

Three paradigms of public sector reform

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Globalization — the movement that brought consumers a wealth of goods and services — is now forcing its effects on the public sector too. For consumers, read citizens. Today, they demand better public goods and services, and more of them, but don't want the higher taxes. Core services such as education, health care, welfare, and pensions find themselves newly exposed to international comparisons, even to international competition. This is pressure enough on governments, but in addition the global economy requires exceptional infrastructure and human capital for national economies to survive and thrive.

For much of the past 50 years, progress in these areas in many countries has been hampered by the tension between what can loosely be called leftist and rightist solutions. Interestingly, then, the demands of globalization, which make it imperative that governments solve these problems, also offer a solution to this longstanding tension. That is because globalization has changed conditions to such an extent that a melding of the two philosophies is the only solution likely to be up to the challenge.

Broadly put, leftist solutions have tended to emphasize equality at the price of uniformity, and rightist

solutions to offer diversity at the price of inequality. We now face a world in which economies that wish to be competitive need to provide everybody with good-quality services, while being flexible enough to allow for a high degree of personalization and choice. One might call this strategy providing “a high floor and no ceiling.” In political terms, new solutions will have to provide the equality prized by the left and the diversity prized by the right.

Combining equity, diversity, and constantly rising quality has thus become the challenge for the public sector in the developed world. As people become wealthier, more of

them are able to provide for their health, education, and security independently of publicly provided services. Unless their public services are excellent they will become unwilling to pay taxes to support it. And when that happens, it becomes politically difficult to maintain the necessary tax rates. Once the tax base crumbles, public services will spiral downward to become merely a safety net for society's poorest members.

The high floor will then go unbuilt, and society as a whole will pay the price in terms of undeveloped human capital, crime, drugs, and social dislocation. Examples abound: 45 million Americans lack health insurance; prisons are bulging in California and the United Kingdom; and riots have shaken suburban ghettos in France. In counterpoint to these examples of societal stress, there is a growing prevalence in Europe and North America of privileged and even gated communities abutting swathes of urban decay.

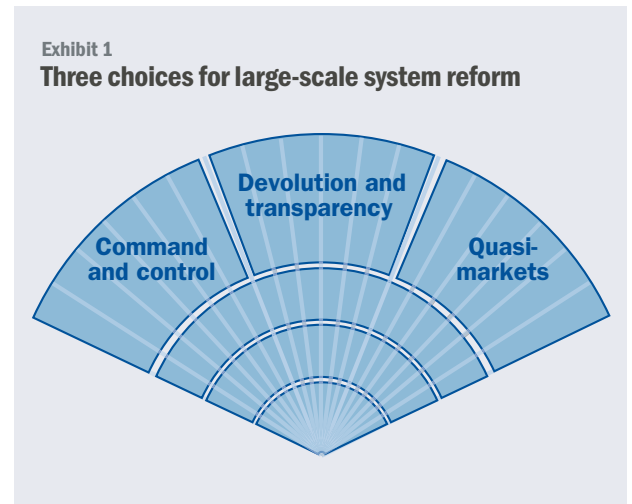
This is a prospect that has little to commend it economically or socially, even for the most privileged.

21ST CENTURY SOLUTIONS

How, then, do we make public services good enough that the wealthy still choose them, or at least see their social value? Commonalities among the better efforts to create more effective education, health, policing, and social security systems suggest that there are three paradigms for reform; that each is suitable in different circumstances; and that, regardless of which approach is selected, the political center plays a crucial role.

THE THREE PARADIGMS

Exhibit 1 sets out the approaches that can be adopted in reforming any large-scale public service: command and control, devolution and transparency, and quasi-markets.



Command and control is often the first choice of governments that want change urgently – and to be seen doing it. As the phrase implies, it involves top-down management approaches and conveys at least an impression of government taking charge. It can be highly effective. The UK government's National Literacy Strategy between 1997 and 2001, and its approach to reducing health-care waiting times between 2000 and 2005 are good examples. However, because there is nothing worse than command and control incompetently implemented, it should be undertaken with a full understanding of the government's ability to deliver.

