politics and administration is in tension with the strengthening of public control.

Many public management reforms are based on the important belief that policy-making and everyday administration cannot be segregated. "The belief that politics and administration in government—like formulation and implementation in corporate planning—can be separated is another old myth that should be allowed to die a quiet death" (Mintzberg, 1996: 79). However, in many cases the division of responsibility between political leaders and professional managers has been moved such that the role of political governance is reduced, not enhanced. The old segregation has been replaced with a new one between political target-setting and discretionary managerial decision-making. This also raises inconsistencies, particularly in the context of strategic management, where it is essential to link target selection and control with at least the core decisions of operative implementation.

The constituting principle of the local government system is precisely the contradictory unity of politics and administration, or in other words the complementarity of very different governance structures. On the one hand, we cannot abandon party political competition, parliamentarianism, and the other mechanisms of representative democracy. On the other hand, we cannot do the work of government without managed organizations. Both of these structures make vital contributions to the hybrid that is local government. Thus, the private sector—while it may provide extremely fruitful insights into strategic and operative management—cannot serve as a role model for political control and its linkages with management: "Above all, say many experts, government must become more like business. It is especially this proposition that we wish to contest. If we are to manage government properly, then we must learn to govern management" (Mintzberg, 1996: 76).

Another core characteristic distinguishing the political system from the private sector is the multiplicity of very different reference systems for which politics must take some sort of responsibility. It has become commonplace in business management to talk about "stakeholders," but in most cases these are people who have a choice between alternative enterprises in which to stake their interests. Thus, the free enterprise system has developed a high degree of specialization and differentiation, depending on the mechanisms of competitive choice and mobility to satisfy a broad range of private interests. In contrast, the stakeholders in government have relatively few alternatives short of relocating to other jurisdic-

tions. The increasing diversity of interests found in the modern city's pluralistic constituency—in other words the increasing differentiation of reference systems to which government is accountable—makes demands of the political system that are new and qualitatively different from those made of the private sector.

Last but not least, the architecture of politics itself is increasingly undergoing change. Changes in the local infrastructure of political parties, collective organizations, and civil groups point to a transformation of the local political system. The WZB study indicates that political reform so far lags behind administrative modernization, but both have been most successful when they occur in conjunction, and in complementary directions.

Thus, the central problems in the modernization of local governance structures are found not only in the conceptual tension between political and administrative control. They are also found in the increasing fluidity of the political framework, and in the multiplicity of external reference systems in society.

The Control Capacity of Political Leadership

The greater the emphasis on results control in local government, and the less the extent to which local administration is tied to rules, the more important for the overall system is the development of effective political control. One of the clear trends found by the WZB study is the growing disequilibrium between an increasingly rational administration and a more structurally conservative local politics. The danger of this is graphically described in the Japanese discussion: "The dependence on bureaucrats takes politicians further and further away from the public's expectations and this in turn makes them more dependent on organized interest groups for re-election and hence on bureaucrats to supply those interest groups. This vicious circle is made possible by the lack of public participation in politics" (Yamaguchi, 1997).

However, counter-trends have been observed in all the sample cities, trends toward various developments of political control capacity, that is, of the local council and political leadership. The trail-blazing developments were the Free Commune experiments in Scandinavia and in the Netherlands in the late 1980s, with their radical political architecture. Yet in the English-speaking countries, too, innovative improvements in political control capacity were introduced in the context of management reform. The WZB study identified the following major adjustments of the political control capacity of the local council and of the political leadership.

In the case of the local council, the striking development is its own internal modernization. These reforms include the formation of focused, cross-departmental committees within the council, including a long-term strategy committee; the opening of communication and cooperation through joint strategy seminars between management, political leadership, and the local council; and the pursuit

of further professional qualifications by council members. The decentralization of council work is also linked with representation of city districts, in a two-step mechanism—making possible a coupling of strategic target setting and local operative concerns.

Institutional adjustment by the political leadership of local government is found largely in the instrumental and methodological arenas. These changes are located at the beginning and the end of the value-addition chain within the local authority. At the start of the chain, the goal-forming and strategy formulation process, we find leadership reaching out in two directions. Externally, political leaders participate in public visioning processes involving the local population. Internally, they engage in an explicit discourse with the top management team regarding vision, strategic targets, resource requirements, and the cornerstones of the implementation process. At the end of the value-added chain, in the evaluation of outcomes, the emphasis of improvement efforts is on political control. The political leadership increasingly undertakes its own strategic evaluations, with the aim of complementing the program and project evaluations conducted by management.

