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**Accountability and  
organisational performance in  
the public sector: a symposium**

Guest Editors: Arie Halachmi and  
Dorothea Greiling



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## Accountability and organisational performance in the public sector: a symposium

Guest Editors

Arie Halachmi and Dorothea Greiling

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# Note from the publisher

## **A new company descriptor takes us into a new era**

I attended a number of very different conferences over the course of 2010, including the American Sociological Association, Global Business School Network, British Academy of Management and the inaugural conference of the International Services in Emerging Markets. What struck me forcibly at each event was how often I was asked about books and journals that I would not have automatically associated with that particular event. I have talked about rapid prototyping to sociologists and teaching languages to service managers. Of course this can mean that we do not always have the precise book or journal to hand for that discussion, but more positively it also underlines how inter-disciplinary the research contained in each title has become.

Emerald has been associated with business and management research for the last 44 years and over the last ten years has been proud to call itself the “World’s leading publisher in management research”. It is very much our intention to continue to build our brand as the world’s leading publisher of management research and we have a number of plans in place to strengthen our position in business and management.

However, eagle-eyed readers will have noticed that Emerald has developed a new company descriptor. We are: “A leading independent publisher of global research with impact in business, society, public policy and education.”

As we move into different subject disciplines, including education, sociology, linguistics, engineering and transport, our new company descriptor captures this position. In addition, we have always been committed to publishing “research you can use” and we hope this descriptor explains what we do and what we represent more explicitly.

We are independent because we are still owned by one of the original founders. This means that we can invest for the long term rather than for shorter-term shareholder returns. We also stress the importance of being truly international in the research we publish. We are not parochial and do not impose any specific research methodologies. We actively encourage excellence for all parts of the world and across academia and practice. We also want to highlight that we see research having an impact in different ways. It is important that application is considered in practice, in the classroom but also how research can impact on society and the economy in a wider context and a more long-term way.

For these reasons we see Emerald entering a new phase in its development. We are positioning the publishing teams so that they understand the different subject disciplines and communities better. We can take advantage of the growing strengths we have in a number of subject areas and encourage the cross-fertilisation of ideas and research that shapes future research and generations.

**Rebecca Marsh**

*Publishing Director, Emerald Group Publishing Limited*

## **Accountability and organizational performance in the public sector: a symposium introduction**

Behind the rush to run government agencies more like a business there is an implicit assumption that to make them successful, however defined, it takes only a change of management. Yet, empirical data fails to support this assumption. Experience shows that it is not enough to change management style, strategy or standard operating procedures (SOP) to bring about greater efficiency, effectiveness, responsiveness or transparency. Recent failures of leading financial institutions all over the world did not trigger in the public sector a corresponding re-assessment of the need and the rationale for the continuation of questionable management practices that have been transplanted from the private sector. The use performance measurement, e.g. quarterly reports, market share, return on investments is one case in point. As revealed on May 16, 2010 by the investigative reporting of the American TV program 60 Minutes the rush to drill faster the oil well, start pumping earlier and sale as much oil as possible may have lead to the catastrophic explosion of the BP's oil rig off the shores of Louisiana. The rush of employees of three to score well on their respective measures of performance lead to suspension, overlooking or inconsideration of safety considerations that would have slowed operations resulting in the loss of human life and an environmental disaster. The dire and long term consequences of the rush to score points on the performance reports of the involved companies turned out to be much more significant and costly than the anticipated short term gains.

The purpose of this symposium is to make the case for the continuing education and research about both the promise and potential weakness of those management tools in the public sector whose origin is in the private sector. Some of the more notable examples of such transplants include management techniques or approaches such as planning, programming and budgeting (PPB), total quality management (TQM), business process reengineering (BPR) or the balanced scorecard (BSC). Each of these managerial conceptual frameworks had a promise and a potential to improve the public sector. If they failed to deliver the sought after and miraculous short term turnaround is at least partly the responsibility of those that pushed for them with utmost disregards to their inherent limitations in general or the lack of due attention to the special environmental dynamics of the public sector in particular.

The first contribution to this cluster of articles is a pioneer work by Guy Calleder. The article demonstrates the research potential of the application of supply chain management thinking for better understanding of the relationship among government agencies. The paper focuses on the performance implications of achieving alignment within public sector supply chains namely, within public sector organizations and the cross jurisdictional dilemmas that result from lack of such alignment.

As the concept of the supply chains becomes an increasingly popular way of exploring inter-organizational behavior, it provides a constant reminder of the ease with which a single supply chain event can develop into a significant inter-organizational failure that is seemingly beyond the control of the participants.

Using a case study Callender challenges the view that the public sector can choose its desired outcomes because its supply chains are part of a complex web of players whose roles are subject to the social and political demands of both the community and government. Callender concludes that addressing the issue of inter-agency supply chains alignment should start with better understanding of the ideological, operational and community constraints agencies are facing on a daily basis. Addressing these challenges is a complex and controversial task, but may yield significant advantages for public managers and politicians, if the alignment of objectives and goals become a priority as a result of a more sophisticated understanding of the impact of complex supply chains on government agencies performance.

The second article by Arie Halachmi starts by acknowledging the potential and importance of performance measurement for better management of public agencies, accountability and transparency. Yet, the author asserts, the risk of abuse and misuse of performance measurement is always there. Having the potential to do a lot of good does not guarantee that this potential would be mobilized. Nor does performance measurement assure that the benefits resulting from the siphoning of resources from operations to the overhead function of performance reporting exceeds the corresponding opportunity cost, e.g. fewer social workers, teachers, nurses or policemen. Halachmi is concerned that conceptual weaknesses in various approaches to performance measurement are not fully disclosed or acknowledged by proponents of indiscriminate use of performance measurement. Thus, for example, the paper makes reference to a case where excellent performance measurements at the sub-system level had no instrumental value in preventing a major potential failure at the system level.

Halachmi argues that while performance measurement should be encouraged, in principal, there is a need to ensure that managers and organizations retain enough capacity to deviate from standard operating procedures (SOPs) in order to do the right things rather than doing things right. In particular, he asserts, the introduction of performance measurement and its extensive use in the allocation of resources should not be allowed to inhibit innovation and reasonable experimentation with alternative modes of delivering public services.

While Halachmi addresses an important issue in the public sector some of the arguments and considerations are as applicable for performance management in the private and not-for-profit sectors. To be sure, performance measurement is a tool that can and should be used by managers and those charged with oversight. The process of developing performance measurements and the selection of benchmarks can turn into a first rate instrument for increasing common understanding of the tasks, constraints and operational challenges within the organization and across organizational lines. However, all users should be aware of the limitations and possible misuse or abuse of performance measurement. Users of performance reports within and outside the organization should be cognizant in particular of the risk that things may look as if they are done right while the right things to do are being neglected or overlooked until a serious damage is done. The use of profit reports by major financial institutions in America before the economic crisis of the Fall of 2008 as measurements of performance is a good example of this risk.

The issues raised by the first two papers are visited by the third paper by de Kruijf who points out that the accountability issue that resulted from the restructuring of government services at the local level in The Netherlands can be discussed only after it

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becomes clear and established before hand what responsibilities exist at what level of government and what goals must be realised by each namely, the realignment issue that was highlighted by the Callender paper. The research question the paper attempts to address concerns the *ex ante* control tools available to City Councils to find a balance between the level of autonomy and political control over the provision of local services by contracts with autonomous public entities. Consistent with the concerns echoed in the Halachmi paper De Kruijf notes that the fact that control tools such as performance measures are available does not necessarily imply that these tools are used in the actual relation between government and associated entity.

The study suggests that that in the majority of cases, local government insufficiently controls associated entities. In hardly any case performance based information is available and in the majority of cases there is a role conflict between government as owner and government as commissioner. From an *ex ante* control perspective, public co-operations have a relatively high risk profile because there is no single government that controls the entity. Lack of the specific performance indicators and possible role conflict between commissioner and owner – particularly at the local level – exasperate the *ex ante* control on associated entities that operate locally or regionally under a national framework.

The fourth paper in this symposium is by Ahmed Shafiqul Huque. It examines the issue of accountability in the context of development administration. The author starts by asserting that where there is no long tradition of accountability there is a challenge to establish a system of governance that ensures a responsive, equitable and effective government. For many political leadership, administrative officials and citizens good governance is the solution to the numerous problems confronting Bangladesh which serves as a case study for this research.

The article examines the constitutional stipulations that provide the context in which the concept of accountability is operationalized along with the political forces that shape it. In addition to the internal arrangements found in government agencies and organizations the paper looks at the role of the Parliament and its committees, media, political parties, think tanks and the civil society because they play a role in the accountability process. In line with the point raised by the Callender paper the author suggests that constraints that hamper accountability result from disharmony between the executive, legislature and judiciary. In addition, corruption and adversarial relationships between the two major political parties pose obstacles in the way of an effective system of accountability. The end result is that established internal arrangements for accountability in the public services of Bangladesh are neutralized by bureaucratic and political interests. The paper concludes that accountability can materialize only after major changes in the management of public affairs would take place. Such changes involve widespread political, electoral and administrative reforms. While some progress has been made in the area of public service reform, they have not had much impact due to the bottlenecks inherent in the political and electoral arrangements. The author argues that the approach to governing in Bangladesh needs to be shifted from the traditional, rigid, hierarchical and rule based form to a flexible and role oriented nature. Most importantly, Bangladesh needs a democratic political culture and a restoration of trust in the electoral system to develop a culture that will be conducive to the integration of accountability in all the critical areas.

This interesting symposium was made possible by the support of several people and institutions. Putting this symposium together was enabled by the administrative support of the Institute for Management Accounting at the Johannes Kepler University Linz (Austria) Several scholars from various countries assisted us with the blind review process and provided the authors with valuable comments and suggestions. These individuals are: Burkard Eberlein, York University, Canada, Raymond W. Cox III, University of Akron, Dennis M. Daley, North Carolina State University Maria Veronica Elias, Indiana University-Purdue University, Gisela Kubon-Gilke, Protestant University of Applied Sciences Darmstadt, Germany, Zsuzsanna Lonti, OECD, Hindy Schachter, New Jersey's Science and Technology University, Thomas Schillemans, University of Utrecht, Netherlands, Kendra Steward, College of Charleston, Wynn Teasley, University of West Florida, Ludwig Theuvsen, Ernst-August- University, Germany and Jonathan West, Miami University. These robust reviews helped us decide which papers to accept, as well as, with the more difficult decisions about which ones we should reject for either reasons of quality or relevance.

**Arie Halachmi**

*Sun Yat-Sen University, China and Tennessee State University, USA, and*

**Dorothea Greiling**

*Johannes Kepler University, Linz, Austria*



# Alignment of inter-agency supply chains to enhance public sector performance management

Inter-agency  
supply chains

Guy Callender

*Curtin University of Technology, Perth, Australia*

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## Abstract

**Purpose** – This paper seeks to explore sources of political and administrative challenges which arise from an absence of alignment of supply chains linking the activities of public agencies.

**Design/methodology/approach** – The performance measurement challenges created by an apparent absence of alignment within public sector supply chains are explored from a conceptual perspective, through the supply chain and public sector performance management literature. A case study is provided to highlight the practical and organizational challenges facing politicians, policy makers and public sector managers when they seek to demonstrate to their stakeholders, including the general community, the performance efficiency of their agencies.

**Findings** – There is an absence of research and debate concerning the alignment of inter-agency supply chains and the potential this creates for delivery performance failure that disadvantages stakeholders.

**Research limitations/implications** – While this is a conceptual paper, the existence of recurring supply chain problems between agencies, as illustrated by the case study, provides practical conclusions of use to practitioners and policy makers.

**Originality/value** – The paper revisits earlier literature on performance measurement in the public sector and applies this to a supply chain situation to explore problems in measuring and managing inter-organizational supply chains which exist not only between public agencies but also between private sector organisations undertaking outsourced contracts on behalf of government.

**Keywords** Public sector organizations, Supply chain management

**Paper type** Conceptual paper

## Introduction

When a national government funds school education, what determines the standards of delivery of teaching and learning to school students: parents, teachers, students, future employees or the wider society? The authorities may set the policy under which the funds are allocated, but what inter-organisational supply chains exist to ensure the processes are aligned in a way that assures delivery of the desired outcomes? Do teachers have the capability to deliver on the policy? Do parents support the existing of teaching and learning in schools? Does the Family Services (Communities) department of government monitor the attendance of students at school? Does the building department of City Hall (local government) ensure that school buildings are adequate in size, equipment and energy needs? Will the key performance indicators (KPIs) established, that is, the measures that demonstrates the precise achievement of the desired outcomes of both buyer and supplier, be focused on the number of students taught, the number of students attending (inputs), or will the measures seek to establish the student attainment achieved, or the business outcomes within the economy at some future date? Will the different parties to the task of education set



KPIs that confirm the overall performance of the group of agencies comprising the “education sector” or will the outcomes be measured on a school-by-school basis? These questions are extraordinarily difficult to answer at the individual agency level and even more difficult at the inter-agency level.

Boorsma(1996) addressed questions on performance management by examining the Criminal Justice System (CJS) in The Netherlands, which has a significant separation of public sector agencies involved in the array of processes delivering of criminal justice services. This sector also demonstrates the need for inter-agency alignment of supply chains (and is the subject of the later case study). The CJS supply chain may start with a citizen complaint or the apprehension by police of a person suspected of a crime. The police may press charges and the accused brought to a court for formal entering of the charges. The accused will turn either to a publicly or privately employed attorney to defend their case and the procedural process of the court may take some time. If the court process condemns the accused they will be moved to a different part of the CJS system on remand for their entire sentence. In these circumstances, what is the standard of performance expected of the jail and its staff to ensure the criminal remains incarcerated, not to mention returning the criminal to society in a rehabilitated state?

A further example of complex inter-agency and inter-sector supply chains has arisen since “9/11/2001” in relation to airport security. This supply chain involves a range of public and private interests: airlines and their staff; airline investment in overall in aircraft and infrastructure; the state and its need to protect the airliners and passengers from terrorist attacks; and the traveller who is planning to fly to meet business commitments, to vacation or visit relatives. A breakdown in any part of the security supply chain will have different manifestations in each part of the chain. To complicate matters, the whole process is overlaid with travel marketing and promotion which must somehow be preserved if mass travel is to continue. It is difficult to surmise where this supply chain really begins, but it is true to say it has multiple upstream sources, many crossing public sector and private sector responsibilities.

Having highlighted some of the challenges of identifying the nature of supply relationships, this paper will focus predominately on the performance implications of achieving alignment within public sector supply chains. It commences with a discussion of aspects of supply chain theory and then examines the alignment issues that arise within public sector organisations and the cross jurisdictional dilemmas that are related to this lack of alignment. The starting point of this enquiry is the central question: what level of integrated performance is required from the agencies and other organisations comprising a public sector inter-agency supply chain if they are to satisfy the needs of stakeholders?

### **Research design**

These supply chain issues will be explored, first, through a literature review of the limited research into supply chains within the public sector. Second, a case study has been selected to illustrate the salient points of the supply chain issues developed in the paper. The choice of a single case was purposeful (Yin, 2003) but the subject of the case was serendipitous. The details of the case would have probably remained remote from public scrutiny had there not been a significant failure in the supply chain connecting the players in the case, leading to fatal outcomes.

The facts of the case created some temptation to explore the notion of accountability, the sense of “setting goals, providing and reporting on results and the visible consequences for getting things right or wrong” (Funnell and Cooper, 1998, quoted by Hodge and Coghill, 2007, p. 676). However it was decided to focus principally on the supply chain alignment issues arising from the case. However, one aspect of the accountability literature provided the inspiration for linking agency mission statements to the inquiry into public sector supply chains: the changing focus of public sector accountability. As Parker and Gould (1999) and Kloot (2009) have recorded, the focus of public sector accountability has shifted significantly in recent decades. Whereas public sector accountability was formerly internally focused on “parliament and government oversight bodies” (Kloot, 2009, p. 129), it now relates also to accountability to a much wider group of stakeholders, namely the entire polity within a particular public jurisdiction.