At the other end of the scale is a second paradigm, "quasi-markets." Full-scale privatization is of course an option, which has worked well in telecoms and utilities, but governments hesitate to apply it in areas such as education or policing, for reasons of equity, feasibility, and

politics. More practicable is to use elements of the private sector through options such as retaining public control of commissioning services while having private providers deliver them. Examples include Medicare in the United States; encouraging the use of independent providers of routine operations in the UK health-care system; and private providers of public schools in Philadelphia.

However, applying market-like pressures to a public service is not always straightforward. One must define a clear customer, offer customer choice, bring in new providers, and ensure that the money follows the choices made by the customer. Charter school programs in New York State and California, and voucher programs in Milwaukee and Florida, offer American examples of quasi-markets in action. Evidence of impact so far is mixed, however, and success seems to depend on the precise design of the program. For example, Swedish education reform, which has brought in new providers and offers much greater choice, appears to have succeeded. The radical restructuring of England's National Health Service along quasi-market lines has brought some early benefits but is still far from complete.

What if a government wishes to reform a service without resorting to command and control, but where the conditions for the success of quasi-markets are not present? In the provision of prisons, courts, or policing, for example, it is either not possible or undesirable to define a customer and offer choice from a range of providers.

With "devolution and transparency," the third paradigm, government can devolve responsibility to the frontline

units delivering the service and then use transparency – making public the results in a way that allows comparison – to drive performance. Units that succeed can be rewarded and perhaps expanded; failing units can be made subject to interventions and ultimately shut down. To work, this model depends on genuine devolution of operational control, along with accountability. Iowa's "charter agencies," exempted from state bureaucratic requirements in return for strict accountability for results, is an example of this model in action. Where accountability has been devolved to principals in some US school districts without offering them commensurate operational flexibility, the benefits have been limited at best.

The model can operate in a fully public system – the most famous example being the New York City Police Department, where the Compstat process generated competition between precinct commanders – or within a service in which a mix of public and private providers compete on equal terms. This can be done by separating payor and provider and encouraging competition for large contracts offered by the government or its agencies (known as "contestability" in the United Kingdom). This approach has been widely adopted, and successfully. Examples include the use of private prisons in California and the contracting of local education services in the United Kingdom.

Where fully applied, the devolution and transparency model has proved sufficiently beneficial that some informed commentators have suggested applying it to all government services.¹ Moreover, it

can be applied in combination with the quasi-market approach. For example, although the quasi-market approach has been put in place in some public school systems, it has its limitations. In a true market, the customer might change providers regularly. But parents are naturally reluctant to change their child's school often. For this reason, market pressures on schools tend to be weak. If, however, devolution and transparency are also introduced, as is the case in the Netherlands, New Zealand, and the United Kingdom, pressure on school performance tends to be significantly strengthened. Indeed, one of the most successful examples of quasi-markets in combination with devolution and transparency is the widely admired, radical UK reform of teacher training, under which students have

political debate about the merits of each. The truth is that each model is appropriate in different circumstances, and all should be deployed within a total government system if it is to balance equity and diversity with support for high quality.

One crude but useful guide for choosing a model is to ask how well the given service is performing. Work done in the United Kingdom under the prime minister, Tony Blair, used a four-point scale designed to encompass the full range of performance for the various public services whose improvement was sought (Exhibit 2).² The scale also suggests what the consumer reaction is likely to be at each level of performance.

