

Organisation Design for Service Delivery in the Public Sector

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This paper is divided into 3 sections. *Section 1* introduces the public sector in parliamentary democracies. It makes the point that the ‘wheel’ of administrative reform has turned full circle in the last century. It reviews the market-led model of public management currently in favour in many developed countries and discusses the suitability (or otherwise) of this model for the developing countries. *Section 2* gives an overview of the environmental factors affecting public administration in India and narrows down to a description of the Revenue Department in the Government of Andhra Pradesh. *Section 3* describes and applies an analytical framework to the Revenue Department and discusses options for redesigning that department for more effective service delivery.

Section 1: The background: issues in public management

This paper is about organisation design—or re-design, as the case may be—in the public sector¹ to bring about changes in the arrangements for service delivery in order to achieve strategic objectives². It will attempt to present a methodology for such an exercise rather than a step-by-step guide to how organisations in the public sector may be optimally designed for service delivery. It will do so on the basis of a study of one department and using an analytical framework developed for the purpose.

Public administration distinguishes between ‘staff’ and ‘line’ functions. At the centre of government are the agencies that deal in pure ‘public goods’, such as policy advice, budget-making and the raising of revenue, that government alone can perform³, along with their support functions such as personnel. These central agencies, such as the Cabinet Office and the Treasury (the Cabinet Secretariat and Finance Ministry, respectively, in Government of India) are the ‘buckles’ that link the administrative with the political.

The ‘line’ ministries/departments deal in sectoral functions, including making and implementing policy for the sector. These departments are usually headed by ministers and may, as in the state governments of India, have field organisations (under a ‘head of department’) that are responsible for execution of policy under the guidance of the ministry.

This paper is about these ‘line’ ministries/departments. Each of them has some distinct functions viz. policymaking, regulatory, internal support services and direct services to citizens. A large majority of government departments fall within this category. If policymaking for the sector and the internal support services (sometimes also called ‘corporate services’) are excluded, the two main outputs of line ministries/departments that are of direct relevance to the lives of people are regulatory services and service provision to the citizens.

¹ Here ‘public sector’ refers to government departments as well as autonomous bodies, statutory agencies and executive authorities appointed by and/or reporting to government, but excludes the ‘public sector’ as usually understood in India, viz. public sector undertakings or commercial entities owned and managed by the state.

² Strategic objectives are generally long-term and focus on ensuring organisational effectiveness in relation to a changing environment.

³ Tax collection was privatised in ancient China, Greece, Rome and, more recently, Thailand which until 1875 did not have a governmental organisation for tax collection (Schiavo-Campo & Sundaram, 2002). Even in Moghul India, the collection of land revenue was through agents or intermediaries. In modern municipalities collection of parking and toll fees is through contractors. These qualifications will not stand in the way of tax collection being a sovereign function of the state and, in that sense, a pure public good.

The key question that we examine in this paper is *the extent to which 'market' can be the appropriate mode of governance for service delivery*. This would mean raising the following specific questions. Does the private sector have any inherent advantage over the public in service provision? Are there circumstances in which service provision by these line departments can or should be privatised? What criteria should be applied to decision-making in this regard?

Except exclusive departments or agencies that have been created for the purpose of delivering one homogeneous service or serving one homogeneous group of clients e.g. weaker sections housing or backward classes welfare, the large majority of line departments in Indian states are of the type wherein the regulatory and service delivery outputs are mixed. The outputs are, in fact, so mixed up that they cannot easily be separated. The regulations administered by the typical department are often the 'other side of the coin' of the services it provides to the citizen. They define the legal or administrative framework within which service delivery operates. An example is the transport department administering the rules and regulations under the Motor Vehicles Act by checking vehicles for overloading or pollution. It also provides services such as issue of fitness certificates to vehicle owners and driving licences to citizens who apply for them. Sometimes a regulation has to be enforced in order for a service to be delivered.