This shift in focus makes agency and corporate mission statements relevant evidence when establishing the level and nature of accountability to stakeholders offered by each organisation in the supply chain (see Table I) and provides the third focal point of the study. The willingness of organisations to express their goals publicly has been made more accessible to stakeholders by the ubiquitousness of the world-wide-web which has ensured that mission statements have become part of the communication channel informing all stakeholders, the general public as well as parliament, of the goals and objectives of each organisation.

Organization	Mission/objectives
1. WA Police Service	“To enhance the quality of life and well-being of all people in Western Australia by contributing to making our State a safe and secure place.” (Government of Western Australia, 2010a, p. 1)
2. Magistrates Court of Western Australia	“The Magistrates Court of Western Australia . . . has multiple registries . . . to deal with: Criminal-offence-based matters . . .” (Government of Western Australia, 2009b, p. 1)
3. The Department of the Attorney General’s (DotAG)	“To provide high quality and accessible justice, legal, registry, guardianship and trustee services to meet the needs of the community . . .” (Government of Western Australia, 2009a, p. 1)
4. The Department for Communities	“Informs the development of social policy, advocating on behalf of . . . children, parents and their families, young people, seniors, women, carers, volunteers and non-government organisations . . .” (Government of Western Australia, 2009c, p. 1)
5. G4S	“Our vision is to be a growing and caring organization that achieves the finest results. To achieve the vision we aim to be the most reliable and innovative provider of critical services in all the markets served by the company” (G4S, 2008, p. 1)
6. The Department of Corrective Services	Fulfils its obligations by providing offender management services that protect the community . . .” (Government of Western Australia, 2010b, p. 1)

Source: Original table

**Table I.**  
Summary of mission  
statements of case study  
organizations

### Literature review

The notion of the supply chain is widely discussed in a private sector context and between the public and private sectors where the public sector is a client of the private sector (Cousins *et al.*, 2008; Cai *et al.*, 2009). However, there is very little recent discussion of the supply chains within the public sector, the maintenance of their quality, and whether the performance indicators are “linked” or “unlinked”, or aligned within public sector supply chains (Boorsma, 1996, p. 129). Furthermore, significantly different perspectives are found when comparing the perspectives of the limited number of researchers who have investigated this topic, particularly whether public practitioners should even be concerned about the issue. On the one hand, Balogun (2002, p. 363) notes that the “monopolistic role of government confers on its agents the power to choose (sic) the quantity, quality, and timing of services to be delivered to consumers”. Yet, on the other hand, it is suggested that the implementation of the New Public Management (NPM) and its associated reforms, led to the creation of instruments to measure and report on public sector performance (Jansen, 2008; Schapper *et al.*, 2009). Furthermore, Jansen (2008, p. 188) reports that while the NPM seeks to focus on “both internal processes and outputs” evidence from his research suggested that “politicians.... are only interested in receiving performance information if this information has financial or political implications”. Baquero (2005) claims that traditional government service contracts worldwide have tended to emphasize inputs rather than outcomes: how much does the service cost, rather than the more difficult assessment: what does it deliver?

The term “supply chain” can be formally traced to around 1910 (*OED*, 1989) although its usage in contemporary practice is usually attributed to Oliver and Webber (1982). Its popularity as a term has grown significantly, a factor reflected in scholarly literature, in networks of practitioners and in consultancy practice. Nevertheless, history shows that the value and relationships inherent in a supply chain have been recognised for many centuries (Livy, 15BC; Smith, 1776; Maine, 1861; Roberts, 1983; Shen, 1996). Maine (1861), for example, discusses the origins of contracts during the Roman Empire, showing how the notion of contractual obligation (nexus) was created between buyer and seller. This permitted delay in delivery of the contracted goods as services and allowed the buyer time to pay as well while still ensuring the contract was enforceable.

The growth in popularity of the supply chain concept is worthy of reflection. In public policy parlance, the “supply chain” can be likened to the “rational problem solving” methodology found in classical management literature and modified by Simon (1957) to embrace the notion of “satisficing” – limiting the boundaries of a problem to enable the issues to be examined, evaluated and ranked. While this approach may have helped managers understand relatively static problems, it did not help those facing complex problems that were multi-faceted, inter-organizational, inter-sectoral and containing social, ethical, financial, legislative, contractual and historical elements. Better understanding of the complexity of problem solving can be found in the notion of the “wicked problems” (Rittel and Webber, 1973) – the problem that has no starting and ending point, no rules of behaviour or comprehension and, most likely, no solution (to roughly paraphrase the authors’ notion).

Envisaging supply chains from the “rational” perspective turns a complex network of both orderly, but also chaotic activities, into a seemingly linear series of activities

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and outcomes. This linearity may suit those who try to measure supply chain performance so long as they ignore both unknown or hidden links in the chain but it is based on simplistic assumptions about the ability to control performance across the many parties to a seemingly simple supply chain. Indeed, the belief that a supply chain can be controlled can also be questioned. Is control of the supply chain an essential requirement for minimizing risk? The basic belief that control is needed, and is possible, may be embedded in Anglo-Saxon cultures. This sense of being able to control the environment around us (Schneider and Barsoux, 2003) may encourage the pursuit of goals and outcomes, but may also encourage us to ignore the impenetrable nature of supply chains. It is often difficult to understand what is happening in one part of an organization, let alone a whole organization or group of related organizations.

The theoretical conversion from chaotic to linear implies that the supply chain can be defined in terms of each link, that it is rationally constructed, it behaves in a predictable fashion over time and, most importantly, that it can be measured, may be a myth. At the time of Adam Smith (1776, pp. 406-407) the agricultural market could be defined in terms of a supply chain, in the following words:

The greater part of farmers could still less afford to retail their own corn, to supply the inhabitants of a town, at perhaps four or five hundred miles distance . . . as [could] a vigilant and active corn merchant, whose sole business is to purchase the corn wholesale . . . and to retail it again.

However, the apparent stability of the supply chain Smith described did not allow for the risk of fire, pestilence, flood or war, or even for economic downturn. Smith's supply chain was comparatively short and simple. Furthermore, in Smith's time, it is possible that everyone in the merchant's supply chain knew, or knew of, each other person although to protect the merchant's contracts, the farmer's knowledge of the supply chain most likely ended at the boundary of his land (assuming this was freehold land) or tenancy. What of today's supply chains? How much knowledge about a supply chain and its performance really exists?

Some practitioners believe it is possible to know the details of each step in a supply chain, thus permitting the supply chain manager to look at each stage both upstream and downstream from their organisation (Kaye, 2008; RMIA, 2009). While this is an attractive thought, the Global Financial Crisis (GFC) has reminded us that control of a supply chain is difficult to achieve. Financial risk is a constant feature of business risk (Sarasvathy *et al.*, 1998). Despite the extended boom of the past 15 years, many commentators have been surprised by the failure of key elements of the financial supply – especially parts of the mortgage market. A common aspect of the commentary has been the speed of economic change. Part of the GFC could be said to have arisen from failure in financial supply chains.

In the twenty-first century and, in commercial circles, it is fair to claim that the potential exists for an end user to be able to track a product to its source. However, the complexity of contemporary supply chains makes reliable tracking difficult to achieve regardless of the reach of information technology. Gattorna (2006, p. 2) suggests that supply chains are now defined as “any combination of processes, functions, activities, relationships and pathways along which products, services, information and financial transactions move in and between enterprises”. This approach marks a distinct change from the simplistic assessment of the nature of supply chains found in populist

literature (BITC, 2009). Because of its complexity, and despite the sense that an organisation and its supply chain members form a “virtual organization” (Fenneteau and Naro, 2005), it is often convenient to divide a supply chain into a number of networks.

Indeed, the supply chain relationships of the public sector provide an example of complex networks where each agency or organization has its own systems, enabling legislation, parliamentary portfolio, and budget and management (Hodge and Coghill, 2007). In addition, each agency has a vast group of stakeholders: those who use the services of the agency and those whose professional work interacts with the agency. This extensive subdivision of the supply chain concept is conceptually linked to the traditional notions of internal specialisation and division of labour (Fayol, 1949) and the efficiencies that are potentially available from improving work methods, communication and coordination (Simon, 1957; Peters and Waterman, 1982; Osborne and Gaebler, 1992).

Yet the inter-organizational issues add an additional layer of complexity to public sector supply chains, not anticipated by Gattorna (2006). This exacerbates the difficulties of creating meaningful performance measures. Complexity can also reduce transparency within public sector supply chains by making it difficult for stakeholders to gain service satisfaction when service delivery involves more than one agency (as illustrated by the case study). Public sector managers may adopt performance measures that match rational models of their supply chains which result in simple measures which ignore potential legal, financial, social and political risks. This level of complexity may also help to explain the selective interest of politicians discussed by Jansen (2008), and the absence of monitoring for political advisers (Tiernan, 2007; Kim, 2009). The risks are not readily envisaged, so political or financial risk, the elements reported by Jansen (2008) as most likely to attract politician’s attention, are seemingly passed over. Yet public sector supply chains not only contain both direct and indirect links between buyers, sellers, a range of intermediaries including logistics providers and members of the financial services sector, they also carry both political responsibility and the burden of public scrutiny.

All of the participants directly involved in the operational transactions that surround the supply chain and are distinguished from more distant stakeholders such as regulatory bodies, equity holders and, even more remotely, the polity. Most stakeholders will have an interest in the performance of the supply chains affecting their organisation, assuming they are actually aware of the impact of the supply chains. This is because the number of supply chain members and their relative performance affects each group of stakeholders in different ways. As organizations have sought to outsource many non-core activities, their supply chains have created simultaneous, elaborate interdependencies between the buyer and provider of the outsourcing products or services. Where a “make or buy” decision may once have been based on internal capacity and cost, in many organizations now the decision has become both ideological and (hopefully) strategic: let the outsourcing “partners” do what they do “best” (logistics, manufacture, IT service provision) and the buying organization can focus on its “knitting” (Peters and Waterman, 1982). And there is a further issue: the potential number of parties involved in the public agency supply chain.

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Chan *et al.* (2006) created a conceptual model of performance measurement which attempts to draw together a range of tangible and intangible supply chain performance indicators to create a single performance index. While the concept is appealing, the types of measurements proposed by the authors remains unclear as many of the elements selected for inclusion in the index are limited to readily available measurements, principally because the supply chain exemplar is drawn from manufacturing. Chan *et al.* (2006) identify these aspects as customer satisfaction, flexibility, information and material flow, risk management and supplier performance, attributes that address only part of the supply chain performance picture. What happens when the outcomes of service performance is the focus as is the case for much of the public sector?

The service supply chain existing in public sectors tends to fit the organization model described by March and Simon (1993, p. 2), who made the following observations of people in their organisations:

As ... actors deal with each other, seeking cooperative and competitive advantage, they cope with these limitations (the uncertainties and ambiguities of life, ... the limited cognitive and affective capabilities of human actors, ... the complexities of balancing trade-offs across time and space) by calculation, planning and analysis ... they weave supportive cultures, agreements, structures, and beliefs around their activities.

March and Simon (1993, p. 2) summarised this complexity as a “melange” – a mix of elements. Their argument supports the view that many elements of supply chain relationships are described in “soft terms” – culture, agreements and beliefs, rather than the hard measurable data that confirm the level of activity in the supply chain but not the quality of that activity.

Cullen (2000, p. 371) questioned the ongoing relevance of the traditional legal-contractual relationship that is the basis of all buyer-supplier relations, arguing instead for a legal form which recognises “extended and virtual enterprises that transcend traditional legal and contractual boundaries”. This model appears to recognize the reality of supply chain relations and expresses the hope that, in some way, the inter-organizational challenges can be solved by regulation. As the later case suggests, this objective is far from achievement.

The struggle to explain performance measurement is neatly encapsulated by the language of practitioner guides such as that published by Berger and Gattorna (2001, p. 177): “The right performance measures and incentives are used to provide an effective management framework, facilitate communications, guide behaviours, foster improvement and assess competitive positioning and operational capability. Effective performance measurement programmes ... include baseline assessments and mechanisms to demonstrate the financial impact of performance changes”. Such ideas look profound, but they are short on practical detail. Before examining the case study which reflects so many of these challenges, it is also worth considering whether politicians and political advisors allow public policy developments to create unnecessary challenges.

While we are accustomed to the public sector building and preserving inanimate objects for centuries, the notion of a 50-year contract is quite challenging (Leighton Holdings Limited, 2010). In the case of a road contract, it begs many questions including: will motor cars and airports remain the norm in 50 years? What will the notion of “public good” mean at this time? At a more pragmatic level, what will be the

state of the infrastructure at the end of 50 years? Drawing these questions back to the notion of the public agency supply chain, we introduce some further elements to the “melange” – the issues of time, alignment, efficiency and, as Baquero (2005) notes, outcomes.

Contracts of extreme length (in time), existing beyond the working lifespan of most individuals and possible the life of the corporate supplier, represent a new level of complexity into inter-agency and public-private sector contracts and their associated supply chains. In terms of performance management, the possibility of aligning inter-agency supply chains has not progressed much beyond the observation made by Halachmi (2005, p. 509), that “performance management is thus a simple return to the basic notion of management with some significant elaborations and amplifications of the need to address the human side of the enterprise...”. Increasingly complex supply chains (Gattorna, 2006), potentially more regulation (Cullen, 2000) and outsourcing of many previously managed functions suggests that the task of aligning inter-agency supply chain remains elusive. As the case study which follows will demonstrate, that challenge remains the “human side” of public enterprises, their inter-agency and private sector supply chains

### **Case study**

In Australia, the recent death of an indigenous elder in a prison transport vehicle (Taylor, 2008) brings into public scrutiny the complexity of public sector supply chains, especially where part of the supply chain has been contracted out. In this case, the deceased was arrested for allegedly driving under the influence of alcohol and transported by a private security business some 352 kilometres (218.7 miles) in 43 Celsius (109.4 Fahrenheit) heat without assessment of his capacity to survive the journey (Johnson, 2008). The deceased was travelling in a secure vehicle in which the air-conditioning had failed, a fact known to the private security firm and the WA Department of Corrective Services, the owner of the vehicle (Hope, 2009).

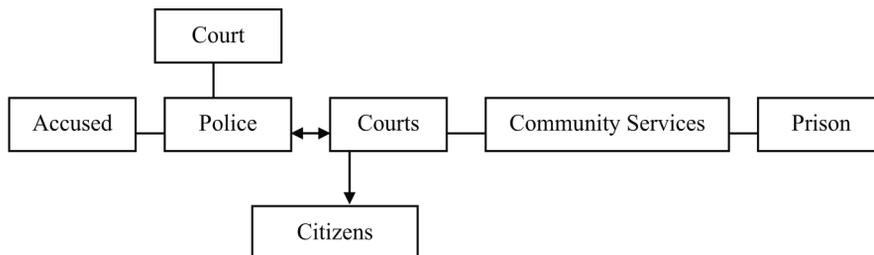
If all the multiple human aspects of this tragedy can be put to one side, the inter-agency and cross-sectoral supply chain issues are worth examining. The deceased was apparently arrested for an alcohol-related driving offence that the law punishes with a number of sanctions ranging from a caution or reprimand to a prison sentence. The punishment is intended to deter the individual from re-committing the offence and to protect the public from the consequences of drink-driving. In these circumstances, the criminal justice system (CJS) creates a supply chain composed of individuals as service providers and every person in this supply chain has a duty of care ranging from safety of the public to safety of the individual. The punishment may ultimately have been incarceration, yet supply chain failure in this situation created major difficulties for the government, for the civil service, for police and, of course, for the deceased, his family members and his community (where he was greatly missed) (Hope, 2009).

