

## Public Sector Modernisation: The Way Forward

### Introduction

Governments have made major changes to the way they manage the public sector in the past two decades, privatising commercial activities such as telephone services, cutting red tape and making government more transparent and responsive to citizens.

Budget worries triggered reform in many countries, but the underlying pressure for change came from social, economic and technological developments which left governments increasingly out of step with society's expectations.

Most public administrations have become more efficient, more transparent and customer-oriented as a result. But perhaps surprisingly, these changes have not reduced governments' influence in society – indeed, government now has a different but larger presence in OECD countries than 20 years ago.

And governments are under constant pressure for more change, as citizens' demands of government keep on growing. The public expect more openness, better quality service delivery and solutions to more complex problems, but without losing any of their existing social entitlements.

The major challenge for 21st century governments is to find new gains that will enable them to meet these demands while remaining within tight expenditure limits. For the next 20 years, policy makers face hard political choices. Since most governments cannot increase their share of the economy, in some countries this will put pressure on entitlement programmes such as pensions, health care or education.

*This Policy Brief is the final part of a series looking at how governments can best adapt their public sectors to the changing needs of society. The others have covered open government, modernising public employment, changing organisational structures, governing for performance and modernising accountability and control.*

**Why reform public administration?**

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This Policy Brief looks at the way the public sector has changed over the past 20 years, and what that experience can teach governments to help them deal with the challenges of the next two decades. ■

## Why reform public administration?

Attitudes towards public administration in OECD countries have changed significantly in the past 20 years. In the decades after 1945, government took on the role of a near-monopoly provider of utilities such as power and water, of services such as health-care, social welfare and education, and of transport infrastructure and services.

This traditional model helped deliver unprecedented prosperity and security in many OECD countries and is still in use in some of them. However, its ability to adapt to political, social and economic change was increasingly called into question.

From the early 1980s onwards, the public became increasingly concerned about the quality of the services they received and the choices available to them. It was clear that some of the open-ended, demand-driven commitments of the traditional model in areas such as healthcare were leading countries into financial crisis. The need to respond to technological change, notably in communications, also imposed increasing costs on government.

At the same time, changes in the international economy were limiting governments' freedom to manage their national economy and determine the size and scope of government activity. It was no longer politically or economically tenable to use an ever-increasing share of the national economy to fund expanding public responsibilities. Many governments therefore decided to reduce the size of their public sector, or radically alter its structure.

Some of the results of these reforms are perhaps surprising. While society's expectations of government have changed, they have not diminished; in fact, if anything they have increased. So after 20 years of reform, government is more, not less present in OECD countries, although its role and the mix and modes of government interventions have changed significantly.

For example, many governments have privatised state monopolies on basic household services such as energy, water and telephones. But they have instead acquired new responsibilities to create and

regulate markets to provide these services, as well as new ones such as the Internet.

Many reforms were driven by pressure to reduce public expenditure, and in most OECD countries spending has now stabilised; however, the upward pressures on public expenditure remain. Pension, education and health spending are rising, and ageing populations are likely to exacerbate the problem. Improved cost-effectiveness cannot resolve these pressures; politicians face hard and unpopular choices in some countries if long-term difficulties are to be avoided. ■

## What are the lessons from two decades of reform?

Two decades of public sector reform have brought many positive benefits. Today, governments in most OECD countries are more efficient, more transparent, more customer-aware, and more focused on performance than 20 years ago.

Nevertheless, **the reality of reform has not lived up to the rhetoric**. In many cases, reforms have not produced the changes in behaviour and culture needed to sustain them over the longer term. Indeed, some reforms have produced unintended consequences, and have damaged underlying public sector and governance values.

Another key lesson is that **modernisation efforts must be tailored** to each individual country's context, needs and circumstances if they are to succeed. The same reforms have very different effects in different countries.

Governments also need to **understand the dynamics of their own public administration system** before they can design appropriate reform strategies. They must also remember that public governance and public administration are intrinsically linked.

Therefore, if reform is to be successful, it must take a **whole-of-government approach** that sees public administration and governance as part of an interconnected whole. Changes in one part of the system will affect other parts, often in unintended ways. It is no good measuring public sector performance by results if ministries and politicians do not use the information when making decisions.