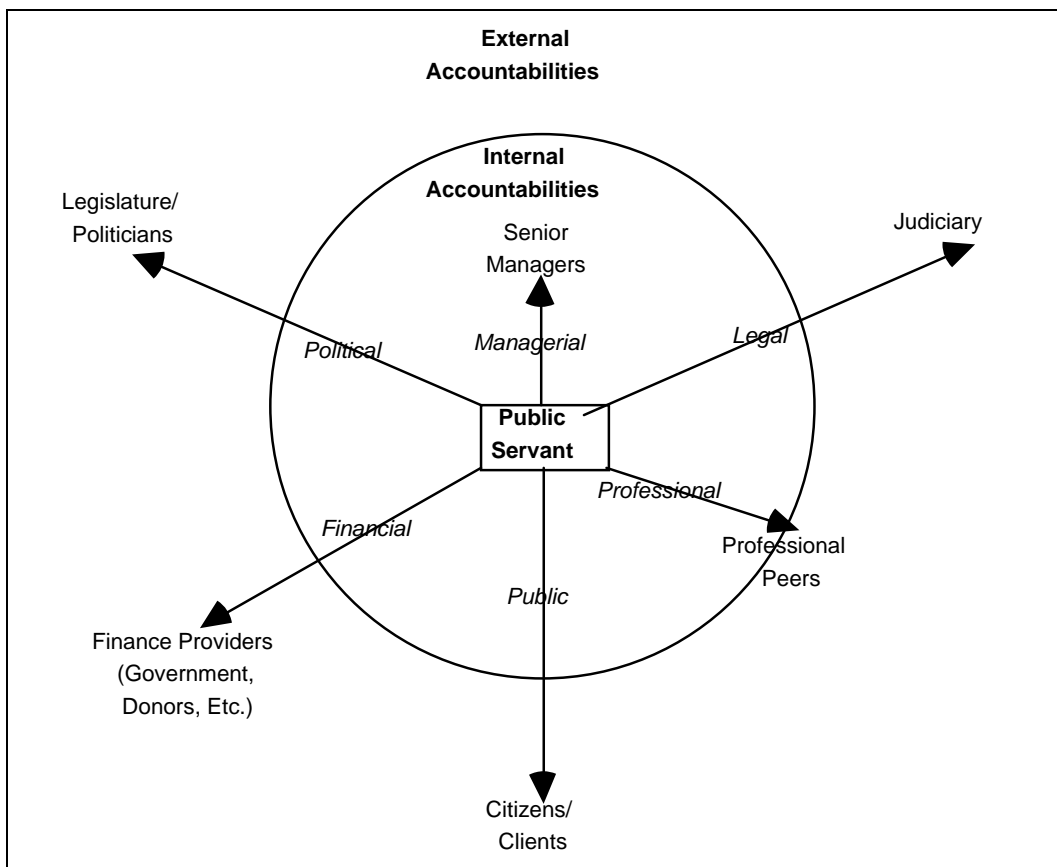
Herein lies the essential difference between the private and public sectors. In the public sector, rules and regulations have to be followed. Often these have the force of law but, in practice, executive instructions or even guidelines (such as for implementation of schemes) have the same effect as rules on civil service functioning⁴. Thus the system emphasises accountability⁵ and transparency, as much as it does the delivery of service to the user. To be sure, the manager of a private sector service delivery agency is accountable to others e.g. vertically to his superior, and less directly to the Board of Directors or the shareholders of the company, but his accountability is neither as wide nor as multi-dimensional as that of his counterpart in the public sector. On the other hand, his immediate goal is usually 'customer satisfaction' with the objective, generally, of either improving the rate of return on investment, increasing the profit to a certain level or augmenting the market share of his company. In other words, *process matters a lot in public sector; in the private sector, what matters most of all is the 'bottom-line'*.

In the public sector the typical flows of accountability run somewhat as in Figure 1:

⁴ Customer differentiation (or 'segmentation'), which is often the objective of private sector marketing, is the exception rather than rule in public sector.

⁵ The standard works define accountability as the legal obligation to be responsive to the legitimate interests of those affected by decisions, programs and interventions (Waldo; Wilson). But it also implies the authority of state actors to compel compliance and to exercise power (Considine, 2002). That is, accountability = answerability + enforceability (Draft WDR 2004).

Figure 1: Accountabilities in the Public Sector



Source: Heeks (1998)

The diagram illustrates the five types of accountability viz. managerial, financial, public, judicial and professional.

Administration in the public sector, unlike management in the private sector, is bound up with, and part of, a larger system called the political executive. Not only is administration part of the political executive—making the civil servant answerable to the politician for policy implementation—but the executive is in turn subject to a number of ‘checks and balances’ that are the building blocks of democratic polity.