In this case, the supply chain is defined within the legislative context of the parties. While Australia is a federation, all the legal issues in the case relate to laws at the State level. The legal jurisdiction is limited to a state court system, the state police service and the state prison system and any parties to related outsourcing contracts. Diagrammatically, this can be simply represented as:

However, the supply chain between these parties is quite different. The source of the supply chain is, arguably, the citizen and their relationship with the law. A set of laws exist to protect citizens from each other (Smith, 1776) and have been created by a legally constituted Parliament. The CJS embraces a number of institutions (Figure 1) but the supply chain between these institutions is triggered by a citizen offence (or the police intervention in that event). The police duly arrest the alleged wrongdoer who must be brought to the court almost immediately in accord with the principles of *habeas corpus*. Typically the suspect would be placed in a police vehicle and taken to a remand centre attached to the police offices or the court. If alcohol is suspected a doctor must collect blood samples which will be analysed by an official pathologist. The results are brought to the court with the suspect and the matter is heard immediately or held over. At the initial hearing, the suspect will be represented by a lawyer who is typically employed by a legal firm or not-for-profit legal service. Then the suspect appears in court and, if the offence is proved, is sentenced to a fine or term of imprisonment. The court will call for details of the suspect's family and whether provision needs to be made for their welfare. Then the suspect, now convicted is taken to jail for the term of the sentence. The supply chain in Figure 2 now looks very different to the static Figure 1.

The public sector manager's dilemma is obvious. This socio-politico-economic supply chain relies on inter-related activities that involve the government in a range of policy and practice issues, subject to the scrutiny of multiple stakeholders. The diagram in Figure 2 provides a generalized path for the events outlined in the case. There are areas of uncertainty and overlap. Events are assumed to be sequential. Figure 2 is linked to the mission statements in Table I which sets out the principal mission summaries which have been drawn from the web site of each agency or organization, rather than its enabling legislation, or company documents. It was considered that this data reflect the practical, contemporary, management objectives of each agency or company in the supply chain that forms the subject of the case.

The mission statements largely demonstrate a focus on demonstrating suitable performance levels by each organization in relation to their constituent stakeholders – not all the stakeholders along the public sector supply chain created by the facts of the case. A first examination of the mission statements gives little hint to their potential for creating inter-agency supply chain failure. The statements represent a response to the accountability of demands of parliament and government to ensure they perform according to the internal stakeholders and, externally, to the general public (Parker and Gould, 1999; Kloot, 2009). There is no apparent link between these agencies and the



Source: Original diagram

**Figure 1.**  
The Australian criminal  
justice system (state level  
only)



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Fourth, the simplicity of the mission statements is contradicted by the complexity of the supply chain within which each organization operates. It can be concluded that as a statement of strategic intent and inter-organizational supply chain alignment, the mission statements are probably not worth the time and cost required to develop and maintain them in each organization's governance documents and web sites. Any attempts to harmonize objectives are seemingly limited as will be discussed in the next section of the paper.

### Analysis

The case study provides a troubling, but not uncommon, example of inter-organization supply chain failure. It is complicated by the possibility of complacency in the attitude of the transport contractor (contrary to the mission statement) and police and indifference to the needs of the aboriginal person. There are a number of supply chain issues revealed by the case (putting all the human issues to one side).

For the government, the case demonstrated an extraordinary breakdown in the inter-agency supply chain (Boorsma, 1996). The supply chain complexity that exists in this case and highlighted in the literature, is abundantly evident. First, there existed a mix of public and private sector providers who passed responsibility between each other. These public CJS agencies passed the deceased from one to the other via a private sector intermediary with no single person or agency assessing the well-being of the deceased person.

It is not possible to glean from the evidence in this case, the variety of attitudes that existed towards the accused. It is tempting to assume that every party to the incident used their best efforts to do their job – just as the mission statements claim. If we make this assumption we can discuss the overarching issue that is relevant to future supply chain events, without being affected by the presence of conflicting evidence. That question is: what standard of performance is required in a public sector supply chain that satisfies the internal demands of government and the external needs of the community (Parker and Gould, 1999; Kloot, 2009)?

Did all the parties in this inter-organizational supply chain is whether the public sector parties, chose the outcomes they thought were appropriate in the circumstances (Balogun, 2002) regardless of the supply chain performance problems their actions created? Did individual players representing the supply chain participants assess the risk to the accused posed by heat, distance, the availability of water and the presence or absence of air-conditioning? Were their actions governed by the terms and conditions of the original contract that saw the security firm deliver transport services to the state using the state's vehicle (Baquero, 2005; Taylor, 2008; Hope, 2009). Was the completion of the service, in this case, just another contribution to the standard supply chain measures (KPI) entitled:

- Number of prisoners transported per year.
- Measure of distance covered per year?

How could this complex public-private supply chain be improved? The first difficulty rests with the shift of service responsibilities between public and private sectors. While the government has reviewed its contract with the private provider, it has decided to continue the contract to its conclusion to avoid legal proceedings and claims for breach of contract (Fyfe, 2009).

However, the inter-agency supply chain issues will not be resolved by a simple adjustment of the mission statements or the formal supply chain arrangements between the organizations in this case, they require a completely new, collaborative set of mission statements and inter-agency arrangements.

An examination of just the mission statements or objectives (Table I) of the public sector agencies involved reveals a remarkable “melange” (March and Simon, 1993). How can inter-agency performance demonstrate the ability to manage the supply chain to “protect the community” (Government of Western Australia, 2010b, p. 1), create the “finest results” (G4S, 2008, p. 1), “high quality and accessible justice” (Government of Western Australia, 2009a, p. 1) or generate actions which “enhance the quality of life and well-being” (Government of Western Australia, 2010a, p. 1)? To incorporate supply chain performance goals as an overlay to existing mission statements represents a major challenge to government if the supply chain performance problems illustrated in the case are to be addressed.

Traditionally, each organization has responsibility for different parts of the supply chain and has a different parliamentary representative. In one case, the Department for Communities, two Ministers have responsibility for the entire portfolio. In this case, the legislative, administrative, and social responsibilities of the agencies are much more likely to shift responsibilities from one to the other because there is no one agency responsible for the quality of outcomes (Baquero, 2005). Furthermore, the contractual standards required of the private supply were clearly not sufficiently robust for the contract to be cancelled, and, to be fair, was such an incident likely to have been considered possible? The answer would be in the negative.

Nevertheless, if the public sector performance represented by the case is to be overcome, perhaps the mission statements need to be developed across government in a way that recognises the need for inter-agency collaboration, as well as meeting the internal accountability requirements of government and the external needs of the community. Perhaps one way of approaching the issue is to categorise the supply chain challenges from three perspectives: ideology, operations and community need.

The ideological need refers to the possibility that public agency supply chains have operated for many years in a new, but unacknowledged, ideological environment. In this new environment (Kloot, 2009), the internal accountability requirements that governments have of their public agencies has been given an additional, critical dimension: accountability to communities which have service expectations of each agency and their related supply chain. Simply recognising that change and reflecting it in a more complex evaluation of strategic and objectives for achieving desired agency outcomes (Hodge and Coghill, 2007), creates the potential for more realistic goals attuned to the needs of all agency stakeholders.

The operational needs relate to a new recognition that public agency performance is linked to inter-agency performance and that alignment of supply chain relationships and agency (and supplier) goals can result in a more optimised set of supply chain networks. Finally the community perspective suggests that given the change in ideology that drives aspects of public agency accountability, and its outsourcing partners, means that this wider group of stakeholders expect the public sector to manage its supply chains as well as the overall and continuing responsibilities of each agency. The solutions to these challenges will undoubtedly create a number of “wicked problems” (Rittel and Webber, 1973), but failure to address the complex issues arising

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from routine, inter-agency events that go wrong as the case study illustrates, will expose the public sector to greater criticism from its stakeholders.

### Conclusion

As the concept of the supply chains becomes an increasingly popular way of observing and theorizing about inter-organizational behaviour, it provides a constant reminder of the ease with which a single supply chain event can develop into a significant inter-organizational failure that is seemingly beyond the control of the participants to prevent. While we can observe the interactions of the parties and suggest alternative measures and approaches to managing particular supply chain situations, the case challenges the view that the public sector can choose its desired outcomes (Balogun, 2002), and rather it, and its supply chains are part of a complex web of players whose roles are subject to the social and political demands of both the community and government.

It seems that addressing inter-agency supply chains begins with the recognition of the ideological, operational and community challenges that have arisen over the past few decades. Addressing these challenges is a complex and controversial task, but may yield significant advantages for public managers and politicians, if the alignment of objectives and goals are re-developed to take account of these challenges to arrive at a more sophisticated understanding of the impact of complex supply chains on public sector performance.

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# Imagined promises versus real challenges to public performance management

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## Abstract

**Purpose** – This paper aims to alert and to sensitize managers and those charged with oversight responsibility about the possible follies of relying too much on performance measurement as a management tool

**Design/methodology/approach** – The study is based on review and analysis of published documents and data.

**Findings** – Current pressure to increase transparency and accountability, on the one hand, and complementary burdens to demonstrate the efficiency and effectiveness, on the other, in order to justify future allocation of resources make the use of performance measurement very attractive. However, these forces are not enough to ensure proper use and prevention of certain pathologies.

**Social implications** – Failing to understand the possible follies of over-relying on performance measurements may be dysfunctional when it comes to service of the public's best interest.

**Originality/value** – The value of this paper has to do with its double goal. First, the education of potential users of performance measurement about its potential weaknesses. Second, the prevention of overuse of performance measurements, as a staff function and overhead cost at the expense of line operations.

**Keywords** Performance measures, Bureaucracy, Governance, Resource management

**Paper type** Research paper

Evaluation studies show that many attempts to introduce results-based management are still unsuccessful. . . Nevertheless, the need for measuring output, outcomes, and evaluation activities remains an important element in statements by politicians and administrators focused on improving government's performance (Van Thiel and Leeuw, 2002).



## Introduction

On January 15, 2009 Captain Chesley "Sully" Sullenberger landed his aircraft on the Hudson River in New York City and all 155 people on board were successfully rescued. The emergency landing, undertaken shortly after US Airways Flight 1549 took off from La Guardia Airport, became necessary when birds were sucked into the aircraft's engines (Solomon, 2009). According to local news reports (*WABC (NY)*, 2009) these birds were most likely flying from North and South Brother Islands, which are protected habitats for birds located a mile and a half away from the airport. According to the same source, these islands had been recognized in a previous city report for their success in attaining their mission as a bird sanctuary. From a systemic point of view,

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the success of this subsystem could have resulted in the loss of 155 human lives or worse. Such events would have been a failure of another, but more important, subsystem (i.e. aviation) or even in a partial collapse of the system as a whole.

This event offers a case in which measuring the performance of one service or agency may amount to nothing more than sub-optimization. The reason is that measuring the performance of one subsystem (i.e. the bird sanctuary) yielded no useful information for assuring an acceptable performance across the board. In other words, it could not prevent the failure of another subsystem (i.e. aviation) and thus the performance of the system as a whole. After all, the performance of a system is equal to the performance of its weakest component (Seddon, 1998).

This well-publicized case illustrates the complexity of performance measurement as a management concept and highlights one of the fundamental problems related to performance measurement: its susceptibility to external validity issues. In order for meaningful actions to address performance issues, measurement must be carried out at the subsystem level (e.g. the bird sanctuary) because we do not have a reliable methodology for doing it at the system level. However, the resulting insights from measurement at the sub-level may not improve overall performance at the system level (i.e. New York City). In fact, measuring the performance at a subsystem level could even be dysfunctional in relation to the performance of the system as a whole as it may detract attention from what is happening in another subsystem (in this case, the aviation subsystem of NYC). On the other hand, performance measurement at the system level (e.g. New York City), assuming that such measurement is even a feasible proposition, may not yield the necessary data for guiding an improvement effort at the subsystem level. Ensuring that a bird sanctuary is not in proximity to an airport seems obvious after the problems encountered by Flight 1549 on January 19, but measuring the performance of that subsystem did not generate the critical insight needed at the system level (i.e. the proximity of the bird sanctuary to the airport issue).

The following discussion aims to shed light on a range of considerations that may limit the instrumental value of performance measurement. It also aims to articulate the view that performance measurement, despite being a well-intended element of an overall program to improve quality, may become dysfunctional. For example, in the case of health care, Werner and Asch (2007, p. 159) documented and summarized this issue in the following way:

Performance measurement has become one of the foundations of current efforts to improve health care quality and has successfully increased compliance with practice guidelines in many settings. Despite the successes of performance measurement, many physicians remain apprehensive about its use because performance measurement “gets in the way of” delivering good care. There are several reasons clinicians might feel this way. First, performance measurement is increasingly being extended to areas that have only a small clinical benefit and thus risk diverting attention from other more important but unmeasured aspects of care. Second, most performance measurement systems provide no priority for following guidelines likely to yield a large clinical benefit compared with guidelines likely to yield at best a small clinical benefit. Third, performance measures focus physicians’ attention narrowly on compliance with those measures rather than more broadly on the needs of the individual patient. Because performance measures are evaluated at the level of the indicator, they may crowd out quality at the level of the patient that is equally important but that cannot be easily measured.

A balanced discussion of performance measurement is simply rare. In most instances, a case is made for the use of performance measurement by highlighting only its positive and functional aspects (such as *Get Results through Performance Management: Memorandum to Government Executives*, Broadnax *et al.*, 2001). The development of theory and models for the successful application of performance measurement can result only after a deliberate effort to uncover and study the circumstances when performance measurement cannot be of much help (or even be dysfunctional) to organizational performance. As illustrated by Townley *et al.* (2003), an initial enthusiasm by managers for the performance management initiatives can easily be replaced with skepticism and cynicism that will undermine subsequent attempts to enhance organizational performance.

The core premise of this paper is that being cognizant of the potential limitations of performance measurement can help managers both take advantage of the potential benefits while also avoiding possible pitfalls. Rather than offering a normative or instrumental model or theory about the correct use of performance measurement, the author suggests that prudent application of performance measurement schemes by learned practitioners may reduce the possible dysfunctional consequences. Beginning with a brief examination of the logic of performance measurement and some of its promises, the paper presents certain issues involved in the use of service perceptions and recipient satisfaction as proxies for measuring performance. The paper concludes with a closer look at some methodological issues concerning the measurement of productivity in local governments.

### **Nobody challenges the inherent logic of PM: but does it hold in the real world?**

Performance measurement can help you drive progress toward your goals. Resist the tendency to treat performance goals and measurements as just a legal requirement. Don't squander a powerful lever for change (Broadnax *et al.*, 2001)

Many people believe that performance measurement is both unquestionable and self-evident (Broadnax *et al.*, 2001; Townley *et al.*, 2003; Behan, 2004). Since 1993, with the passing of the Government Performance and Result Act (GPRA, 1993) in the USA, this latter notion is a common part of the argument supporting introduction of performance measurement or service efforts and accomplishment reporting (SEA) in general (Halachmi and Bouckaert, 1996; GASB, n.d.). According to the Government Accounting Standard Board (GASB):

SEA reporting is the act of preparing and publishing a report measuring the efficiency and effectiveness in which an organization operates in trying to achieve desired results . . . provides citizens and other users with measures or indicators of the volume, quality, efficiency, and results of public services. These indicators of performance, when publicly reported, are yardsticks that can be used to figure out if government is working well or poorly, or somewhere in between.

Similar initiatives to measure performance in order to improve productivity have been undertaken by governments in many other countries, including Australia, the UK and Sweden, both before and after the enactment of GPRA, 1993. In all these cases the intuitive "self-evident" merit of performance measurement was accepted, at least initially, without challenge (for example Carter *et al.*, 1991).