But perhaps the most important lesson from the experience of the past two decades is that **reform is**

**continuous.** As societies keep changing, governments must keep adapting.

Among the most significant changes of the past 20 years, which will continue to be important for future reform, are more open government, a focus on public sector performance, reforms to accountability and control, reallocation of resources in response to change, the introduction of market-type mechanisms and reform of public employment systems. ■

### What is the effect of open government?

A major cultural shift in most OECD countries has been the move towards more open government. The idea that public information depends on what government chooses to reveal is being replaced by the principle that government must have a valid public interest reason for withholding information.

But open government is not just a case of willingness to reveal information; it also means ensuring that government services are accessible to the public, and making government more responsive by enabling citizens to participate in decision making.

Both government services and information are more readily accessible to citizens today than 20 years ago. Some 90% of OECD countries have a Freedom of Information Act and an Ombudsman office, and more than half have citizens’ charters. Governments are more user-friendly, there is less red tape and many services are delivered online.

The OECD’s work also shows that greater openness can have a positive effect on performance. Greater openness to scrutiny of the budget process, for example, can help contribute to sounder public expenditure. Open government also means cleaner government – effective public scrutiny helps maintain high standards of integrity.

More open government can thus strengthen the legitimacy and credibility of the government and help it respond to ever increasing public expectations for more accessible, high-quality services and information. A significant challenge now facing governments is balancing the need to ensure greater national security with the need to preserve openness.

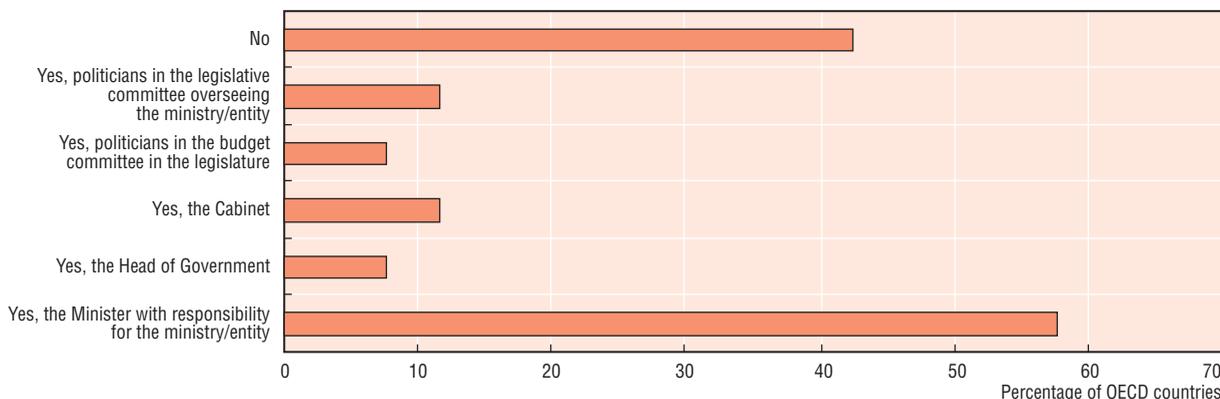
Consultation, and even active participation in decision making does not mean that governments should surrender their responsibility for making final decisions. To do so would undermine the established ministerial accountability mechanisms of representative government, which is a key pillar of governance.

And openness in itself does not necessarily improve governance, nor does it override all other public values. It should be balanced against other values of efficiency, equity, and responsibility. ■

### Has focusing on public sector performance helped?

Improving performance has taken on a new urgency in recent years as governments face mounting demands on public expenditure, coupled with calls

Figure 1. Is it common that politicians use performance measures in decision making?



Source: OECD/World Bank Budget Practices and Procedures Database, 2003.

for higher-quality services and a public increasingly unwilling to pay higher taxes.

This has led governments to focus on the results achieved by various public sector operations, rather than the resources allocated to them, as was the case in the past. The idea is that politicians and public servants will use this information to make better decisions and improve performance for the future. Many governments, however, are still struggling to ensure that information about results, once gathered, is actually used. Politicians generally do not make much use of performance information, with the exception of ministers with responsibility for the department delivering the target. Some 72% of OECD countries include non-financial performance data in the budget documentation presented to the legislature, but in only 19% of countries do politicians in the legislature use this information in decision making.

Governments have been more successful in introducing performance management. The idea is to give managers the authority, and the incentive, to make decisions and manage resources in the way that they judge best suited to producing the desired outcomes. This requires government to focus on performance, to clarify organisational objectives and to motivate public officials to achieve them.

