

## Modernising Government: The Way Forward

*Summary in English*

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The past two decades have witnessed an influx of new ideas and initiatives in the field of public management in OECD member countries. This review seeks to acquire a deeper understanding of how some of these new ideas have worked in practice by examining selected key public management reform policy levers. Based on these findings, this review considers more generally how the understanding of public management and governance has changed over the same period with a view to helping those involved with public management policy equip themselves for the future.

The impetus for change came from the social, economic and technological developments in the latter half of the 20<sup>th</sup> century. While in many countries fiscal stress provided the trigger for reform, the underlying pressures for change came from the fact that governments were increasingly out of step with a changing society which had new and different expectations.

Government has a larger role in the societies of OECD countries than two decades ago. But the nature of the public policy problems and the methods to deal with them are still undergoing deep change. Governments are moving away from the direct provision of services towards a greater role for private and non-profit entities and increased regulation of markets. Governments' regulatory reach is also extending into new socio-economic areas.

After decades in which new government initiatives could be funded by extra revenue, fiscal stress now means that OECD member countries have reached the limits of affordability. Despite years of public sector reform, upward pressure on government expenditure remains; governments must continue to adapt to the changing needs of society, while remaining within expenditure limits.

In the past 20 years, governments have made major changes to the way they manage the public sector. Most OECD public administrations have become more efficient, more transparent and customer oriented, more flexible, and more focused on performance. However, public administrative arrangements are inextricably linked to fundamental institutions of public governance. Reformers need to be aware of the possible effects of reforms on wider governance values.

**Open government:** Across OECD member countries, governments are becoming more open and more transparent, accessible and consultative. This phenomenon has found expression through new legislation and institutions and a wide array of policy measures. Today 90% of OECD countries have a Freedom of Information Act and an Ombudsman office and over 50% have customer service standards.

A continuing challenge for governments is to meet higher expectations of citizens for more accessible and high quality services and information. Currently, another major challenge for OECD countries in the face of the threat from terrorism is to preserve government openness while ensuring national security and effective law enforcement.

**Enhancing public sector performance:** Governments have become much more performance focused. The performance movement has increased formalised planning, reporting and control across many governments. Most OECD countries have introduced performance management and budgeting: 72% include non-financial performance data in their budget documentation. Thus information available to managers and policy makers has both increased and improved.

Governments should, however, be wary of overrating the potential of performance-oriented approaches to change behaviour and culture, and of underestimating the limitations of performance-based systems. Performance approaches require increased managerial flexibility. However, key challenges are to balance this flexibility with control and to integrate performance measurement systems into a particular country's traditional accountability system. Too much flexibility could lead to abuse and mismanagement; too little flexibility risks an inefficient and unresponsive public service. More attention needs to be given to keeping performance transaction costs in check and to making optimal use of social and internalised motivators and controls.

**Modernising accountability and control:** How governments keep control over large and complex operations has changed over the past 15 years because of technological innovations, changes in the size and structure of government, and the introduction of performance budgeting and management. The main trends in control across OECD member countries are the move from *ex ante* to *ex post* control, and the development of stronger processes of internal control. In practice there is a move from the inefficient but relative certainty of checking the regularity and legality of individual transactions to the more efficient but relative uncertainty of verifying the proper operation of systems. The challenge is to maintain control in systems that are more delegated, with more autonomous agencies and third-party providers.

**Reallocation and restructuring:** The need for government to set outer limits for expenditure and to reallocate within those limits has changed national budgeting from a support function to the primary vehicle for strategic management. The budget process is also frequently used as a vehicle for wider managerial reform. The ability to change organisational structures is essential for a modern government. However, structural change – either the dismantling of existing organisations or the creation of new ones – should not be undertaken lightly. Dismantling organisations can lead to a loss of continuity, of institutional memory and of long-term capacity. The proliferation of more or less

autonomous arm's-length public bodies makes collective action and coordination difficult. Governments should understand the structural strengths and weaknesses of their existing systems and build on their strengths.

**The use of market-type mechanisms:** Market-type mechanisms of various kinds have become more common across OECD member countries, although there are marked country differences in their use. These mechanisms have the potential to produce significant efficiency gains. The decision to use market-type mechanisms needs, however, to be made on a case-by-case basis, and the specific design of these instruments is critical to their successful application. It remains important to protect key governance principles, not to confuse private gain and public interest or to obscure public responsibility or accountability. Governments must protect their freedom for future action if priorities change.

**Modernising public employment:** The nature of public employment in OECD countries has evolved significantly. In many countries the employment arrangements of public servants have become more like those of the private sector by altering the legal status and employment conditions. Individualised employment policies have become increasingly common; these include the introduction of contracts and performance-related pay, the latter now being implemented in two-thirds of OECD countries.

The implementation of these policies tends to make a collective culture more difficult to achieve. Early reformers underestimated the complexity of introducing private sector techniques into the public service. Staying with traditional public employment arrangements, however, is not a feasible option for most countries.

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*Wider conclusions about public management and governance*

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Modernisation is dependent on context. While all governments are being affected by global trends, there are no public management cure-alls. History, culture and the stage of development give governments different characteristics and priorities. Adaptation can be assisted by learning from other governments but, unless countries are very similar indeed, learning will work better at the level of system dynamics than at the level of instruments and specific practices.

The contemporary problem is how to organise the public sector so that it can adapt to the changing needs of society, without losing coherence of strategy or continuity of governance values. Modernised governments are required to be responsive to various groups of citizens. But there is a cost in terms of capacity for collective action when the public service is differentiated and fragmented. New management approaches need to go beyond contracting and reporting to give renewed attention to connecting the public interest to individual motivation and values.

Governments must adapt to constantly changing societies. It is not a matter of one-off “reform” but of having a whole-of-government public management policy capability that enables governments to make adjustments with the total system in mind. Effective public management policies need clear problem diagnosis and outcome evaluation.

Citizens’ expectations and demands of governments are growing, not diminishing: they expect openness, higher levels of service quality delivery, solutions to more complex

problems, and the maintenance of existing social entitlements. Reforms to the public sector in the past 20 years have significantly improved efficiency, but governments of OECD countries now face a major challenge in finding new efficiency gains that will enable them to fund these growing demands on 21st century government. 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. These new demands on builders of public management systems will require leadership from officials with enhanced individual technical, managerial and political capacities who think and plan collectively and who can work well with other actors.

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