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According to the Interagency Working Group (IAWG) on US Government (IAWG, n.d.), the “matter of fact” answer to the question “why measure performance?” is:

- to demonstrate the results of program activities;
- to show how these results support programmatic and organizational goals;
- to determine what works and what doesn’t;
- to promote accountability and justify resource allocation;
- to enhance the ability of managers to communicate with stakeholders;
- to develop and strengthen partnerships among programs and organizations with similar goals and objectives;
- to motivate and provide tangible feedback to employees;
- to meet the requirements of the GPRA; and
- to facilitate OMB’s use of its Program Assessment Rating Tool (PART).

Other rationales and reasons why managers might benefit from using performance measurements are:

- if you cannot measure it, you do not understand it;
- if you cannot understand it, you cannot control it;
- if you cannot control it, you cannot improve it;
- if they know you intend to measure it, they will get it done;
- if you do not measure results, you cannot tell success from failure;
- if you cannot see success, you cannot reward it;
- if you cannot reward success, you are probably rewarding failure;
- if you will not recognize success, you may not be able to sustain it;
- if you cannot see success/failure, you cannot learn from it;
- if you cannot recognize failure, you will repeat old mistakes and keep wasting resources;
- if you cannot relate results to consumed resources, you do not know what the real cost is;
- if you don’t know the actual cost, you can’t tell whether or not to outsource a task;
- if you can’t tell the full/real cost, you can’t get best value for money when contracting out;
- if you can’t demonstrate results, you may undermine your ability to communicate with important stakeholders;
- if you cannot document that the business process, material or people you use are the most suitable for achieving the sought after results, your performance will be questioned;
- if you cannot show that in comparison with the past or with another provider you are on par or even doing better, there may be questions about your accountability; and

- if you do not have the data about who is happy/unhappy with your performance and why, you may change when you should not or, even worse, stay on a course that on face value seems right but in actual fact is wrong.

Yet, the common sense, logic, and research of management practices that generated each of these points may have the same validity as that of the “administrative proverbs” which have been discussed by Herbert Simon (1946).

To make sense of various assertions relating to the merits of performance measurement, Hans De Bruijn (2002) suggests a four-way classification that can be summarized in the following way:

- (1) *Transparency* – performance measurement leads to transparency and thus can play a role in accountability processes. An organization can make clear what products it provides and, by means of an input-output analysis, what costs are involved.
- (2) *Learning* – an organization can take new steps to improve operations when it uses performance measurement to learn.
- (3) *Appraising* – a data-based appraisal of the organization’s performance can now be generated by management or a third party.
- (4) *Sanctions* – appraisal may be followed by a positive financial sanction (when performance is good) or by a negative sanction (when performance is insufficient).

Similarly, the assumed inherent logic and promises of performance measurement was well articulated even earlier in Section 2 (parts (a) and (b)) of the 1993 Government Performance and Result Act (GPRA). GPRA starts with the following proclamation:

a) Findings – The Congress finds that:

- (1) waste and inefficiency in Federal programs undermine the confidence of the American people in the Government and reduces the Federal Government’s ability to address adequately vital public needs;
- (2) Federal managers are seriously disadvantaged in their efforts to improve program efficiency and effectiveness, because of insufficient articulation of program goals and inadequate information on program performance;
- (3) congressional policymaking, spending decisions and program oversight are seriously handicapped by insufficient attention to program performance and results.

Taken, by Congress, as self-evident that there is “waste”, is serving in GPRA as the pretext for a two-pronged conclusion. First that, because of alleged inefficiencies, government is losing the public trust and, second, that government cannot “address adequately vital public needs” because tax money is wasted. The reality that government agencies are told what to do and how to do it is glossed over. Overlooked is the fact that those defining objectives (and the prescribing of the programs and procedures to attain them, i.e. the legislatures) are even more responsible for what happens or does not happen. The same is true about the fact that precious resources are siphoned from field operations that have to do with the implementation of strategic plans to underwrite the cost of various audit and post-audit reviews. It has therefore become apparent that over time measurement evolved into an end. It may have become

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more important than the original intent of being a mean for improving management, as the next section explains.

### **Public sector overhead and the economic cost of political symbolism**

The many audits that come on top of oversight by managers of any given government program are costly from an economic point of view. In the private sector, the cost of control is usually kept below the expected cost of any potential mistake or fraud. In the public sector, it seems that any provisions for ensuring that the cost of controls does not exceed the cost of the risks they aim to prevent are absent. When I told a colleague who used to be an auditor that as a field manager I was not willing to spend \$1 to find the missing 25 cents he replied without hesitation that he was willing to spend \$10 or even \$100. "It is the principle. If you do not know why you are missing 25 cents, what else don't you know?" We agreed to disagree but the issue is a real one and deserves closer attention by economically-minded legislators and managers.

Control, oversight and accountability are just a few of the terms used to justify the pre, post, and concurrent reviews of resource consumption by budget and accounting offices. However, these activities are laden with political symbolism that undermines efforts to improve efficiency. New requirements for oversight and reviews are put in place and augmented in the aftermath of any scandal related to prudent use of resources. The broad brush application of such control is part of the common manipulation of political symbols by elected officials more than it is an instrument for preventing future waste or for advancing efficiency. Indeed, it seems that politicians rarely think about the economics of symbolic politics and the appearance of greater oversight. If they did, they might see that the alleged improvement in administrative accountability is illusory and results only in the slowdown of operations or an increase in their costs. These unintended outcomes create an elaborate scheme of symbolic political control of operations. Furthermore, it ensures that "things" are done "right" by strictly following the prescribed rules and regulations known as standard operating procedures (SOPs) (rather than the "right things" being done).

SOPs are developed by organizations to provide a reliable, pre-tested protocol for handling common situations, in a uniform manner. This standardization facilitates training, assures a higher level of quality, and increases the fairness and predictability of service across the organization. However, in many cases, SOPs that assist new and low-level employees, are written in a way that ensures public managers have little flexibility to address unique circumstances or to develop innovative approaches to both routine and new situations. When these inflexibilities are uncovered by the media the manager is held accountable, even though that individual can do little about it. In this atmosphere is it any surprise that managers opt to avoid using initiative that might compromise their careers? Thus the institution of mandatory performance measurements encourages not only the development of SOPs but their rigid application. In order to generate the standardized data for performance measurement, for example the time used to review an application or for deciding on an appeal, employees and managers have a strong incentive to forego any deviation from SOPs, even when such action is warranted. It follows that SOPs are developed at a cost to the organization (including the cost of training employees) for the purpose of assuring quality and facilitating performance measurement, yet they carry a significant level of dysfunction. Werner and Asch (2007) emphasize this view:

... we noted that clinicians believe performance measurement hinders health care delivery by focusing physicians' attention narrowly on compliance with performance measures rather than on the needs of the individual patient. If an individual patient has needs that lie outside the measured conditions, performance measurement may poorly measure quality of care and may give physicians incentive to attend to measured medical problems rather than unmeasured ones.

New and innovative initiatives are the attributes of successful organizations like 3M (Moss Kanter *et al.*, 1997, Creativity and Innovation Blog, 2006) because they can help organizations do the "right" things. However, in the public sector the political symbolism of words such as "oversight" and "accountability" results in many constraints on independent action and thinking. These factors encourage inertia, incrementalism and "playing safe" and may be the real reason for waste in government. Examples include the bridges to nowhere on Gravina Island, Alaska (Utt, 2005) or the building of a seemingly unnecessary airport at a cost of \$21 million for a community of 46 residents (*Fox News*, 2009). These examples have been sanctioned by politicians with little resistance from the government agencies approving and undertaking such projects. The irony is that each of these wasteful initiatives came with a high overhead costs for oversight and control to assure that the un-needed projects were done "right". Also, pressures to do "right" may discourage innovation and creativity managers might use to affect desired end results for which they might be held accountable. In other words pressure to improve the data on pre-determined performance measures may undermine possible incentives to change and improve improvement of important results, and thus, action oriented accountability.

It is obvious that controls are necessary for adequate transparency and accountability and, performance measurements are a mean of administrative control. Towards that end performance measurement can be an important instrument. However, considering the examples of the bridge to nowhere and the airport, one must wonder about the meaning of slogans like "oversight" "transparency" or "accountability". Since the record shows more discussion about these slogans during the planning of these projects rather than about the need for the projects, one must ask what difference did performance measurement make in the case of these projects? Data collection, analysis, and compilation of periodical reports about performance are not, by themselves, the cure for the wasteful operations that are targeted by Section 2 (Part (b)) of GPRA.

Numerous control operations, including data collection, analysis and documentation of every step of the "assembly line" in a public agency, consume resources government might have used to address those "vital public needs." If there is "waste" in spite of these efforts to assure cost-effective reliable performance, should we question the value of many current audit, accounting and managerial controls? These activities consume resources. Salaries, space (used by auditors and their records), material and equipment (used to collect, keep, disseminate, and analyze performance data) are typical resources. These direct costs contribute to the overall cost of a given operation, and can be calculated. However, as has been argued, their benefit cannot be reliably calculated (Halachmi, 2002).

Furthermore, when it comes to the indirect costs of control operations, which include performance measurement, there is no sure way of calculating the respective contribution of each measure to the overall price of a given program. However, the

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slowdown of the “production line” in government agencies to allow for additional reviews, the generation of a more robust paper trail, appeals, and other legal requirements reduce the speed of government operations. These requirements are not part of the assembly procedure when similar tasks are carried out by non-government entities.

“Red Tape”, as this slowdown is called by the average person, is not totally without merit (Bozeman, 2000). The slow processing of a request from one citizen is a built-in safety mechanism to ensure that the rights of another citizen are not being compromised. Yet, the economics of such a practice is rarely calculated nor subject to benefit-cost analysis. In most cases, managers have no discretion to deviate from the norm, even if they can document a reason for it. For example, the classic, unfavorable, comparison of the cost for air travel by members of the Armed Forces with that of a selected group of corporations can be attributed to additional paper work in the Pentagon (GAO, 1995). In Halachmi (1996, 2002) the question has already been asked about what are the odds that adding another layer of report generating-reviewing process (i.e. performance measurement) will increase cost and waste.

Questions about the promises and challenges of performance measurement in the public sector abound (Halachmi, 1996, 2005). The relative merit and economic (instrumental) value of performance measurements for public managers can be discussed in terms of the following overlapping questions around the effective contribution of performance of measurement in relation to public sector decision making, budget allocation, and accountability. In a sense, this raises the underlying cost benefit outcomes of PM and the complex and problematic issues concerning the methodologies used to measure performance.

### **Beauty is in the eye of the beholder**

When it comes to service, the business of most government entities of the attainment of specified outcomes cannot be divorced from stakeholder satisfaction. Dissatisfied stakeholders can affect the continuation of any government program, regardless of its objective merit. Stakeholder satisfaction can influence not only the budget of a given agency but its survival and the future of its other programs.

In the USA, the Tobacco War of the mid-1990s is one case in point while the attempts to regulate the use of stock options is another. The attempt to regulate the tobacco industry resulted in sharp cuts to the budget of the Food and Drug Administration (FDA) with threats to reduce its regulatory powers all together (Siegel and Doner, 2004). During 1995 and 1996 Congressional sessions, several bills were introduced to eliminate or remove jurisdiction over tobacco products from the FDA (Siegel and Doner, 2004). In a similar fashion, the attempt to change the general accounting standards concerning the recording and reporting of stock-options resulted in a direct threat to the existence of the Government Standards Accounting Board (GASB) and the budget and regulatory powers of the Security and Exchange Commission (SEC) (Levitt, 2002; Mattli and Büthe, 2005).

When it comes to making decisions on budget allocation, re-certification of programs and legislation, elected officials (and the political appointees they chose to run and manage agencies) focus on the odds for re-election. This is the major guiding consideration for any activity, and there is a slim chance it will be replaced as any “objective” evidence of performance is seen to be of a limited value. It follows that a

“good” performance measurement can make a difference only if it supports the necessary action to assure re-election. A poor one will probably be ignored if a correction undermines re-election. Thus, one should not confuse the symbolic value of GPRA-like legislation and public rhetoric with the political-economy reality of public administration. For example, in the United State there have been allegations about the roles played by some prominent politicians in the 2008/2009 financial crisis. The allegations are that these elected officials failed to regulate and oversee the operations of financial institutions by some federal agencies for political reasons that have to do with their re-election needs (Schonfeld, 2008; Lerer, 2009). These allegations corresponds to the claims made by Arthur Levitt (2002), former Chair of the Securities and Exchange Commission (SEC), about the way corporations leveraged Congress to pressure regulatory agencies to overlook violations and bend the rules to meet their business needs at the public’s expense. Both cases illustrate the fact that the realities of Election Day always prevail when it comes to determining or influencing government agencies’ performance. This reality raises questions about the wisdom and the economy of consuming resources to undertake the ritual of performance measurement in government.

For the pragmatic manager, one possible conclusion is quite obvious. Before performance can be measured in a meaningful way, the most important stakeholder groups must be identified. Measurement can then focus on the issues and aspects of an agency’s operation that are important to those who can influence election results the most. Alternatively, and somewhat naively, one may measure service recipients’ satisfaction as an indicator of performance as these are the individuals that decide who is elected. However, this approach raises many conceptual and methodological issues that will be discussed below.

### **Can service recipients’ perspectives be used as a performance indicator?**

One of the common ideas used in the total quality management (TQM) era was to equate “quality” with “fitness for use” as judged by users (Juran, 1974; Zeithaml *et al.*, 1985; Bouckaert, 1995; Ho, 1995; Halachmi and Montgomery, 2000; Löffler, 2004). Is it possible to use citizens’ satisfaction studies by surveying service recipients to gain their opinions about the performance of a given agency?

This notion of measuring satisfaction as an element of performance is an important pillar of the Balanced Scorecard (Kaplan and Norton, 1992). The service recipients’ perspective is at the core of SERVQUAL (Zeithaml *et al.*, 1985) and subsequent elaboration of their proposed instruments for ascertaining service quality by measuring the satisfaction of the service recipient. SERVQUAL was originally measured on ten aspects of service quality: reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding or knowing the customer and tangibles. It measures the gap between customer expectations and experience. By the early nineties the authors had refined the model and introduced the useful acronym RATER. The acronym stands for: Reliability, Assurance, Tangibles, Empathy, and Responsiveness. These dimensions of service operation are as applicable to ascertaining the quality of government operations from the recipients’ point of view as they are for non-governmental providers of services. Yet, in the public sector there are at least three problems concerning the deployment of customer satisfaction surveys as performance measurement in the manner they are used by

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non-governmental entities. These problems go beyond the issues of trust in government or the use of “soft” or “hard” indicators (Bouckaert and van de Walle, 2003).

First, while the opinions of service recipients are important, this group is, many times, only a subgroup of the citizenry. Questions about the interrelationship of the notions of “citizen”, “client” and “customer” (Dutil *et al.*, 2007) are of interest at the theoretical level, but for the practicing public manager the issue is different. Common productivity improvement practices for optimizing the performance of an agency (e.g. a marginal increase of input to secure a significant improvement of output in qualitative or quantitative terms) may be more complicated than it appears on first sight. Following the Rawlsian Theory of Justice (Rawls, 1974, 1999), such an initiative to “improve” performance may involve marginal reduction in the satisfaction of service recipients in one case in exchange for greater improvement in the level of satisfaction of other service recipients. The problem is that those “other” service recipients might be more needy or deserving or larger in number than the group benefiting from the change. Thus the reality of performance measurement may force the manager to ignore the moral or ethical problem in favor of the political-economy reality of a government, that is, to succumb to the pathology of resource allocation.

This pathology may evolve from resources being allocated according to where they are likely to result in a better “report” rather than achieving any unequivocally better outcome. The goal is to achieve the documentation of the greatest satisfaction by an agency’s “important” clientele group. Such documentation becomes the greatest indicator of the agency’s success guaranteeing the future availability of resources.