Governments should, however, beware of overrating performance-based systems' power to achieve change. A key challenge is balancing the increased managerial flexibility needed to operate such systems with continued accountability and control. Too much flexibility could lead to abuse and mismanagement; too little can give rise to an inefficient and unresponsive public service.

At the same time, both public servants and politicians must be given motivation and incentives to change, otherwise performance information becomes a mere paper exercise. This is a long-term process: it takes time to change behaviour and to see the benefits of this approach emerge.

One problem is how to integrate performance budgeting and management into a country's traditional **accountability** system. Governments need to control how public resources are used, but also have to allow managerial flexibility if the new management systems are to work.

Devolving management and focusing on performance can create problems of control. Public sector

agencies and managers must have clearly defined responsibilities, or the potential benefits of devolved authority will be lost. But central agencies dealing directly with government are vulnerable to political pressure and may find it difficult to give genuine authority to devolved managers. At the worst, central agencies may view output controls and measures as an additional level of control rather than a replacement.

In addition, in OECD countries with highly delegated systems, managers have heavy responsibilities for performance, strategy, the deployment of human and financial resources, internal control and accountability. This burden can defeat managers unless central agencies ensure that the control, while effective, is not unnecessarily restrictive.

Reform initiatives, in theory, seek to delegate authority, increase flexibility and relax input controls. Across OECD countries in general, however, there are wide differences in how this has been introduced and there is a continuing struggle to find the right balance between control and flexibility. ■

## What is the effect of structural change?

The pressure for change has forced governments to continually adjust their structure and reallocate resources. Structural change, however, should not be undertaken lightly. Dividing responsibilities between new agencies, for example, risks fragmenting government into a series of autonomous entities lacking a common purpose or ethos. This can undermine a country's capacity for whole-of-government policy making and accountability.

Nor should established organisations be dismantled lightly. They provide stability and continuity while allowing officials to build up the reputation, capacity, knowledge and relationships necessary for addressing complex public policy problems. If these are lost through radical restructuring, it takes a long time to rebuild them, and meanwhile governments run the risk of underperforming. Governments need to understand the strengths and weaknesses of their existing systems and build on their strengths, if they are to maintain a functioning public service.

Being able to adjust the public sector organisations in a timely manner is essential for a modern government. Modern accounting and information technology have made possible arm's-length management of

more types of agencies, better tailored to their specific responsibilities. Innovative administrative structures, decentralised management and market-style service delivery should improve results. Nevertheless, these actions may not reduce the size of central agencies, particularly as governments need to strengthen co-ordination by the centre in the new systems.

The deeply ingrained disposition towards coping with change by increasing the budget is no longer sustainable. The strategic use of the budget process has emerged as a powerful management tool in recent reforms, both for reallocating resources and for driving management changes. Thus, the budget process, which has been used to force cutbacks, has also helped put the focus on efficiency and effectiveness. The need for reallocation will continue as governments respond to changing pressures and political priorities. ■

### Do market-type mechanisms help?

The use of market-type mechanisms is increasing in OECD countries, although there are marked country differences in this respect. Governments have introduced mechanisms to improve public sector efficiency, for example, contracting out of services (outsourcing), public-private partnerships (PPPs) and