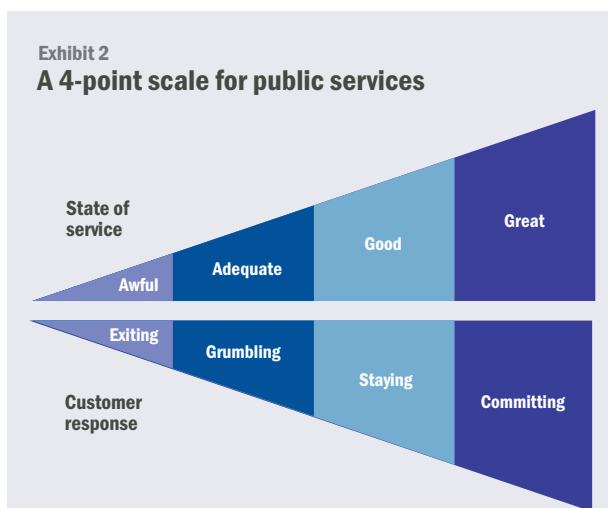
Generally speaking, when services are “awful” and users are exiting the system, command and control solutions are appropriate. This is certainly true in a crisis, but it also applies in circumstances of endemic underperformance. In such cases, the public, and even the workforce within the service, will usually accept strong government intervention, as long as it is effective. The National Literacy Strategy, for example, was justified by the fact that elementary school literacy in England had barely improved in the 50 years leading up to the mid-1990s.

choice, government sets standards, successful providers are rewarded, and underperforming providers are removed.

SELECTING THE RIGHT ONE

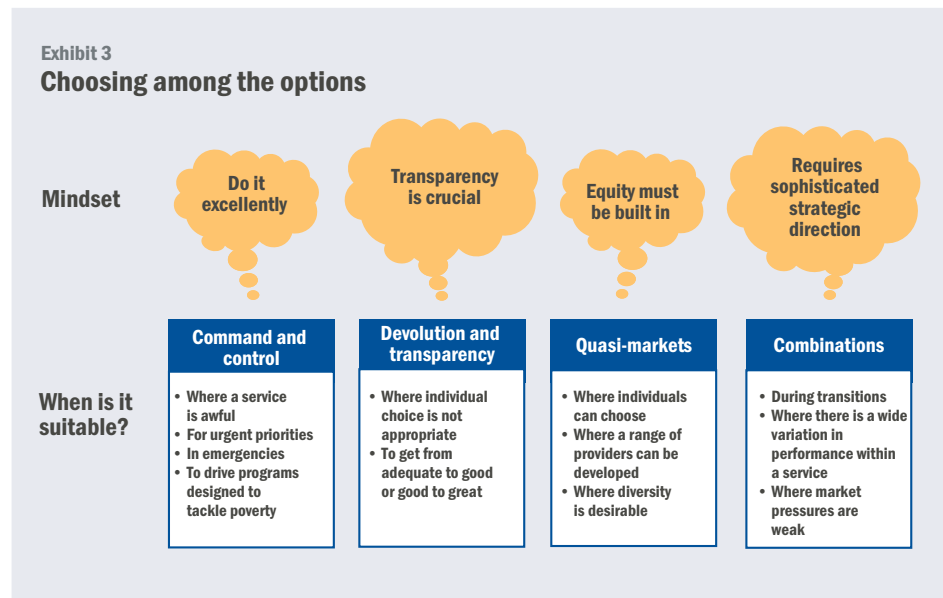
These paradigms will be familiar to any government leader, and there is intense ideological and

Once adequate performance is established, however, the benefits of command and control are less clear. Governments find it hard to sustain the focus and drive on which command and control depends. Frontline leaders find themselves constrained by government regulation. Moreover, while shifting performance from “awful”



¹ See David Osborne and Peter Hutchinson, *The Price of Government: Getting the Results We Need in an Age of Permanent Fiscal Crisis*, Basic Books, 2004.

² For four years (2001–05), I had the privilege of heading Prime Minister Blair's Delivery Unit, which was responsible for overseeing the implementation of his priority public-sector reforms. It was during this time that we developed this scale, inspired by Jim Collins in *Good to Great*, New York: HarperBusiness, 2001.



to “adequate” is a substantial achievement, it does not satisfy the consumer. In the end, achieving great performance in the public sector, no less than in the private sector, requires unlocking the initiative, creativity, and motivation of leaders throughout the system, rather than just those at the top. This cannot be done without substantial devolution, providing the freedoms of a quasi-market, or both. In short, you can mandate “awful” to “adequate,” but you cannot mandate greatness, which must be unleashed.