This view is supported by the system resources model (Yuchtman and Seashore, 1967) which found that organizational effectiveness is measured by the ability of the organization to exploit the environment to acquire critical resources. The model demonstrates that the ability of an agency to secure future budgets is an indication of effectiveness. This model has some evidence to support it, however in many cases, greater allocation of resources has to do with the administrative reality that the “squeaky wheel gets the grease”. For example, an under-performing police unit may get a greater budget to improve its operation while the well-performing restaurant inspection service just receives the basic budget allocation to maintain its current level of service. The unspoken reality of the public sector may mean that what counts is not objective quality (the alleged rationale for performance budgeting), but that it is the support of “important” stakeholders (those that can influence elections and legislative action) that count most.

The second problem has to do with the questionable, or even non-existent, correlation between measures of citizen satisfaction which reflect a layperson’s perceptions of an agency’s quality of operations, efficiency or effectiveness and, the data resulting from the application of professional measurements of quality, efficiency or effectiveness of the very same operations. As noted by several writers (Stipak, 1979; Swindell and Kelly, 2000; Kelly, 2005), citizens may report greater satisfaction or an improvement in an agency’s performance even when the agency’s own “professional” assessment of data shows that there was no change or even deterioration in the quality of operations. These repeated findings suggest that surveying citizens and measuring satisfaction may be of limited value for validating performance. It may even be misleading.

The third problem is that, in the case of many social programs, there is a need for a long lead time until the cumulative effects of the program in question become noticeable. In Halachmi (1996) this issue was labeled the “timing” of performance measurement and since been changed to “The Awakenings Syndrome” (Sacks, 1987). The syndrome suggests that the selection of the time line for evaluating a program may lead to the wrong conclusions about a given program.

The fourth issue was identified by Hatry (1999, American Association of State Highway and Transportation Officials (AASHTO), 2007) namely, that performance data do not, by themselves, tell why the outcomes occurred. The collection and analysis of data may reveal success but not what element or aspect of the program under study resulted in the observed success (or failure). In other words, performance measurement can highlight success (or failure) but may not help with fine tuning of a given program to effect a greater success or a lesser failure.

### **Seeking pragmatic solutions to performance management problems**

Measuring productivity of services at the local level should be easy and straightforward. Good data about the scope, cost, quality, and results (outcomes) of local services are more readily available than the case of national programs. In comparison, services at the state or national levels can be more difficult to measure because they are more likely to include intangible public goods such as national security or special circumstances arising from the application of a given program in some locales! The fifth issue surrounds the difficulty of establishing a one size fits all scheme of performance measurement for all programs dealing with services delivered at a local rather than state or national level.

One approach to this problem was addressed by the American Association of State Highway and Transportation Officials (American Association of State Highway and Transportation Officials (AASHTO), 2007, pp. 3-7) when it outlined the impediments that can prevent an organization in that sector of the government from becoming a performance-driven agency. The ten major impediments below provide a pragmatic reflection on the key challenges addressed by agencies seeking to make the optimal use of performance measurement:

- (1) *Leadership and organizational commitment.* Implementation of comprehensive performance management requires a sustained multiyear effort and significant resources. It also reflects a change in organizational culture. Staff resistance often reflects concern about appropriate measures, the linking of performance to budgets, perceptions that performance measurement represents an additional responsibility and skepticism about whether a new approach will continue in the long term. These issues must be overcome with strong and sustained leadership and compelling demonstrations of the value of performance based program management and resource allocation.
- (2) *Fund allocation rules and restrictions.* Fund allocation restrictions at both the federal and state levels can hinder the application of performance management. Restrictions on fund eligibility, lack of flexibility to shift funds among programs and geographic allocation formulas, while often reflecting concerns about equity and program balance, can hinder true performance-based management.

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- (3) *Funding uncertainty and reduced purchasing power.* Lack of predictable and stable funding, whether due to reduced yields from specific funding sources or dramatic increases in inflation, make it difficult to predict or deliver performance results.
  - (4) *Project earmarks.* At either the federal or state level project earmarks reduce the ability to target funds where the best overall performance results may be achieved.
  - (5) *Project selection processes.* A project selection process that allows too much discretion in selecting projects irrespective of overall system performance considerations may not produce the best results for overall system performance . . . Unless state-wide performance objectives are translated into regional or district objectives, it is unlikely that state-wide objectives will be met. At the other end of the spectrum, strong legislative involvement in selecting projects irrespective of cost/benefit or predicted performance results also may not yield the optimal system performance results.
  - (6) *Standards.* In the twentieth century, establishment of uniform national standards for highway construction and operations was a major element contributing to achieving safe, modern, consistent public services . . . Safety concerns remain paramount, but today, with increasingly limited funding, universal application of design standards regardless of performance benefits can conflict with performance-based management . . .
  - (7) *Process compliance requirements.* Public sector performance-based management as it was introduced in the 1990s was founded on the principle of establishing accountability for results while providing greater flexibility for states and local governments in methods of delivery . . . In practice, federal agencies still often mandate specific activities regardless of performance level.
  - (8) *Communication.* Effective communication of performance results, both good and bad, to a variety of audiences is a challenge . . . While a significant benefit of performance management is transparency and accountability to stakeholders, the communication strategy must educate stakeholders on realistic expectations and the factors affecting specific results, some of which may be outside of the agency's control.
  - (9) *Data and management systems.* Developing and integrating the databases required to support a performance management program is a critical component for a successful program. Consistency in the quality and availability of data and access to data by different organizational units are specific challenges that must be overcome . . . (and) many legacy management systems are not well suited to support a performance management process.
  - (10) *Hard to measure areas.* Ideally a comprehensive performance management program includes all aspects of performance that are critical. In reality, some measurement areas, while very important, are difficult to measure for a variety of reasons . . . (including) the environmental, quality of life, and economic aspects of performance.

The measurement of local services is not straightforward. A simple approach to measuring the productivity of local services by the use of the traditional ratios of input

to output, outcome to input, or the cost per (standardized) unit of service may not convey a true or a fair picture. A single performance measure, a measure of productivity in respect to any one service, cannot establish the relative merits of a local government unit's performance. The reason is that local governments provide a basket of services. Because each service is part of that basket, even when a given service may seem independent of other local services at the "street" level, it cannot be measured in isolation from all other services. Though the specific influence of each service on any other service could be determined by treating that service as an independent variable, a dynamic analysis might be a more promising approach. This interdependence can be seen when one performs a complete allocation of the cost associated with the "production" of a given service. The problem of proper measurement of local services is exacerbated by the fact that some services (and sometimes even the scope or quality level at which they are provided) are mandated by higher levels of government and local authorities are not in a position to optimize the basket of services.

Another reason that measuring the performance of a service provided by a local authority may be problematic has to do with the multi-functionality of local government. All local authorities are the result of a political process. They are created to meet a specific political function rather than simply a composite of economic or service functions. The boundaries of a local authority may be suitable for governance or for the delivery of a particular service but not necessarily for the optimal delivery of a given basket of services. It seems that a proper methodology for the study of productivity of a local authority, or for measuring performance when it comes to any single service, must address at least three important issues. First, the productivity of delivering any one service is a function of the total content of the basket of services offered by the local authority.

Second, the boundaries of any local authority are not optimal for delivering all the services it offers its residents. Thus, even when a neighborhood or a segment of the population served by the local authority experience the optimizing of one service, this may be at the expense of the delivering of other services by that or other levels of government. Third, in the case of many citizens, there may be a gap between the perceived productivity and the real productivity rate for any given service. This gap may have to do with socio-economic variables. However, as pointed out earlier, for management purposes, the satisfaction rate, which is, to say, the perceived rather than the real image, is the value that counts. In other words, comparisons may reflect more on an agency's public relations than its actual performance. There is also a fourth and overarching issue, which is the subject of feasibility. History, habits, custom, local culture or law may limit the choices a local authority has over the delivery of a given service. A measurement of productivity in such cases would be meaningful only when it is possible to compare actual performance to an *ad hoc* model that can provide a close approximation to the theoretical productivity that could be achieved, given the existing constraints. Developing such a model is not easy and most cases studies of local services do not offer such models for reference.

The academic challenge is how to improve the research methodology for studying service productivity of government. Given that the public at large is not in a position to ascertain the methodological quality of published reports, sloppy research feeds the political mudslinging and undermines the public interest. For the practicing public manager the challenge is balancing the current fashion of

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measuring performance, regardless of any questionable methodology, with tacit knowledge, experience, *ad hoc* insights and gut-feeling of what is right and ethical professionally.

### Concluding remarks

Intuitively, performance measurement has a lot of potential to help managers and organizations learn from their own past behavior in order to do better in the future. Yet, in reality, the instrumental value of performance measurement is not guaranteed. In fact, performance measurement can be dysfunctional, causing unintended deterioration of quality, productivity and loss of credibility among service recipients. This proposition is consistent with the observation that is listed below and the one quoted at the top of this article. These observations have been offered by Van Thiel and Leeuw (2002) few years ago. This suggests that in spite of empirical evidence about the questionable or limited value of performance measurement for effecting efficiency, effectiveness or policy choices not much has been changed. To be sure Van Thiel and Leeuw (2002) say:

Nowadays, states spend more attention, time, and money on performance measurement and evaluation in the public sector than ever before . . . Results-based management is the talk of the day at all levels of the public sector: local, regional, national, and even supra national. Schools and universities, local governments, and other administrative agencies, also developmental aid organizations (nongovernmental organizations and international nongovernmental organizations) and organizations such as the World Bank, are all involved in producing data and information on performance results and – if possible – impact. Power (1994, 1997, 2000) even refers to the “audit explosion” or the “audit society.” Believers in New Public Management (NPM) attribute a high priority to measuring output and outcomes and aim to base their new policies and management activities on this type of information – ideally meant to make policy implementation more efficient and effective.

While performance measurement should be encouraged, in principal, there is a need to ensure that managers and organizations retain enough capacity to deviate from SOPs in order to do the right things rather than doing things right. In particular, the introduction of performance measurement and its extensive use in the allocation of resources should not be allowed to inhibit innovation and reasonable experimentation with alternative modes of delivering public services.

While this essay addresses an important issue in the public sector some of the arguments and considerations are as applicable for performance management in the private and not-for-profit sectors. To be sure, performance measurement is a tool that can and should be used by managers and those charged with oversight. The process of developing performance measurements and the selection of benchmarks can turn into a first rate instrument for increasing common understanding of the tasks, constraints and operational challenges within the organization and across organizational lines. However, all users should be aware of the limitations and possible misuse or abuse of performance measurement. They should be cognizant of the risk that things may look as if they are done right while the right things to do are neglected and overlooked until a serious damage is done. The use of quarterly revenue of major financial institutions in America as measurement of their performance before the economic crisis of the Fall of 2008 is a good example of this risk.

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# Controlling externally autonomised entities by Dutch local governments

Externally  
autonomised  
entities

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## Abstract

**Purpose** – This paper aims to address the possibilities for (performance-based) control of externally autonomised (empowered) entities which operate at the level of local government in The Netherlands. The idea is that Dutch regulations do not cover controlling all institutional structures, which might result in unobserved risks for local governments.

**Design/methodology/approach** – Two basic methods are used: a literature study on the variety of institutional structures meant to design an overview. This is completed by a secondary research approach on the findings of 34 local audit offices that have studied the problem for their local government.

**Findings** – In The Netherlands, there is no all-encompassing framework to cover control of autonomised entities at the local level. The most important problems to be solved are related to the specification of services to be delivered by local governments and the role conflict emerging from being owner/financial stakeholder in the organisation, on the one hand, and commissioner for the services of the organisation, on the other. This holds for almost all cases. The problem is even stronger in those cases where autonomised entities operate under a national framework for delivering services that have to fit in with local planning and control systems.

**Originality/value** – The analysis draws attention to the organisations not included in the standard regulatory framework of local governments; and contributes to the awareness of different roles of local government, being both commissioner and owner/financial stakeholder.

**Keywords** Local government, Autonomous work groups, Service delivery systems

**Paper type** Research paper

## 1. Introduction

The organisation of public service provision has changed in the last decades under the influence of “new public management” theories. Regarding the national level of government, a broad literature on “autonomisation” (a word difficult to translate directly into English but it is a process of both empowering managers, making them autonomous and accountable) and privatisation exists. At the local level, literature is scarce. Autonomisation has a relationship to privatisation (Boorsma and Mol, 1983; Von von Weizsäcker *et al.*, 2005), but essentially under autonomisation government still holds a form of interest – politically or financially – in the newly formed organisation. Autonomisation is a process in which managerial responsibility is transferred from bureaucratic hierarchy to managers that can be held accountable for the responsibilities attributed. In this context, the OECD refers to manager’s autonomy as “...the ability to make decisions...without constant involvement or need for approval by the line minister” (OECD, 2002, p. 13). Autonomisation differs from privatisation as privatisation has two clear-cut forms: in the first, government creates a new, private, legal entity from a former government unit; in the second, government



withdraws all responsibility for planning, funding and production and leaves it to the market. In case of autonomisation, the traditional hierarchical command chain in government is broken. A relation between government and the autonomised entity must have some form of specification of services to be delivered. Agency theory teaches that the problem of information asymmetry can partly be overcome by a well-specified contractual relation between the parties involved. For example Ouchi (1977, 1979) refers to the use of performance controls in complex organisations as an additional control tool.

This paper provides a survey of autonomised entities at the Dutch local government level and the *ex ante* control tools, including performance standards and information, which are available for these organisations.

As of 2004, Dutch local governments were required to provide information on *verbonden partijen* (literally: related entities) in their budget documents and annual reports. Based on that information and their own research, Dutch local courts of audit have presented a number of studies on accountability of *verbonden partijen*. I note here that legislation requires that each local government has its own separate court of audit, operating fully independently from both the executive as well as the National court of audit. The problem with accountability issues for politicians can however only be addressed when the *ex ante* budgetary process matches the issues to be disclosed in accountability documents. The emphasis on accountability with respect to restructuring of government services can be discussed as well: accountability can only be realised when it is clear beforehand what responsibilities exist at what level and what goals must be realised. Thus the attribution of responsibilities is a key element in the autonomisation debate.

In this paper I will address the following research question:

*RQ1.* What are the *ex ante* control tools available to City Councils to find a match between the level of autonomisation and political control with respect to autonomisation of provision of services in the public domain?

The paper starts with a brief summary on theory with respect to autonomisation (section 2). Section 3 provides a description of institutional arrangements that are used in the Dutch setting for providing government services. Legislation and other instruments can be used to set a framework under which the services can be provided by autonomised entities. These instruments will be discussed in section 4. In section 5, I will address empirical findings on actual control used by government in their relation to the autonomised entities. Finally, section 6 provides some conclusions.

## **2. Autonomisation at the local level**

Experiences at national levels indicate that autonomisation has various forms and backgrounds. Christensen *et al.* (2002) indicate that it depends on instrumental-structural, historical-hierarchical and environmental features how transformation to autonomised entities is realised on a national level. In general, even at the national level, there has been no systematic approach to creating autonomised entities in The Netherlands (e.g. van Thiel, 2006; Bertelli, 2006). Given the fact that local governments are politically independent from national government, each of them can make its own decisions with respect to the global trend of autonomisation (Pollitt and Talbot, 2004). As a result, variety is likely to be even larger than at the

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national level. However, for reasons of efficiency of scale and policy co-ordination, in the Dutch context co-operation between local governments may result in autonomised entities providing services for more than one local government. In some cases, such a development may even have been enforced by the Dutch national government. Whether or not the decision has been made by local governments, the *ex ante* control issues are basically the same. The questions at hand are primarily matters of legal and (micro) economic settings which determine the governance structure of the newly created entity. In short, it regards the legal status to be attributed to an entity as well as the corresponding balance in authority between the political principal and the executive agent. Relevant economic dimensions are commissioning, funding and use of services on the one hand, and market setting and responsibilities of management on the other hand. The economic dimensions will be reflected in the assignment of the services to be provided – eventually including performance standards – by management. Coleman *et al.* (2009) conclude in a study on British local health care services that there are options for more democratic control allowing for scrutinising spending and decision making of local service providers. Studying the *ex ante* controls on local autonomisation can be helpful to create opportunities for increased democratic control.