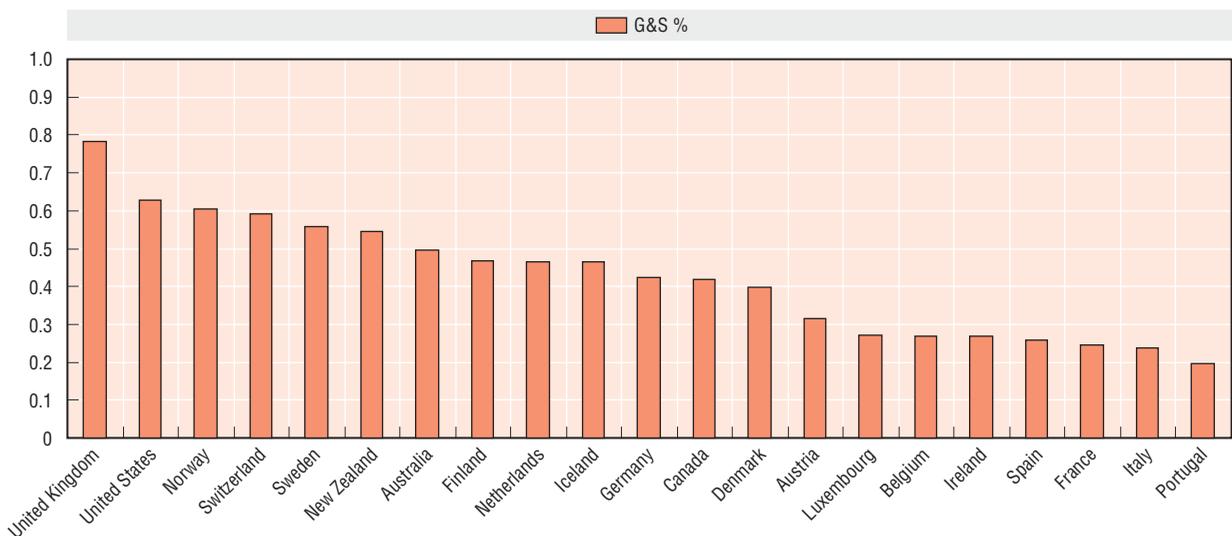
voucher systems. The evidence that market-type mechanisms can secure such efficiency gains is substantial. However, the decision to use these mechanisms needs to be made on a case-by-case basis and the specific design of these instruments is critical to their successful application.

Also, the ability to maintain key governance principles needs to be considered as an inherent part of the decision to adopt market-type mechanisms. These principles include accountability, regularity, transparency, and the availability of avenues for redress.

Outsourcing has grown significantly over the past two decades and has become a mainstream element of modern public administration in many OECD countries. As you can see from Figure 2, however, there are country variations; the outsourcing of central government services is much greater in English-speaking and Nordic countries than in continental European countries.

Outsourcing has sometimes encountered opposition, either due to the public’s view of “the role of government” or the resistance by affected government employees, unions and their political allies. Governments must improve their ability to manage these factors, as the use of outsourcing can be expected to increase in the future.

Figure 2. **Outsourcing of Central Government Services**  
Relative Index: 0 = Lowest; 1 = Highest



Source: OECD Secretariat calculations based on Government Finance Statistics Data, 2003.

The use of PPPs is less extensive than many would expect. In the United Kingdom, where they are used the most, they have stabilised at around one-tenth of total annual capital procurement. They are most appropriate for large-scale projects such as highways that involve extensive maintenance and operation. Fundamental to the success of PPPs is the appropriate allocation of risk between the government and the private partner. A common problem is that governments maintain the majority of the risks.

Vouchers redeemable for a particular service up to a set value are increasingly being used in OECD countries. They are a useful means of allocating social services in a manner sensitive to demand. But there are three governance concerns: they may provide consumer choice at the expense of equity; they can exert upward pressure on public expenditure; and there is a risk that suppliers will focus only on high-yield customers. ■

### What about modernising public employment?

Public servants are crucial to improving performance and keeping pace with change. Reforms to public sector employment in OECD countries have included: decentralising human resources responsibilities to increase managerial flexibility; reducing public employment; introducing individually-tailored employment contracts; performance-related pay; and changes in how senior civil servants are managed.

In many countries, employment conditions of public servants have moved away from the notion of special status and become more like the private sector. A job for life is no longer the norm; instead there is an increasing use of contract and casual staff, consultancy services and performance-related pay, now in use in two-thirds of OECD countries.

The two main traditional ways of organising civil service systems – career-based and position-based – are both under pressure: the former because it lacks adaptivity and the latter because it lacks collectivity. The modern environment needs both. Governments face a delicate balancing act between, on the one hand, ensuring that civil servants are responsible and accountable and, on the other, encouraging team work and collective responsibility to maximise the chance of success in a complex policy area. Govern-

ments should understand the structural weakness of their existing systems and build on their strengths rather than be countercultural. There are no easy solutions, but clearly governments need to pay more attention to whole-of-government human resource management policies. Without the willing commitment of staff to a wider cause, modern public management is hindered. ■

### What about the future?

Twenty years of reform have seen significant changes in public sector management in OECD member countries. Today their governments are generally more transparent, accessible and customer-aware, more devolved, more efficient, and more performance-focused.

But they have taken a variety of different roads to get there. One of the main lessons from the reform experience is that there is no single generic solution to the problems of public administration. Countries come from different starting points, with different cultures, and face different problems, so the solutions must also be tailor-made to fit their circumstances.