We can thus identify *three rather fundamental differences* between the public and private sectors. The powers and mandate of the public sector viz. the typical government flow from the constitution or other legislative enactments that are part of the ‘framework for action’ of the government. Government deals with matters of the eminent domain. Its actions flow from its ‘*imperium*’. In the prosaic language of economists, government has monopoly in the use of *coercion*. By legislative sanction, for instance, it can incarcerate people. These observations, typically, do not apply to the activities of the private sector. Secondly, as noted, by the very reason of its mandate, the executive part of government has *obligations* in all directions—to the legislature, the judiciary, the Comptroller-and-Auditor-General of India or other constitutional authorities and, of course, the people who elected the government—all of

whom together define the full scope of accountability of the executive.⁶ By contrast, accountability in private sector is not so wide or multi-dimensional. Thirdly, government has multiple, even conflicting, *objectives* that often create piquant situations for the judiciary which sometimes (e.g. in public interest litigations) has to adjudicate between different parts of government (such as two ministries), and not only between government and the citizen. In the private sector, such conflicting objectives are rare; not only does an organisation in the private sector have its objectives more narrowly and specifically defined; they are, for the same reason, 'bought into' by employees down the line more easily than in the public sector.

It is in this background that we need to consider the organisational options for service delivery in the public sector.

Changing role of the state and public administration:

The question we shall now address is: how did the sweeping changes in public administration of the last two decades actually come about?

Questions of the role and powers of the state are far from being new: they were actually central concerns of philosophers such as Aristotle in ancient Greece, Kautilya in ancient India, Confucius in ancient China and Machiavelli in medieval Italy. However, the conception of the activist, bureaucratic state, despite its earlier parallels, is essentially a twentieth-century phenomenon. The characteristics of this bureaucratic state were set out most clearly by Max Weber, the German sociologist in 1920, with strong echoes of earlier writings (of around 1890) by the American Woodrow Wilson. The chief ones are:

- there should be clear separation between politics and administration, and therefore distinct roles for political leaders (normally elected) and state officials (normally appointed)
- administration should be predictable, based on clear, unambiguous, written rules
- administrators should be recruited on the basis of merit and function as trained professionals
- organisations must reflect a functional division of labour, and a hierarchical arrangement of tasks and people.

Further refinement of the traditional model of public administration came in the form of private sector based ideas of 'scientific management' popularised by Taylor and others, which introduced efficient operational methods based on standardisation of tasks, 'one best way' of fitting workers to tasks, and systematic control of tasks, processes and workers (Hughes, 1998). These principles were easily adapted to bureaucratic structures. A final addition was the application of the insights of social psychology, in a 'human relations' approach which is often contrasted with the scientific management approach, but which, in practice, sought to achieve greater efficiency of performance by motivating rather than controlling workers.

The most important assumption underlying this activist state model was that state intervention was needed to make good the deficiencies and failures of the private market.

⁶ In practice, public servants have to balance demands of accountability from other sources not listed here e.g. legislative committees, ministers outside their portfolio—in A.P., there are 'district ministers' each of whom is assigned a particular district for supervision of government's development and welfare activities-- different organisations representing parts of the citizenry, or other agencies with whom they co-produce public goods.

It is easy to see that such a model fitted ideally with the needs of the ‘welfare state’ that evolved during the first half of the twentieth century⁷. It did not matter whether the state was democratic, communist or fascist: they all relied on vertical bureaucracies to ‘deliver the goods’.

All this changed in the later decades of the century. Suddenly, bureaucracy appeared to have become a bad word. What caused the cracks in its edifice? The critique of the traditional model is based in a comparison of the ‘ideal’ model of bureaucracy with what happens in real systems of public administration. The following differences can be identified:

- in many systems there is no clear separation between policy and administration;
- decision-making processes do not, in any case, conform to the rules of technical and economic rationality but are often shaped by conflicts and negotiations;
- hierarchy and centralisation have led to bureaucratic pathologies such as delay, inflexibility and an arrogant disregard for the interests of citizens; and
- bureaucracies are therefore characterised by a ‘top down’ implementation process which frequently produces inappropriate policies and inadequate results.

In short, far from effectively correcting market failures, the state became plagued by ‘government failures’ which transformed it into the ‘unresponsive but invasive’ state, the ‘soft’ state, the ‘over-extended’ state, or the ‘private-interest’ state.

Through the 1980’s and up until the mid-1990’s, the prevailing political trend was therefore one of dismantling the government and re-anointing the market in its role of primacy in the economy. This trend started with the Thatcher-Reagan era in the early 1980’s and was strengthened by the collapse of the ‘socialist’ governments across the world towards the end of the decade. It was during this same period that the New Public Management (NPM)—representing a substantial departure from the ‘Old Public Administration’--was built on the foundations of the ‘new’ orthodoxy of the market. The claim of this model is to transform the traditional public administration into a new species of public management, characterised by

- a separation of strategic policy from operational management
- a concern with results rather than process and procedure
- an orientation to the needs of citizens rather than the interests of organisations or bureaucrats
- a withdrawal from direct service provision in favour of a steering or enabling role
- a changed, entrepreneurial management culture.