The trend to privatisation and autonomisation was originally driven by the theoretical claims that efficiency and effectiveness of (local) government should be improved (e.g. Osborne and Gaebler, 1992; Pollitt and Bouckaert, 2004). Part of the problem of inefficiency of the public sector is, according to public choice theory, caused by the monopolistic characteristics of many of the services provided in the public sector (Boyne *et al.*, 2003, p. 8). A solution to this problem could be the introduction of a more competitive setting. Niskanen (1968, p. 305) suggested that activities performed by a bureaucracy could be taken over by private – profit seeking – entities. As a result, both politicians and bureaucrats would be restricted in their efforts to follow their own interests (Walsh, 1995, p. 19). This basically economic argument is contested in literature. The problem of public service provision and the effects of government intervention do not change as a result of rearranging an organisational structure (Pollitt and Bouckaert, 2004, p. 161; Homburg *et al.*, 2007; p. 7). Furthermore, organisational change may lead to fragmented government with negative impact for transparency and accountability (Pollitt *et al.*, 2004, p. 4). Although claimed at national levels, it is likely that similar effects exist on a local level due to the fact that autonomisation implies creation of entities that are not part of local government anymore, resulting in reduced political attention. As a result, the dichotomy government provision versus commercial private provision of services is not as strict as has been suggested by Niskanen. In 1983, Boorsma and Mol identified five market concepts with respect to provision of services (Boorsma and Mol, 1983, pp. 25-26; Bokkes, 1989, p. 10). The five concepts of service provision range from consolidated service provision where government funds, plans and produces services to free market provision where government has no role (anymore) in funding and provision of services. These two extremes are descriptions of traditional government service provision on the one hand and classic market production of services on the other. When discussing autonomised government service provision, the alternatives between the extremes are of more interest. First, Boorsma and Mol (1983) identify “contract provision” In this case government funds and plans service provision and only hires

off actual production of services. Second, government can (partially) fund the services required and leave planning and production to private entities. This form is labelled “grant-provision”. The last option is “regulated provision”: government’s role is reduced to planning of production but both funding and production are left to the private sector. Particularly in contract provision and grant provision cases, standard setting and feedback loops to government allow the use of performance indicators because government has a direct involvement in realisation of production. The options mentioned above on autonomisation of (hiving off) government activities are not the only developments in organising public service provision. In’t Veld (1995, p. 10) indicates that in some cases activities that were formerly privately organised are transformed to government controlled entities. This process is labelled “hiving in” (van Thiel, 2000, p. 10) in Dutch *verstatelijking*[1]. Although “hiving in” is a concept associated mainly with national government, it is also found at the local level. For example, a former private library is transferred into a public library.

The economic-organisational dimension of service provision in the public domain is one issue but not the whole story. Services delivered towards or on behalf of government can have a variety of characteristics. Some services are directly aimed at citizens, for example in public utilities. These were often historically initiated by local governments and operated at arm’s length of local government. Others are provided because they are in the general interest, for example health prevention services. These differences have an effect on the possibilities for funding of the services provided and on the level of demand for that service. It is clear that for utilities, a price per unit can be charged from the individual user, whereas a service in the general interest will tend to be funded by local government on an input or perhaps throughput (hours spent) basis. In the control relation between government and the entity providing the service, in some cases this leads to problems between the ownership role with respect to service provision and the commissioning role. From an ownership perspective, government is concerned about continuity of the organisation. When government rather than the individual citizen is commissioning the service, the main issue is receiving the required services at an appropriate price (van Oosterroom, 2002, p. 116; Linker, 2006, p. 101). The difference between the ownership perspective and the commissioning perspective may lead to conflicts of interest within the government “controlling” the organisation or between the government and the “controlled” entity.

Whether a process of hiving off or of hiving in is realised, in most cases a separate legal entity is producing the required services. The main exception to this rule is the form in which government provision is realised by means of internal autonomisation. At the local level this is often the case with urban development units managing land on behalf of local government. To avoid misinterpretation of concepts, I will use the concept of “associated entities”. An associated entity is a separate legal entity with an appointed board and a governance structure that is influenced by government and has a long-term business-like relationship with government to deliver services on behalf of government intended to have effect on society. This definition excludes contract relations that only regard service delivery towards government such as is the case with lease of offices or catering or entities providing services in the public domain where government has no influence at all such as the Red Cross.

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Before I can apply the theoretical notions on autonomisation and service provision with respect to local Dutch associated entities, I will first provide a general description of the different types of entities that exist at the Dutch local level.

### 3. Local associated entities in The Netherlands

#### 3.1 Institutional setting

In terms of operational relevance for citizens, local government is the most prominent part of government in The Netherlands, followed by the activities realised by national government. There is a third, intermediate, level of government – the provinces – but these are neglected here. Local governments can develop their own policies within the legal frameworks set by the constitution. In a number of policy sectors, national government sets a policy framework which is executed on the local level with (partial) funding of national government. These so called “co-government programs” (for example some social security benefits) are not regarded as part of the associated entities discussion as they oversee the relation between central and local government and are only governed by legislative requirements.

At the local level, both “public law” as well as “private law” associated entities exist. From a governance perspective, responsibility of local government with respect to associated entities is restricted. The political responsibility of an alderman (local executive politician) is not explicitly described in public law, but can be derived from the responsibility of his peer, the minister. The Dutch political system is based on individual ministers’ responsibility rather than full government responsibility for autonomised entities (see Christensen *et al.*, 2002, p. 161). A minister is fully responsible for all acts of the department he is managing. The responsibility for an associated entity is restricted to three criteria: first, the minister is responsible as far as authority is attributed to him/her. Second the minister is responsible and thus accountable for the framework in which the associated entity is operating in and third, the minister is responsible for actions regarding the associated entity – either public or private – (Kummeling *et al.*, 1999, pp. 19-20). In the relation between minister and associated entity, the first two criteria are most relevant because they determine the structural relations whereas the last criterion only oversees individual actions. At the local level, one can argue that the “framework responsibility” has less impact than on the national level but an alderman can also be held accountable for the structured relations between the local government bureaucracy and the associated entity as well as for what has been arranged in charters of associated entities created by the local government.

Associated entities basically emerge either by creating an entity that formerly has been part of government activities or when a private entity is hived in to the public domain because the services delivered are regarded as part of the public domain. At the local level, hiving off is more common than hiving in. Around 1900, local governments started to create public housing and public utility services, which were later hived off. In education, particularly in primary education the process of hiving off is still continuing. Processes of hiving in were historically often found in the arts departments such as theatres and music halls, but in the last decades these developments have been reversed. Hiving in at the national level can have its impact on responsibility of local government. Particularly in education, social housing, the health and care sector are domains that have to comply with national rules and are mainly funded based on

national regulation. Their operations are at the local level and some of the funding and monitoring responsibilities have been transferred to the local level.

*Hiving off and hiving in of housing and education.* It seems odd, but both hiving off and hiving in exists in the social housing and the education industries. This has to do with political developments in the Dutch State, where organisation along religious lines was an important issue. After a change in the constitution in 1917, each of the main religious groups was allowed to organise its own private schools to be funded by national government. Local governments had organised public schools before and these were also funded by government. In social housing, similar developments existed, but government funding only started after the Second World War. In the last quarter of the twentieth century, the process of hiving off the former public social housing corporations started, followed by a similar development in education. This development has not been completely ended. In education, it is still possible that a group of people creates a new private school and if it meets the requirements set by the department of education, it will be funded by government. As a result local government will have a part of the responsibility for that new school as well.

### *3.2 Associated entities at local level*

At the local level there is also a mixture of public and private law entities that qualify as associated entities. Formally, *Gemeentewet* ([GW]; Law on local government) stipulates that only in those cases where it is particularly relevant to use a private law organisation, the local government is allowed to use a private law based entity. In all other cases, a public law solution should be used. In a report on behalf of the minister of Justice, it is indicated that practices are different and many local governments are using private law entities to achieve their goals (Ministerie van Justitie, 2006, p. 19). Furthermore, the decree on local government budgeting [BBV] makes a distinction between affiliated entities [*verbonden partijen*] in which local government has both governance and financial interest, and other associated entities. The governance interest in an affiliated entity is defined as having a voting right or having a representative in the board of the affiliated entity. Financial interest is defined as having resources at stake in case of bankruptcy, either directly or indirectly. The criteria used for qualifying as an affiliated entity have resemblance to the “control” criterion used in international public sector accounting standards (IPSAS 6) but are not the same: under IPSAS 6 majority voting rights are required.

The public law solution of government co-operation has two basic forms: one in which a separate legal entity is created and one in which one local government actually provides services on behalf of a number of local governments. In the case of a separate organisation, co-operation may have been enforced by national laws as is the case with *Veiligheidsregios* (Safety regions) in which among other issues emergency services are organised. Other forms of co-operation are on a voluntary basis; an example is an organisation which provides social security benefits for a number of local governments. In that case, creating a separate legal entity often is driven by efficiency and scale motives. A particular form of public law co-operation is in the so called *Euregios*, which are cross border co-operations between local governments on both sides of national borders.

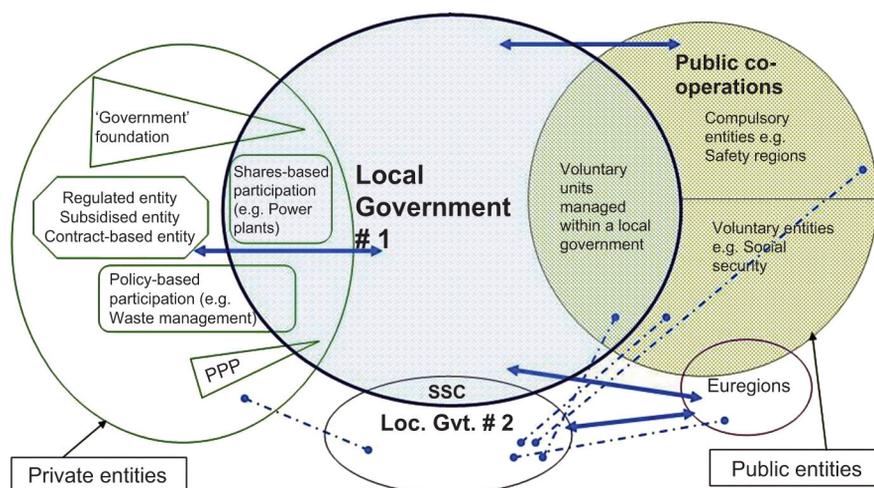
Private law associated entities exist in all forms known in the Dutch civil code. So share-based participations as well as foundations are used. The majority of newly

created associated entities between 1997 and 2005 were foundations, the different forms of share-based companies add up to another 40 + per cent of newly created associated entities (Ministerie van Justitie, 2006, p. 23). In a few cases, particularly in the utilities sector (water, power-network), shares cannot be sold and are held by all local governments together. To differentiate between participations which are compulsory and those that can be used freely by local governments, I label the compulsory held participations in companies as “share based participations” and the other ones as “policy based participations”.

Figure 1 shows the relations between a local government and its associated entities. I have mentioned the most relevant ones, the figure includes some relations - such as the contract based shared service centre operating on behalf of more than one local government - that do exist but are not commonly used yet.

### 3.3 Creating associated legal entities

Establishing a new legal entity by government requires some form of action by the executive branch of government. In this section, I will focus on a legal analytical perspective that covers the general concepts for autonomisation at the local level. Creating a local public legal entity is only possible based on the *Wet gemeenschappelijke regelingen* [WGR] (Law on local government co-operations), which stipulates that all local Councils involved have to give their consent to the creation of such an entity. Creating a private legal entity by the executive is allowed after notice has been given to the local Council and the Council did not object. If the Council does not object, the executive is allowed to create the private law entity after the approval of the supervising Provincial Government. The latter tests whether the local proposal is not a violation of the law or contrary to the general interest. WGR and GW only provide a very general instruction which means that there is no standardised charter in case of creating an associated entity.



**Note:** PPP: Public Private Partnership; SSC: Shared Service Centre

**Source:** Author's compilation

**Figure 1.**  
Local government and its  
associated entities

Dalhuisen (2004) noted in a study on creating private law foundations at the national level that in fact there are three options for a minister to create a new legal entity. In two cases Parliamentary consent applies: when the minister is the only one involved in creating a legal entity or when he creates the entity in cooperation with private partners (joint creation). There is a third option, the minister supports creating a new legal entity but is not involved in the formal procedure of writing up the statutes. In that case, formally private parties create the entity and the requirement of Parliamentary consent is not applicable. Theoretically, the local government has the same options as a minister if the use of a private law entity is preferred.

The other solution to arrive at associated entities is by hiving in an entity in the domain of government. In that case, an existing private law entity is regarded to be influenced by a government level with respect to their operations. The most extreme form of hiving in exists in the case of passing a law in Parliament which gives the legal entity a new status within the public domain. At the local level, hiving in cannot be realised by law, but must either be realised by a change in charters of the relevant entity or by participation in shares, other forms of refinancing an associated entity, or by creating new funding relations. In these cases the *ex ante* control in principle comes down to budget authorisation.

At the local level, four options exist for hiving in an associated entity. First, the formal GW:160[2] solution is mentioned. Local government can choose to participate in a private law entity after city council's consent. Second, in education, hiving in is realised after a private initiative to create a new school is included in the local school plan and as a result nominated for government funding. Third, local government can be indirectly involved in an associated entity in case another associated entity – most likely a public law co-operation – has created a relation to a third party to provide public services as is the case with public transport. Fourth, funding and financing agreements for example in relation to tendering procedures for public services or direct income transfers may actually result in hiving in an entity. An example of the latter form is subsidising a local library. Table I summarises the options that exist for creating associated entities.

#### 4. Managing *ex ante* control of associated entities

A political allocation mechanism determines the provision of services by local government. The key feature of this political allocation is the budget mechanism. The

Creating an associated entity	Hiving in an associated entity
Under the law, with consent of City Council By statutes, with implicit consent of City council and approval of supervising Provincial government: actively creating joint creation	Under the law, based on national regulations Under GW, with consent of City Council: buying shares participation in foundation
By statutes: no <i>ex ante</i> consent support creation	By creating a long-term funding or financing relation

**Source:** Author's compilation

**Table I.**  
Forms of creating associated entities at the local level

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formal budget authorisation is the prerogative of city Council, whereas an alderman is responsible for budget appropriation towards the actual service providers inside or outside the hierarchical structure of local government.

The budgeting process is also the prime *ex ante* control tool with respect to associated entities, particularly when the associated entity is funded by government. In The Netherlands, insufficient authorised resources are not an argument to neglect contractual financial agreements. In case overspending is forecasted or realised, this can be legitimised *ex post* by Parliament/City Council (Janse de Jonge, 1993, p. 369). It depends on the political impact of overspending, confidence in the alderman and the responsibility in the particular case whether or not an alderman will have to leave office.

In a number of cases, budgets cannot be appropriated by the alderman because funding is based on compulsory fees or other user charges. In that case the budgeting process is not a suitable instrument for *ex ante* control on associated entities. The type of *ex ante* control mechanisms that exist next to the budgeting control tools can be classified in two main groups, one for entities created by the legislator or the alderman and one for entities that were hived in after they were created. In both cases, a differentiation can be made between *ex ante* controls during the process of creating/hiving in an entity and *ex ante* controls during regular operations. I will start discussing the *ex ante* tools available to the executive in case of creating/hiving in an entity and then focus on *ex ante* controls during regular operations.