One key question in that case is whether learning from other countries or developing common international standards are likely to be productive or even possible. However, there are clearly factors at work that support the transfer of ideas, policies and even institutional designs across borders. One area of successful systemic learning has been around national budgeting systems. There is also a high degree of agreement among OECD countries on the underlying principle of open government. Increasingly, OECD countries are also agreeing on codification and disclosure in areas such as economic reporting, national statistics and fiscal policy. As globalisation proceeds, the range of international principles and standards on issues relating to public management will increase. The OECD has a role in brokering such agreements.

The “best practice” movement – the attempt to improve by emulating successful techniques from others in the same business – is an attractive idea, but potentially misleading if not preceded by a thorough analysis of the problems being addressed, an evaluation of the effects and results of previous reform initiatives and a full knowledge of national context. Understanding how geographical, historical and

cultural factors affect different national settings is a potentially rich source of inter-governmental learning. The elaboration of this approach is a subject for future work.

As governments move forward in deciding on future reforms, the case for adopting a whole-of-government perspective is overwhelming. How these new reforms relate to government's overall purposes and interests, to general government rules and processes, and to the existing process for oversight and

democratic accountability must be thought through before their implementation. ■

### **For further information**

For further information about the OECD's work on modernising government please contact:

Teresa Curristine,

e-mail: [teresa.curristine@oecd.org](mailto:teresa.curristine@oecd.org).

Tel: (33-1) 45 24 18 52 ■

## For further reading

- OECD (2005), **Modernising Government: The Way Forward**, Paris, ISBN 9264010491, €30, 236 pages.
- **Policy Briefs** on Public Sector Modernisation available at [www.oecd.org/publications/policybriefs](http://www.oecd.org/publications/policybriefs):
  - Public Sector Modernisation** (2003).
  - Public Sector Modernisation: Modernising Public Employment** (2004).
  - Public Sector Modernisation: Changing Organisational Structures** (2004).
  - Public Sector Modernisation: Governing for Performance** (2004).
  - Public Sector Modernisation: Open Government** (2005).
  - Public Sector Modernisation: Modernising Accountability and Control** (2005).
- **OECD/World Bank Budget Practices and Procedures Database**, available at [www.oecd.org/gov/budget](http://www.oecd.org/gov/budget).

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**Where to contact us?****FRANCE**

OECD Headquarters  
2, rue André-Pascal  
75775 PARIS Cedex 16  
Tel.: (33) 01 45 24 81 67  
Fax: (33) 01 45 24 19 50  
E-mail: [sales@oecd.org](mailto:sales@oecd.org)  
Internet: [www.oecd.org](http://www.oecd.org)

**GERMANY**

OECD BERLIN Centre  
Schumannstrasse 10  
D-10117 BERLIN  
Tel.: (49-30) 288 8353  
Fax: (49-30) 288 83545  
E-mail:  
[berlin.contact@oecd.org](mailto:berlin.contact@oecd.org)  
Internet:  
[www.oecd.org/deutschland](http://www.oecd.org/deutschland)

**JAPAN**

OECD TOKYO Centre  
Nippon Press Center Bldg  
2-2-1 Uchisaiwaicho,  
Chiyoda-ku  
TOKYO 100-0011  
Tel.: (81-3) 5532 0021  
Fax: (81-3) 5532 0035  
E-mail: [center@oecdtokyo.org](mailto:center@oecdtokyo.org)  
Internet: [www.oecdtokyo.org](http://www.oecdtokyo.org)

**MEXICO**

OECD MEXICO Centre  
Av. Presidente Mazaryk 526  
Colonia: Polanco  
C.P. 11560  
MEXICO, D.F.  
Tel.: (00.52.55) 9138 6233  
Fax: (00.52.55) 5280 0480  
E-mail:  
[mexico.contact@oecd.org](mailto:mexico.contact@oecd.org)  
Internet:  
[www.ocdemexico.org.mx](http://www.ocdemexico.org.mx)

**UNITED STATES**

OECD WASHINGTON Center  
2001 L Street N.W.,  
Suite 650  
WASHINGTON D.C. 20036-4922  
Tel.: (1-202) 785 6323  
Fax: (1-202) 785 0350  
E-mail:  
[washington.contact@oecd.org](mailto:washington.contact@oecd.org)  
Internet: [www.oecdwash.org](http://www.oecdwash.org)  
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