The circumstances appropriate to each of the three paradigms are summarized in Exhibit 3. But as we’ve seen, actual and political conditions mean the three paradigms will often be applied in combination in any real large-scale service. For example, in health-care reform in the United Kingdom, while quasi-market pressures are increasingly being brought to bear as patient choice increases, budgets are being devolved to the frontline and hospital performance is being made transparent. In addition, command and control is being applied in

situations where hospitals are performing poorly, whether clinically or financially.

Exhibit 3 also draws attention to some of the issues the different paradigms raise. For example, as quasi-market pressures are introduced, the threat to equity must be managed. This is evident in Sweden where, as part of its school reform mandate, the government has welcomed independent providers of new schools. To prevent cherry picking, however, these schools are not permitted to select students on the basis of academic performance.

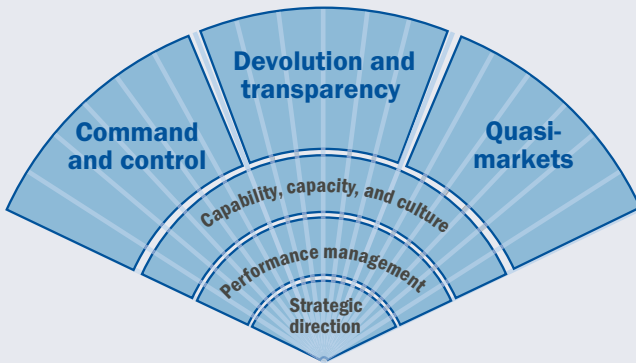
SUCCESS FACTORS

Reforming a large public service is enormously complex. Whichever paradigm is chosen, it will work only if three underlying requirements are in place (Exhibit 4).

Capability, capacity, and culture.

This means ensuring that the people who provide the service have the right skills. It means enough resources to get the job done.

Exhibit 4

Three necessary underpinnings for reform

And it means developing a strong performance culture among those providing the service. Given that real-world situations typically require a mix of paradigms, the demands on the flexibility of the service providers can be considerable.

Unfortunately, unhelpful and inflexible attitudes toward reform are often particularly entrenched in the public sector. Two responses are common, and contradictory: public servants may argue that government should “give us the money and get out of the way,” yet they are also quick to respond to problems by saying, “What is the government going to do about this?” And when public servants (generally reinforced by the media) demand that governments act, act is precisely what governments do. The result, built up over many years, is an often stultifying set of bureaucratic regulations. This is how many disappointing public services came to be the way they are. Many US teachers’ union contracts developed in precisely this kind of destructive, accretive fashion, as did the health and safety regulations affecting many sectors.

If governments are to become more strategic and less bureaucratic, the mindset of public servants has to change so that the question becomes, “How can we in this public service solve the problem, with government help if necessary?” Only at this point can the required cultural change begin to take hold. Exhibit 5 overleaf highlights the dozen individual shifts that are required by everyone in the public sector to deliver 21st century solutions.

Performance management. None of the three paradigms can work without it. Performance management starts with information: data on performance must be published, so that service providers and the public can see how they are doing and can benchmark their performance against others. And as governments move away from command and control, the capacity to intervene when a service is underperforming is crucial. Without reliable, up-to-date information on performance, this cannot be done.

More generally, the ability to manage performance in either of the two circumstances other than command and control requires new attitudes and skills. Managing large contracts or markets can be technically complex, and initiatives will require leading-edge contract management and general commercial expertise among public officials. For example, since the competitive sourcing initiative in the US government began, the Office of Management and Budget has sought to ensure that agencies seek a better trade-off between cost and quality in procurement, rather than focusing only on cost. In London, the city’s transportation department has awarded thirty-year contracts to private companies to maintain the



underground system. The contracts have break clauses every seven-and-a-half years to allow for updated negotiations.

Strategic direction is essential in any large system. Developing a good strategy is a sophisticated challenge for a large business. In a political environment, this challenge is even more daunting. A small, well-qualified, courageous group – a kind of “guiding coalition”³ – must oversee the sequencing and implementation of reform. Given the controversy such reform often generates, only a sustained, well-thought-through strategy will work. Support should be built over time, both within the public service itself and among the public. As a result, sequencing is important: a long-term strategy needs to deliver short-term results if public confidence is to be maintained.