#### 4.1 Ex ante controls at the start

At the local level, there is no separate legislative procedure to create an autonomised entity. Arrangements on creating associated entities are based in two general laws: the public co-operation act [WGR] and the local government act [GW]. Public co-operations at the local level are decided on by the approval of all local government councils involved (WGR:1). Local councils can only reject the proposal in case of “being contrary to the law or general interest”. The format of a WGR-based public co-operation is described in the law, but still has some optional arrangements that may affect the *ex ante* control of operations after the entity has been created. Without agreement of all local governments, a public co-operation cannot be realised unless imposed by national government.

In GW:160.2, it is required that the executive (i.c. mayor and aldermen) submit a draft decree to the local council in which the proposed creation of a private law entity is laid down. Only after the local council has been able to give its comments on the draft decree a formal decision can be made. This procedure assures democratic control with respect to the decision. The local council cannot require specifications to the contents of the private law arrangement; only through a vote of confidence it is able to hold an alderman accountable for the creation of an undesired private law entity. There is however an emergency exit: the decree of the executive has to be approved by the provincial authorities (GW:160.3), who have the power to annul the decree with the argument “being contrary to the law or the general interest”. I note that the study by the ministry of Justice indicates that annulment is very rare (Ministerie van Justitie, 2006, p. 35).

Up till now, only the general *ex ante* controls regarding the creation an associated entity are discussed. Kummeling *et al.* (1999, p. 39) have classified the authority that

may be attributed to a minister in case of creating an associated entity into four groups: normative authority, issues regarding information provision, issues regarding governance structure and cyclical authority. These four groups can be identified at the local level as well. Given the arrangements in WGR and GW, influence of the City Council is not strong: at most the legislator can ask the executive to include or exclude particular optional elements of authority.

I will now discuss the three relevant groups of authority; the information provision issue is neglected because it covers issues as accountability and general information provision by the entities, which are mainly *ex post* control tools. In the other three groups, a mixture of *ex ante* and *ex post* controls exists. Particularly normative authority, which cover issues such as general instructions and policy rules are typical *ex ante* controls. However, normative authority is related to decision making processes to assure equal treatment in equal cases. At the local level individual decisions regarding citizens made by associated entities are less common than at the national level. In cases where normative authority exists, generally a decree by city council is needed in which specifications are made. Using normative controls provides assurance for compliance to democratically set standards. Usually, only in distribution of social security benefits as well as employment for handicapped people authoritative decisions by associated entities are made. In general such activities are transferred to associated entities for reasons of efficiency of scale on behalf of smaller local governments. Most other associated entities provide executive services that do not involve an authoritative decision. In those cases, the normative authority as *ex ante* control tool is less relevant.

The main *ex ante* governance controls are found in arrangements on appointments of members to (supervising) boards and *ex ante* controls on certain operational decisions. Examples of *ex ante* controls on decisions can be approval of changes in charters, approval of certain type of investment decisions (WGR:32). Governance structure controls allow the alderman to realise his/her responsibility towards city Council. Second, it prevents boards from restructuring the autonomised organisation without prior consent, resulting in an entity that has no democratic control at all. The last group of *ex ante* controls regards cyclical responsibilities such as the approval or decision on budgets by the minister. These controls include the planning and control system as well as relevant performance indicators. I will discuss these controls in section IV.2 as they are related to *ex ante* controls during operations.

The *ex ante* controls in case of hiving in an entity are realised by changes in charters, funding and financing conditions or eventually forms of contracts in case of tendering procedures. In most of these cases, *ex ante* control in principle means budget authorisation. It must be noted that in case of indirect hiving in, in case of regional co-operation the *ex ante* controls are less strong than in other cases.

#### 4.2 *Ex ante controls after creation of an autonomised entity*

The distribution of responsibilities in terms of normative and governance controls can be monitored once the entity is executing its tasks. During operations, the most prominent of the *ex ante* controls are now found in the cyclical controls (Kummeling *et al.*, 1999) that allow for actively adapting operations to the service levels desired by city Council. The most important cyclical control tool is financial *ex ante* control. Cyclical control tools do not only serve political control, they also provide opportunities

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for accountability towards all other stakeholders of the organisation. There are two basically different forms of financial *ex ante* controls to be identified. First, the annual budgeting procedure is to be mentioned. Second, contract based or rule driven funding is the other option.

The local budgetary process is since 2004 based on the approval of program budgets which include both expenses within local government as well as expenses to be made with respect to associated entities. The BBV-framework allows local governments to disclose information based on their own preferences. It thus depends on the choice of the executive whether or not to disclose more information, including performance indicators, than aggregate expenses for each program. There may be two other sources to find budgets to be spent in relation to associated entities. First, BBV also requires that a separate – risk oriented – section in the budget document discloses information on affiliated entities. This is not necessarily financial information, but it can be. Second, at the executive level, detailed budgets in relation to the programs must be available. Under this requirement, information on expenses and financial position of all affiliated entities is separately required. It is likely, but not covered in BBV – that information of other associated – not being affiliated – entities will also be available in the detailed budgets. Whether the resources are allocated on a classic input budget basis or on a more sophisticated performance related agreement (von Weizsäcker *et al.*, 2005, pp. 7-8) is a matter of political preferences and possibilities for specification of services. Of course, *ex post* accountability can benefit from performance based budgets, rather than from traditional input budgets. As a result of BBV-regulations, City Council only has two sources of information on budgets of associated entities. It can be included in the separate section on affiliated entities in the budget document. Otherwise, City Council must ask the executive explicitly to disclose the information in the program budgets. In both cases, the main *ex ante* control is not in the formal budget authorisation, but in the budget appropriation by the alderman who decides to distribute resources to the associated entity. Again, whether the budget is input or performance based is not essential: it is the alderman who has to decide whether or not to spend the money. The basis for that decision is the approval of the budget as submitted by the associated entity to the local government. I recall that in one case, public co-operation at the local level, the *ex ante* control on budgets for individual local governments is virtually non-existing. The proposed budget of a public co-operation must be submitted to all local councils, but they only have the opportunity to comment on the proposed budget; it is the board of the public co-operation that decides.

In a setting in which public services can be provided from a more market based setting, it is possible to use a form of a contract in which services are specified rather than a mere approval of a budget. von Weizsäcker *et al.* (2005, pp. 7-8) specify a number of contractual forms related to different types of associated entities. This ranges from service contracts with private entities to concessions and diverse intermediate forms of public-private co-operation. Depending on the type of contract, *ex ante* control is on a unique individual basis as is for example the case in a public-private partnership program aiming at urban development. Other types of contracts may have a more cyclical character, for example when tendering procedures for concessions or service delivery are used. The *ex ante* controls are then limited to the program specifications on the case basis and the market mechanism decides which provider has the winning bid. Although such contracts are close to market relationships, there still is a residual

risk involved that can be regarded as a typical risk in case of associated entities. The remaining residual risk refers to the case that the entity that won the tendering procedure fails to provide the service. Government then has to fall back to other solutions – at a certain price – to assure that service-levels towards citizens remain assured. That this is not a theoretical proposition can be illustrated on the case of a nation wide care provider that went bankrupt and where local and national government had to find solutions to guarantee that services were delivered (Parliament, 2008a, p. 2). More generally, the National Court of Audit expresses its concerns on the governance structure of associated entities such as care providers and housing corporations (Parliament, 2008b).

Theory can provide a general remark on *ex ante* controls in these forms of contract based public private partnerships, but an assessment of the actual impact of *ex ante* controls in these cases can only be based on case studies of individual contracts. Therefore I will neglect the *ex ante* controls on contracts in the remainder of this paper.

A final remark to be made is that the risk related to associated entities is not the same in all cases. It depends on the governance structure and eventually existing oversight structures whether or not there is a relevant risk for local government. In the social housing sector, a form of mutual insurance exists to support entities under financial distress. In tendering cases, price competition is crucial and no financial oversight exists. If prices are wrongly calculated, this will emerge during actual operations. Most likely this will result in renegotiating the service contract with a relatively high risk for local government.

In this section, I have discussed the *ex ante* controls available to local government. The most important issue is the distribution of authority at the start-up of an associated entity. After creation of an entity the cyclical authority attributed to legislative body (budget authorisation) and/or alderman are the prominent *ex ante* tools. In Table II, I have summarised these tools. In the next section, I will focus on empirical results with respect to the use of the *ex ante* tools at the local level.

### 5. Empirical evidence at the local level

Local government has the opportunity to create arrangements in which *ex ante* control tools in their relation to associated entities can be institutionalised. The fact that tools

Entity created	Entity hived in
Budgetary funding	Budgetary funding
Contracting	
Performance standards	
Prescribed tools for public co-operation (WGR)	Allowing to apply for recognition Indirect through
City council consent with creation of entity.	participation in other associated entities
(GW)	
Responsibility of alderman laid down in charters	Changes in charters enforced
normative tools	Buying shares
cyclical tools	
governance tools	

**Table II.**  
*Ex ante* controls available  
with respect to associated  
entities at the local level

**Source:** Author's compilation

can be available does not necessarily imply that these tools are used in the actual relation between government and associated entity. In this section I will focus on the use of the control tools that are available. Due to the wide range of arrangements, it is not possible to pay attention in full detail to all possible associated entities. I have chosen to focus on affiliated entities as meant in the definitions of the BBV-decree.

In the case of affiliated entities at the local level, I chose for a secondary research approach based on studies by Dutch local courts of audit. Based on an internet search I was able to find 34 reports by local courts of audit on affiliated entities. Table III shows the distribution of the reports that were available. The Appendix (Table AI) lists the local governments that were included in this study.

At the local level, the general impression on the *ex ante* control of affiliated entities is negative. In 70 per cent of the cases the overall conclusion of the courts of audit studies was that local government is not in control with respect to its relation to affiliated entities. Table IV shows the results on the different items described here.

Perhaps the most important conclusion at the local government level is that 70 per cent of the Court of Audit reports mentions a lack of policy documents that can serve as guidance for the relation between affiliated entities and local government. In the individual studies, particularly those that only focus on public co-operation, a part of the explanation is found. The public co-operation is the traditional form of affiliated entity. In general, an individual local government has no direct influence on the

	Number of inhabitants of city			Total
	< 40,000	40,000 < x < 100,000	> 100,000	
<i>Affiliated entities discussed</i>				
All	9	7	1	17
Public co-operation only	2	3	1	6
Cases	4	4	1	9
Privatisation	0	2	0	2
Total	15	16	3	34

**Source:** Author's compilation

**Table III.**  
Affiliated entities  
included in local courts of  
audit reports studied

	Number of inhabitants of city			Total
	< 40,000 (n = 15)	40,000 < x < 100,000 (n = 16)	> 100,000 (n = 3)	
Insufficient use of performance indicators	10	7	0	17
Insufficient integration in P&C-system	8	4	0	12
Insufficient information provision	8	2	2	12
Policy document on managing relation to affiliated entity unavailable	12	9	3	24

**Source:** Author's compilation

**Table IV.**  
Use of *ex ante* control  
tools according to local  
courts of audit

operations of the entity because it has no majority vote. Furthermore, budgetary processes of public co-operations at the level of the individual local government only have a consulting status, which reinforces the idea that political influence is only limited.

Another explanation for the results found here is that the issue of affiliated – or even wider associated entities – at the local level has only been formally on the political agenda as of the introduction of the BBV-decree in 2004. Most local governments had to find their way in making arrangements with these entities and making these arrangements explicit. In some cases, for example in waste management, arrangements are contract based because the services can be obtained in a competitive market. However that is an exception. The data on affiliated entities used here were generally published between 2006 and 2008 and thus reflect the early stages of the control process with respect to associated entities.

In only four cases local governments had organised the ownership and commissioner roles separately. Theoretically the alderman responsible for Finance could act as the one responsible for ownership of associated entities. However, unlike his/her counterpart at the national level, the alderman's portfolio is wider than finance only and also includes at least some policy issues, which may result in conflicts of interest. Furthermore, in public co-operations, the board of the public co-operation entity consists of representatives of local government, again in most cases an alderman. In their role as member of the board of the public co-operation, they have to act in the interest of that co-operation only which may result in a conflict with their role as both owner and commissioner of the co-operation from the perspective of the local government they represent. From a commissioning point of view, there seems to be a lack of awareness on the differences between the services provided by associated entities. In most local court of audit studies reference is made to the insufficient use of SMART performance indicators, but I did not find remarks on differentiation between for example public co-operations that provide services directly to citizens or those that operate on a more abstract level of policy co-ordination between a number of local governments.

The problem with the local court of audit reports is that they generally only focus on the affiliated rather than the associated entities. Only in the report of the Court of Audit Schiedam-Vlaardingem (Rekenkamercommissie Schiedam-Vlaardingem, n.d., pp. 37-38) explicit reference is made to the responsibility local government has to the continuity of service provision and thus to a form of monitoring these associated entities, not being affiliated entities. This omission is relevant because once a contract has been granted to an entity; there is no competition anymore up till the next tendering procedure. If the associated entity fails to deliver its services, government has to find other – often more expensive solutions to guarantee service provision to its citizens. In 2009 only, problems with respect of continuity of at least two hospitals, two care providers, three social housing corporations and a public transport corporation emerged in the national newspapers. In the Dutch context, this is an indication that there may be serious risks involved in controlling associated entities.

Finally, based on the descriptions of affiliated entities in the reports studied, an indication can be given of the type of associated entities in relation to the type of provision of services as identified by Boorsma and Mol (1983). The reports do not always disclose all affiliated entities; therefore presenting quantitative data might be

misleading. I have chosen to give more qualitative labels. Under consolidated and contract provision, most entities mentioned have a public law governance structure, whereas the other three types of service provision generally have a private law governance structure. Main exceptions are waste management which is in many cases private law based and employment services which can also have a private law governance structure (see Table V).

## 6. Conclusion

In this paper I focused on *ex ante* controls with respect to public services provided by autonomised entities in The Netherlands. My research question was:

*RQ1.* What are the *ex ante* control tools available to City Councils to find a match between the level of autonomisation and political control with respect to autonomisation of provision of services in the public domain?

The main topics derived from theory to address control of autonomised government units are the distribution of responsibility, the provision of services and the possible role conflicts between ownership and commissioning role of government with respect to the services delivered. A clear separation between the ownership role and commissioning role allows for improvement of specifications of services to be delivered. This can include the use of performance indicators as an (*ex ante*) standard setting tool by local government. The variety of associated entities at the local level does not allow for a “one size fits all” approach for *ex ante* control at a particular government level. Furthermore, there is no framework that could help creating a governance structure for associated entities.

At the local level, the debate on controlling associated entities is relatively recent compared to developments at the national level. Regulations require as of 2004 that for a specific group of associated entities information should be included in local government’s budget documents. Based on reports of local courts of audit, the conclusion is that in the majority of cases, local government insufficiently controls associated entities. In hardly any case performance based information is available and in the majority of cases there is a role conflict between government as owner and government as commissioner. From an *ex ante* control perspective, public co-operations have a relatively high risk profile because there is no single government that controls the entity. Due to the strict definition of affiliated rather than associated entities in legislation, some groups of entities are not included in

Consolidated provision	Contract provision	Grant provision	Regulated provision	Private provision
Regional cooperation	Waste management	Sports facilities	Business parks	Power supply utilities
Emergency services	Public health services	Theatres	Urban developments	Public transport
Employment disabled people	Social security benefits	Cultural activities		Parking facilities

**Source:** Author’s compilation

**Table V.**  
Typical affiliated entities  
and the corresponding  
type of service provision

budgetary documents, despite possible risks related to them. This seems to be an omission in the control system because City Council has only indirect access to information on these entities if any information at all.