The trend toward a modernization of political control capacity sketched here remains largely in the experimental stage. These developments have yet to be introduced on anything like a broad scale. Whether they will prove effective or sustainable remains unclear. Yet the findings so far suggest that they offer points of departure for a project of reform in political control capacity, as a necessary correlative of and complement to administrative modernization.

Establishing Linkages between Political and Managerial Leadership

Given that local governance is characterized by a hybrid of political leadership and organizational management, the architecture of the interface between the two governance mechanisms is of strategic importance. Among the cities analyzed in the WZB study a wide range of types can be observed.

In the overwhelming majority of sample cities the linkage type is one of managerial predominance: Phoenix, Braintree, and Tilburg are the best examples of this. A prototypical case of the reverse, namely political hegemony, is Farum. Linköping is the only city in the sample in which the contractual relationship is explicit and pervasive, whereas in cities such as Christchurch and Hämeenlinna the relationship between politicians and administrators is reciprocal in nature.

In reference to the criteria of effectiveness and efficiency, it is not possible to identify a best practice model. The different linkage patterns do have specific strength and weakness profiles, though. The managerial dominance model is beneficial for operative efficiency, but is likely to be less effective in the face of major shifts in the social or economic environment. The model of political

dominance, on the other hand, depends entirely on the prevailing balance of political power in the city. Contract management cannot be said to have been thoroughly tested yet, but its level of endogenous stability would appear to be low. The reciprocity model, finally, is costly in terms of transaction input, but appears to offer particularly favorable conditions for a co-evolution of politics and administration in the modernization process.

Where politicians take a passive role regarding administration, and administrators maintain a traditionally subordinate bureaucratic role, the outcome is a lack of clear leadership, resulting in stagnation. If either politicians or administrators take a more proactive role toward positive management, limited innovations become possible, but within the context of either a political or a managerial dominance, respectively. The most favorable conditions for modernization exist in those cities in which both politicians and public managers take an active role, where their role definitions are clear, where both are powerful within their roles—even demonstrating strong personalities—and where the skill profiles of politicians and managers are complementary. This combination makes possible a joint venture between politicians and managers for innovation and the development of governance capability.

Mechanisms and Forms of Political Responsiveness

The modernization of the political control system of local government must occur not only on the output side but also on the input side of politics—the voice mechanisms of the people. The opportunity for citizens to articulate their own preferences as authentically as possible is a necessary condition for public management effectiveness. This is true not merely for normative reasons of democracy, but for the sake of defining effectiveness itself. Public management means much more than optimizing economic efficiency: it must aim for as high a degree of goal attainment with respect to the preferences of citizens as possible. The development and implementation of such a strategic target system demands authentic preference articulation by the citizenry in all its contradictory diversity. This fundamentally political process cannot be replaced by private-sector marketing techniques. For all its talk of customer service, government reform cannot forget that voters, taxpayers, and customers are not necessarily the same people and may not have the same preferences.

The most important dimensions of such a voice function lie in representative party democracy on the one hand, and in the various mechanisms of direct democracy on the other. This is not the place to describe all the public voice instruments available, or even those observed in the sample cities. However, given the underdevelopment of politics in the local government modernization process, it is of particular interest to evaluate the existing potential for development of

democratic political structures. A provisional positioning of the sample cities in this respect generates the following findings:

In the majority of sample cities, the institutions of representative democracy are very highly developed. Potential for development remains in further differentiating the party system and intensifying interparty competition; this development would be especially significant with respect to new social movements and the frequently high degree of sociocultural inequality, which can constitute a serious barrier to broad-based participation by the local population.

On the other hand, in almost all the cities of the sample there is considerable potential for development in an expansion of direct-democratic responsiveness mechanisms. In many of the cities, a series of innovative experiments has begun:

- various forms of “small democracy” (especially in Hämeenlinna)
- the articulation of a user democracy in the citizens’ advisory councils of many welfare-state institutions, such as social security, health, and education systems (particularly in Denmark, the Netherlands and Sweden)
- opportunities for public participation in urban development and in the budgetary process (especially in Phoenix and Christchurch)
- the structural decentralization of politics in district bodies with easy citizen access (in Braintree); and
- direct referendum-based democracy (in Switzerland)

These developments are still more or less in the experimental stage. As yet, they do not constitute a stable infrastructure of direct-democratic responsiveness.