TYPICAL PROBLEMS

Of course, pitfalls await even the most talented leaders of public-

service reform. Here are some of the most common (Exhibit 6).

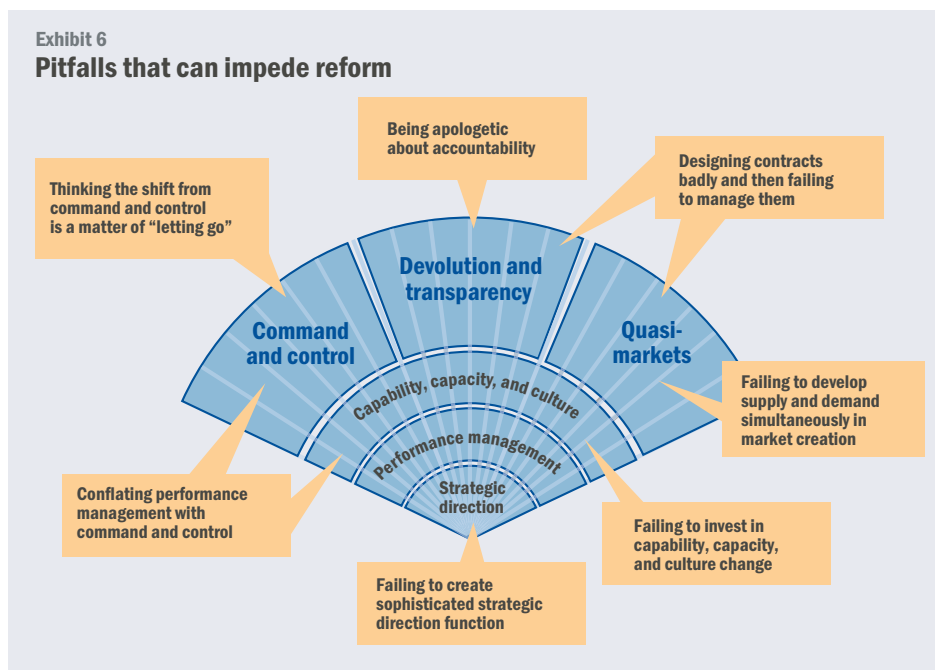
As governments move away from a command and control approach to another model, one misjudgment they make is to believe that they can “let go” – that devolving responsibility or creating a market brings their role to an end. In fact, the three requirements remain vital – they just change in character. To borrow a boating metaphor, the government’s role may change from rowing to steering, but it does not disappear.⁴

There is also the matter of designing contracts poorly and managing them ineffectively. The inevitable result is that the benefits are not realized. The growing interest among governments around the world in improving procurement is as much about realizing benefits as about reducing costs.

Another error is for governments, often under pressure from public-sector providers, to apologize for transparency and accountability.

³ The phrase is John Kotter’s. See John P. Kotter, *Leading Change*, Cambridge, MA: Harvard Business School Press, 1996, p.6.

⁴ David Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit Is Transforming the Public Sector*, New York: Plume, 1993, p.25.



In the end, if taxpayers are to be convinced of the value of their investment, and if consumers of public services are to make informed choices, transparency is both necessary and desirable.

Finally, there is the failure to create quasi-market conditions by paying too little attention to both supply and demand. If contracts are awarded, but there are few or no credible potential providers, reform cannot succeed. Similarly, potential providers of a service are unlikely to make a major commitment to an emerging market unless they see long-term potential.

THE REFORMER'S TOOLKIT

The three paradigms provide a toolkit for governments to recognize how to reform and when, and what each choice requires of them and their organizations.

In recent years, experimental reforms such as those discussed here have

created controversy. Some observers see the reforms as ideologically unacceptable or irresponsible. And many complain that the reforms have been deployed either without a clear strategy or on the basis of a dogmatic belief in one paradigm of reform or another. Some of these complaints have been valid — but the acute reality is that the need to transform the way governments work requires experimentation. The imperative to deliver better services at an affordable cost can no longer be ignored.

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