The preferred methods of NPM included contracting out of service delivery to various agencies on a basis of competition, operation of quasi-markets, and separation of the purchaser and the provider of services.

The ‘Washington consensus’⁸, as the new approach is sometimes called, was adopted by the World Bank and other multilateral lending agencies as their leading strategy of development. This was in a background of many projects failing on account of ‘government failure’ in a number of developing countries leading to the Bank’s realisation that, to ensure project success, *governance reform* needed to be given a higher priority than even development projects. The ‘Washington consensus’—based on a ringing endorsement of democracy, the market and civil society-- reached its apotheosis during 1993-97.

⁷ Apart from the influence of ‘social contract’ notions that emphasised the obligations of government to the citizen, the Great Depression and the two World Wars placed a premium on state intervention in many areas of public life.

⁸ The phrase was first used by John Williamson of the Institute for International Development.

After the collapse of the East Asian economies in and about 1997, cracks began appearing in the consensus (Knight et al, 2002). Tony Blair's government in UK began veering towards the 'Third Way', emphasising partnership between government and the people, which has been picked up by some European governments.

From Australia it was noted that "the language of contestability and competition has been replaced in many liberal democracies throughout the world with public-private partnerships, co-operation and relationships. Improving service delivery through contracting-out and privatisation has been replaced with new governance structures associated with 'joined-up' government, holistic government and the coordination of service delivery. The new language of public management.....*recognises the limits of markets in the public sector, and restores the authority of government to act in the public interest*" (Ryan, 2001. Emphasis added).

The 1997 crash had given a severe jolt to public confidence in markets. Anxieties about regulating capital flows found their way into World Bank development reports, leading to an about-turn on the matter of regulation (the World Bank Development Report, 1999/2000). Subsequent reports such as *Attacking Poverty* (World Bank, 2000) have given a higher profile to social matters and have been based on consultations with poor people. Indeed there is now a 'new Washington consensus' (Edwards, 1999), heralding the emergence of the 'civil society' as a third player in the economy. The ascent of the civil society parallels the decline of the state, the rise of the market and the growing dissatisfaction with the failings of both the state and the market. The new consensus stresses 'good governance' as critical to the emergence of a new world order in which empowered citizens would themselves 'write the script' for their own growth. And 'good governance', it is increasingly being realised, does not mean blindly copying western institutions. Starting with the ascendancy of the activist model of the state in early 20th century, and through its various travails, the wheel has turned full circle indeed.

Passing fad or not, the propositions of 'good governance' raise many questions to which answers would need to be found if the vision of a good society is to translate into reality. What can the experience of the last two decades teach us, especially those living in the less developed countries, regarding the provision of services to people by various agencies both public and private? What is the desirable role of each of these sets of agencies, public and private, in the provision of the services vitally needed by the people, especially the poor and the weak among them? How do the recent advances in theory help us to understand and manage the 'real world' trends, to set up goals for the society to reach and to devise policies and design strategies to achieve those goals? On the empirical side, what can the experience of NPM teach us?

Experience of NPM in OECD countries: a critique

The experience of the last two decades in OECD countries shows that the private sector is not comfortable negotiating complex and multi-dimensional 'routes' of accountability. In these countries, during the last two decades, under the so-called NPM, government has been extensively 'contracted out', to the extent that the state is sometimes called the 'contractarian state'. Service providers here face a dilemma. In the traditional world of civil servants, a clearly defined office and an unbroken chain of command made it possible to reconcile the demands for accountability on a basis of priority and need. Here, on the other hand, *accountability has become an issue with multiple levels and layers of meaning*. Courts, parliaments and citizen groups still press ministers and civil servants to take responsibility for public programmes, even where the programmes are delivered by contractors (Considine, 2002).

Indeed, one may venture that the concept of accountability, in the situation described above in OECD countries, has been stretched to the breaking point. This has led to other ironies. For example, in USA, courts follow the practice of ruling on the legitimacy of ‘state action’ before deciding whether a citizen’s claim against a public servant for doing certain acts in the name of the state can be allowed or not. Thanks to the extraordinary extent to which governments in USA have contracted out their functions to private for-profit and not-for-profit agencies, the courts have had to rule in many cases that there is no ‘state action’, thus in effect removing one major pillar of support to the accountability system in that country (Gilmour & Jensen, 1998). Thus reviews of NPM’s performance in OECD countries have concurred that *while government’s functions can be contracted out, accountability cannot*; and that NPM’s failure to address the problem of accountability has cut at the roots of representative democracy, rule of law and the ethics of public service.