Expansions of direct-democratic responsiveness mechanisms are often viewed as competing against and even contradicting the existing structures of representative democracy. The WZB study comes to very different conclusions, though. The overwhelming majority of the politicians questioned in the sample cities consider such an expansion to be less a competition than a useful complement to the system of political representation. This is especially true in those cities that have made the greatest progress so far in local government modernization—where politicians seem to be seeking political coalition partners in the face of the trend toward managerial domination. The study concludes that the modernization of the political infrastructure, and in particular of direct-democratic responsiveness mechanisms as a complement to representative-democratic mechanisms, is one of the central challenges for the ongoing development of political control at the local government level.

Political Accountability Versus Political Representation

Two related trends observed in the sample cities, taken together, accentuate the problem of political representation: the growing differentiation of reference systems for local government, and the reduction of political representation to political accountability. As the constituencies of local government become more diverse and divergent in interests, they become less interested in the mediating and compromising processes of representative democracy, and more focused on making government accountable to their own expectations. The cry to “make government accountable” is one of the impulses behind the reform movement, yet the question remains, accountable to whom? At least four accountability reference systems can be identified, with differing expectations for local government performance: the bureaucratic, legal, professional, and political systems—and there is often a divergence of interests within each of these.

Such multiple but divergent accountability systems can create a scenario for disaster, as illustrated by the extreme case of the Challenger tragedy (Romzeck & Dubnick, 1987). The destruction of the space shuttle was due, according to the official commission of inquiry, to both technical and managerial problems. However, a deeper analysis of the causal factors lying beneath the technical and managerial failings points to the problem of multiple reference systems to which the public sector—in sharp contrast to the private sector—is accountable. It was the contradictory pressures resulting from the expectations of various institutional “centers of accountability” that led to the breakdown of institutional controls, leading to disaster.

In local government, the growth of differentiated accountability centers is primarily seen as a development process to increase the responsiveness of government action. However, such development incurs the cost of generating contradictory and often insoluble expectations for policy-makers and public management. Thus, public sector management faces structural dilemmas which, given enough divergence of interests, cannot be resolved in an optimal way unless through the dialectical give and take of politics—perhaps at the expense of professional managerialism and strategic coherence.

Public responsibility is one of the central themes of public management reform, characterized by decentralized administrative structures and the contracting of many public tasks out of direct administrative control. We have seen that this development may ignore the danger of divergent accountability systems; it may also ignore the fact that accountability, conceived as answerability, constitutes a significant reduction of the traditional democratic understanding of political representation.

In this view (Pitkin, 1967), the classical concept of political representation includes substantive and procedural components: to act on behalf of others in substance, and to do so within a responsive institutional arrangement. Thus, the

redefinition of representation as authorization and accountability constitutes a formalistic reduction of representation. It refers only to the two ends of the process: the act of authorization at the beginning and the obligation to report at the end. Such a reduction of political representation to formal accountability and authorization is a trend that can be observed in most (especially Anglo-Saxon) countries and cities.

In the social sciences, it is often observed that rational, well-intended actions may result in consequences contrary to the expectations of the actors. Like market economies and interpersonal relationships, local governments follow causal laws more dynamic, interactive, and stochastic than the push-and-pull of Newtonian mechanics. It will indeed be ironic if the call for government accountability and effectiveness produces in the long run a loss of representative democracy and a paralysis of decision-making. The challenge for public management in a pluralistic society is to keep trying to find ways to act responsively, while avoiding the traps of unrealistically simple formulas for accountability.

Unlike the issues of supply-chain and customer-value management, such political dilemmas and dangers affect the managers of private companies only in greatly diluted form. This is an area where local governments cannot learn from the best practices of business, but must evolve their own hard-won solutions. Governance must consist of more than just strategic management and optimization of organizational structure. Political responsiveness must consist of more than just customer-oriented marketing management and total quality management. Responsibility must consist of more than just multidirectional accountability mechanisms. For long-term sustainability, local government reform must enhance rather than weaken the representative leadership and the direct voice channels of democratic—and increasingly pluralistic—society.

Our sample cities demonstrate that structural internal reform is possible and sustainable. They demonstrate that lessons from the private sector can be and are slowly being learned in the areas of strategic management and management of the service acquisition and delivery chain. But these cities also show that the task of reconciling effective management with genuine political control remains a major challenge for local governments at the beginning of the 21st century.

NOTES

1. These studies are described in the first article of this series, and in the report published by the Berlin Science Center (Naschold, Oppen, & Weggener, 1998). The primary author directs the unit that conducted the research.
2. The primary author wishes to thank the mayor of Mitaka, Mr. Yasuda, and his staff: Mr. Takeuchi, Mr. Sato, and Mrs. Suzuki for their competent support and their extremely kind hospitality.

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