In the *U.K.* and *New Zealand*, two countries where NPM was implemented with the most enthusiasm, its results have been ambiguous: “as a tool for greater efficiency, NPM seems to generate, at best, about 3% savings year-on-year on running costs. Given that running costs are small relative to programme costs, this is a distinctly modest saving” (Scott & Taylor, 2000, cited in World Bank, GPSR net, 2000).

The literature on privatisation and market-type mechanisms such as contracting makes it clear that there is no hard evidence of real efficiency gains (several authors 1988-1998).

Minogue (2002) reviews NPM’s negative outcomes *in the U.K.* thus: “the literature on privatisation and contracting mechanisms make it clear that there is no hard evidence of efficiency gains; the literature on civil service restructuring points to serious erosion of morale and accountability; while the applications to local government are judged to have increased ‘democratic deficit’ and emasculated local autonomy”.

The post-9/11 retreat *in U.S.* from the dominant strategy of administrative reform of the 1990’s--decentralisation and privatisation--suggests that the waning of attention in that country is associated with a ‘slow recognition of the costs of reform’ (Scott Robinson, 2003).

Thus NPM’s limited impact, its high transactions costs, its adverse effects on constitutional governance, ethical values and substantive democracy—not to mention the emergence of ‘participatory governance’ as the new ideology--have all meant that there is no real consensus on NPM’s suitability even to the OECD countries.

Perhaps the most disturbing critique of all is the view, based on research by OECD (1996), that ‘despite differences between different countries, there is a growing convergence in terms of a concern that fundamental values associated with public services organisations are being undermined by the reform’ (Lawton, 1998). The tensions involved may be illustrated as in Figure 2 below:

Figure 2: What the reforms really imply

<i>Traditional practice</i>	<i>Replaced by</i>	<i>Implications</i>
Clear standards of competence	Flexible contractual relationships	Legal protection to citizens must be guaranteed as in traditional public administration
Democratic control	Control by efficiency & effectiveness	Control instruments must be transparent

Decision-making in political arena	Decision-making in the managerial area	Politics must not be excluded
Discretion by civil servants	Extended discretion in managerial field	Guarantees of equity for claims to state services

(Source: Adapted from Schedler, 1997)

It is thus clear that the so-called NPM should, far from claiming to have answers, instead be prepared to raise questions or at least reflect on “the essential dynamics of those policy domains within the public sector where problems of legitimacy, consensus, information, and interdependence are prevalent and hard to solve” (Lynn, 1998).

Experience of NPM in the less developed countries: a warning

In the less developed countries the advent of NPM has not meant that hierarchical bureaucracies have been replaced substantially by chains of inter-linked contracts. Certainly there have been very significant reforms, especially in the water and health sectors, that have drawn from the NPM menu. But most government functions are still performed by vertically integrated bureaucracies functioning more or less as Weber imagined.

Batley (1999)’s comprehensive 5-year review of the ‘changing role of governments in adjusting economies’ in South Asia, Sub-Saharan Africa and South America finds that the effects of NPM reforms have, at best, been mixed, with some improvements in efficiency and mixed effects on equity. On the downside, he notes that the transaction costs of radical reforms to ‘autonomise’ service delivery agencies tend to outweigh the efficiency gains of unbundling, and that reforms that seek to separate purchasers from providers have tended to reduce accountability.

Polidano (1999) refers to the patchy record of privatisation and downsizing undertaken in some countries. In these countries, measures like ‘autonomisation’ and ‘corporatisation’ have been undertaken for the wrong reasons--not with a view to improving efficiency but for convenience, as a way of escaping closure or freeing a particular public function from the constraints of civil service red tape. Polidano concludes that evidence of the impact of NPM is “perplexingly equivocal”. He emphasises the importance of contingency factors, arguing that few generalisations are possible concerning NPM.

Why is NPM not generalisable? One, perhaps the most important, reason is that the introduction of NPM methods does not dispense with the need for ‘old public disciplines’, including a public service ethos. It is not possible, for instance, to make decentralised authority and performance contracts work in the absence of the efficient functioning of the budget system under which both the line and central agencies are usually constrained by mutual obligations. Further, staff must accept certain clear standards of behaviour, policy must be authoritative and there must be no conflicting directions from government or the ministers. These preconditions cannot be brought about by decrees overnight.

Secondly, many providers along with their purchasers have remained in the public sector⁹, thus reducing chances of judicial intervention to resolve disputes, while the ‘contracts’ are intrinsically flimsy and require the backing of a watchful public which is usually absent in these countries.

⁹ Some 72% of executive agencies providing (or purchasing) service in U.K. during the heady years of NPM were actually public sector entities who had won in the competition.