The overall conclusion of this paper is that at least three problems are not solved yet. This regards the specification of services requested including performance indicators, the role conflict between commissioner and owner – particularly at the local level – and the *ex ante* control on associated entities that operate locally or regionally under a national framework.

### Notes

1. Hiving in and hiving off are opposites similar to nationalisation and privatisation. Nationalisation is unusual in a Dutch context (de Vries and Yesilkagit, 1999, pp. 118-119) and would not provide an accurate description of the position of an entity that is hived in.
2. When I refer to legislation, I will use the format: “abbreviated name of law: article-number: sub article-number”.

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< 40,000 inhabitants ( <i>n</i> = 331; 1 Jan 2009) Alblasserwaard	40-100k inhabitants ( <i>n</i> = 75) Bergen op Zoom	> 100k inhabitants ( <i>n</i> = 25) Ede
Bergeijk	de Bilt	Haarlem
Brunssum	Delft	Rotterdam
Franekeradeel	Gouda	
Gorinchem	Hilversum	
Hoeksewaard	Houten	
Kapelle	Middelburg	
Leerdam	Nieuwegein	
Moerdijk	Oosterhout	
Oudewater	Roosendaal	
Pijnacker	Schiedam	
Rheden	Steenwijkerland	
Veere	Venlo	
Waddinxveen	Vlaardingen	
Werkendam	Vlissingen	
	Zeist	

**Table AI.**  
Local governments  
included in this study

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# Accountability and governance: strengthening extra-bureaucratic mechanisms in Bangladesh

Accountability  
and governance

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## Abstract

**Purpose** – This paper aims to examine accountability arrangements in Bangladesh and to identify strengths and weaknesses, as well as potentials for improvement.

**Design/methodology/approach** – The study is based on review and analysis of published documents and data and information obtained on field visits to Bangladesh.

**Findings** – The administrative system in Bangladesh is driven by complex rules and procedures with weak institutional support. Internal mechanisms of accountability in administrative organizations have become ineffective due to existing political, economic and social conditions. Therefore, the external mechanisms of accountability must be strengthened to ensure good governance in Bangladesh.

**Social implications** – A weak system of accountability renders the task of public management difficult and the establishment of good governance unattainable. Improvements in social conditions can be expected with the strengthening of accountability mechanisms.

**Originality/value** – The value of this paper lies in the identification of factors such as institutional disharmony, politicization and corruption as the most formidable barriers to accountability and good governance in Bangladesh. It presents a fresh analysis of the factors and points to the potentials for improvement.

**Keywords** Bureaucracy, Parliament, Governance, Bangladesh

**Paper type** Research paper

## Introduction

Accountability is identified as an essential element in achieving good governance. New states that do not have a long tradition of functioning under an operational system of accountability face the challenge of establishing a system of governance that ensures a responsive, equitable and effective government. Since achieving independence in 1971, Bangladesh has suffered from numerous problems. Military intervention, political instability, natural disasters, overpopulation, corruption and a number of other factors have impeded the progress of the country. Post-colonial legacy of the British and Pakistani rules has been a strong obstacle, and efforts to ensure good governance have been futile, as an intriguing set of features and circumstances contribute to the problem[1].

Judging by reports, speeches and rhetoric coming out of Bangladesh, political leadership, administrative officials and citizens consider good governance to be the solution to the numerous problems confronting the country[2]. Poverty, administrative incapacity, political instability and a number of other maladies

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make life extremely difficult for the citizens. Political leaders become overwhelmed at the magnitude of problems and administrative officials appear to be captives of the system that does not allow them to perform effectively. Most of these problems can be traced to the absence of an effective system of accountability in Bangladesh. Lack of accountability has resulted in administrative failure, poor political decisions and high incidence of corruption. Therefore, a sound system of accountability could be the first step in alleviating most of the weaknesses in the administrative system of Bangladesh. In fact, good governance as an overarching principle can be realized through a number of building blocks such as accountability and other mechanisms.

This article reviews the concept of accountability to establish a framework for examining the existing circumstances in Bangladesh. An examination of the constitutional arrangements for accountability will help understand the context in which the concept is to be operationalized. At the same time, the political aspects of the issue need to be recognized. In addition to the internal arrangements found in government agencies and organizations, it is useful to consider the role of the Parliament and its committees, media, political parties, think tanks and the civil society because all have a role to play in the process. Further constraints emerge due to the disharmony between the executive, legislature and judiciary. In addition, corruption and adversarial relationships between the two major political parties pose obstacles in the way of an effective system of accountability. The ultimate objective is to argue that established internal arrangements for accountability in the public services of Bangladesh are neutralized by bureaucratic and political interests, and extra-bureaucratic means and mechanisms need to be strengthened to facilitate accountability.

### **Accountability as a tool of governance**

The linkages between governance and accountability are obvious. Rhodes correctly pointed out that governance takes on a number of meanings and described it as a “new process of governing”, and refers to “self-organizing, interorganizational networks characterized by interdependence, resource exchange, rules of the game and significant autonomy from the state” (Rhodes, 1997, p. 15). Peters (2000, p. 31) suggests that governance implies changes in the public sector that minimize the role of formal governmental actors. The World Bank (1989) views governance as “the exercise of political power to manage a nation’s affairs”, and the Asian Development Bank (1997) describes it as “the traditions and institutions by which authority in a country is exercised for the common good”. Kooiman (1993, p. 258) goes on to describe the phenomenon as “the pattern or structure that emerges in a socio-political system as a common result or outcome of the interacting intervention efforts of all involved actors”. Almost all analysis of governance places accountability as a critical element in the framework. Brinkerhoff (2006, p. 270) lists transparency, responsiveness and accountability as its core components.

There are good reasons for actors involved in decision-making in government, the private sector and civil society organizations to be accountable to the public, as well as to institutional stakeholders. Accountability acquired increased importance as modern governments seek to enhance the degree of freedom and empower managers to manage

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in order to achieve targets. It provides the critical check and balance in the more liberated environment of public administration.

Accountability refers to the extent to which one must answer to higher authority – legal or organizational – for one’s action in society at large or within one’s particular organizational position (Shafritz and Russell, 1997, p. 376). It is grounded in arrangements to call public officials, private employers or service providers to account requiring that they be answerable for their policies, actions and use of public money. This has emerged as a major issue in Bangladesh because corruption, or the abuse of public office for private gain, has affected the quality of administrative decisions, and the consequences have been very bad for the poor sections of society. This group does not have direct access to officials and are the least likely to be able to obtain public services.

Day and Klein (1987) identified five types of accountability – political, financial, professional, managerial and legal. They highlight the need for public officials to be accountable for responding to the needs of citizens, using taxpayers’ money judiciously, remaining dedicated to their professions, properly using authority delegated to them for specified tasks, and upholding the rule of law. This paper focuses on three types of accountability mechanisms: political, administrative and public or social. Political accountability is related to the performance of governments formed by political parties. The right to govern by representatives of the citizens in the legislature is ensured through democratic elections. Administrative accountability of government agencies is attained through internal mechanisms, both vertically within and horizontally across organizations in the public sector. Public/social accountability mechanisms help to hold government officials and agencies accountable to citizens. This is important because, in developing countries, there is frequent interaction between administrative and political actors. Such arrangements have the potential to reinforce political and administrative accountability mechanisms.

Romzek and Dubnik (1991) categorized accountability on the basis of source of control (internal or external) and the degree of control (tight or loose). DeLeon argued that “different accountability mechanisms are appropriate in different circumstances”, and added that it depends “on the type of problems it is designed to handle” (DeLeon, 1998, p. 553). For countries like Bangladesh, a number of tools and strategies may be considered to ensure greater accountability to citizens for public actions and outcomes. Access to information by citizens builds pressure for improving accountability, whether in setting priorities for national expenditure, providing access to quality schools, ensuring that roads once finalized get built, or seeing to it that medicines are actually delivered and available in health centres. Access to laws and impartial justice is also critical to protect the rights of poor people and pro-poor coalitions to enable them to demand accountability, whether from their governments or from private sector institutions.

Following the lead of western democratic countries, many developing countries have adopted similar frameworks for ensuring accountability. They include:

- external-formal mechanisms: legislative committees and parliamentary questions; control of political executives over public agencies; administrative courts and ombudsman;

- external-informal mechanisms: public hearings, interest groups; opinion polls; media;
- internal-formal mechanisms: rules; codes of conduct; hierarchies; performance reviews; and
- internal-informal mechanisms: organizational culture; professional ethics; peer pressure (Haque, 2001, p. 606). Several of these mechanisms appear to be ineffective in Bangladesh.

“Central to good governance, and a special aspect of the rule of law, is the efficient and accountable management of public finances” (World Bank, 2002, p. xi). At the community level, it is also important to give poor groups choice as well as the resources to purchase technical assistance from any provider rather than accepting it from the government. Fiscal discipline can be imposed by setting limits and reducing subsidies over time. Contractor accountability is ensured when poor people decide whether the service was delivered as contracted and whether the contractor should be paid. When poor people can hold providers of public service accountable, it will be possible to shift the location of control and power in their favour.

In simple terms, accountability means answerability for the discharge of duties or conduct. It calls for satisfactory reasons for the conduct of officials as well as acknowledgement of responsibility for their actions. An effective system of accountability serves as a check on power and authority, and is applicable to both politicians and administrators. In this sense, accountability is both a mechanism and a process, by which the political leadership of a country discharges its routine duties through ministers and civil servants, and these officials are required to account for their actions or inactions on matters related to administration. Public administrators are bureaucratically accountable to elected officials and political officials are politically accountable to the voters (Hughes, 1998). This arrangement helps to free the government from encountering challenges to authority, avoid potential mistakes by its officials, and protect public interests.

Accountability in various aspects of public affairs presents a formidable challenge in Bangladesh. It is essential for establishing the legitimacy of governing elites, as well as ensuring just and equitable treatment of the citizens. At the same time, an effective system of accountability can contribute to improvements in the production, delivery and distribution of public services. The following section reviews the state of bureaucratic accountability in Bangladesh and the inadequacies that affect the process. The situation reflects the classic tension between “moral” and “political” responsibility highlighted by Friedrich and Finer. While Friedrich (1940) favoured ethical values and professional standards to guide the behavior of public officials, Finer (1941) argued for the establishment of external measures for keeping them in check[3]. Bangladesh provides an interesting milieu for testing these ideas.

### **Bureaucratic accountability in Bangladesh**

The administrative agencies in Bangladesh are organized in a hierarchical structure, with the central Secretariat in the capital as the nerve centre. The system is based on a legal-rational framework and has been in effect since the British colonial period and later (1947-1971) when Bangladesh formed part of the state of Pakistan. Statistics are

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not regularly published, and it is difficult to obtain accurate numbers for the purpose of analysis. Zafarullah (1998, pp. 88-90) categorized ministries and departments into executive, regulatory, service-oriented/welfare, developmental, promotional, advisory, research, and international to demonstrate the extent of their breadth and coverage. Therefore, public officials are engaged in performing a wide variety of tasks and a framework of accountability is needed to guide their behavior.

There is vertical and horizontal differentiation in the structure of public administration in Bangladesh. Ministries are generally organized along functional lines with a rigid hierarchy of levels. The bureaucracy used to attract the best available talent in the country to its ranks and this institution acquired influence as the political system crumbled and military intervention shifted power to an alliance of the army and bureaucracy (Huque and Rahman, 2003). The slide in public accountability can be attributed to the political instability and problems of legitimacy faced by successive governments in Bangladesh.

The structure of government in Bangladesh has undergone changes frequently in the early years. Immediately after independence, Bangladesh adopted a system of multi-party parliamentary democracy in which the legislature, the cabinet of ministers and the opposition in the parliament had a major role to play in ensuring accountability (see Constitution, Part V). In 1975, an amendment of the constitution resulted in the establishment of a single-party presidential form of government, and the balance of power shifted to the executive (Hakim and Huque, 1995). Soon after wards, the military captured power and, in the process of civilianization, opted for a multi-party executive-led system. The government was dominated by military leaders who did not appear to be accountable for their decisions and actions (Huque and Akhter, 1989), and power was concentrated in the office of the President.

As in all bureaucracies, the first and foremost mechanism for accountability in Bangladesh is the administrative hierarchy. The bureaucracy at the central secretariat is organized into Sections, Branches, Wings, Divisions and Ministries. In each unit, there are arrangements for supervisors to ensure accountability of the officials under their charge. Senior Assistant Secretaries are in charge of sections and Deputy Secretaries, of branches. Wings are headed by Joint Secretaries, and Divisions by Secretaries or Additional Secretaries. The Ministries are headed by ministers and the hierarchical setting helps ensure accountability of officials at the lower levels. For the purpose of field administration, Bangladesh is divided into divisions, districts, and upazilas (sub-districts). Divisional Commissioners supervise the work of District Commissioners who, in turn, supervise Upazila Nirbahi Officers. In turn, the supervisors at the highest level of Secretariat/Ministry and field administration are accountable to the respective ministers (Mollah, 2008, pp. 92-93).

The supervisory-subordinate relationships contribute to the process of accountability in a number of ways. Annual confidential reports (ACRs) are prepared by the supervisors on the performance of officials. The ACRs constitute an integral component of the assessment for career advancement, and can result in denial of promotion, increment or other rewards. Although the heavy reliance on ACRs is often viewed as unfair due to the lack of objectivity on the part of those preparing them, they continue to be in use (Ali, 2004). The ACR is supplemented by supervision,

inspection, audits, and written reports on the performance of the agency as well as officials.

The Rules of Business are designed to guide the functions of officials and have served as another mechanism for ensuring accountability. They govern the activities in public organizations in Bangladesh, and are used as the basis for making decisions. The Rules of Business remained unchanged since 1975 and hence may cause confusion among public officials. Military rule led to the establishment of strong presidential systems, and permanent secretaries of the ministries emerged as executive heads and principal accounting officers of their respective ministries. The ministers had hardly any power, and needed full and direct support of the President to function. "Before 1996, the permanent secretaries and civil administrative officials (but not the ministers, though they were elected members of the Parliament) were Executive Heads and Principal Accounting Officers of the Ministries" (Mollah, 2008, p. 93). Thus, the lines of accountability have remained fuzzy over the years.

In addition, bureaucratic agencies have other arrangements to ensure accountability. Failure to perform or complaints of maladministration can trigger departmental investigations culminating in sanctions. Elements of a code of conduct for public servants are incorporated in the *Government Servants Conduct Rules 1979* (Government of Bangladesh, 1979), and the *Government Servants (Discipline and Appeal) Rules 1985* (Government of Bangladesh, 1985), but there is no integrated code of conduct that contributes to accountability in public administration in Bangladesh. To make things worse, intense politicization often frustrates efforts of senior officials to enforce these rules.

In the past, problems of accountability and a number of related issues had deep impact on the state of public administration in Bangladesh. Political changes contributed to the centralization of authority and subsequent politicization of the bureaucracy had adverse effects on the recruitment process. The consequences included bureaucratic domination over policy decisions, factionalism and micro-bureaucracies, and bureaucratic intemperance and intransigence (Zafarullah, 1987). The problems are not exclusively limited to the bureaucracy and reflect a much wider concern. Kochanek (2000, p. 531) found that "a combination of weak institutions, patrimonial politics, personalized political parties, patron-client relationships, and the absence of political consensus have resulted in a partial democracy dominated by perverse corruption, a lack of transparency, normless behavior, an absence of public accountability, and political instability".

To sum up, post-independence bureaucracy in Bangladesh operated on centralized authority while the hierarchical relations became more flexible in spite of strict central control. There was an increase of input from below, but the application of rules became irrational and elitism remained dominant. Superiors were compelled to share power with subordinates, and the level of trust was low (Huque, 2010). The relationship between politicians and bureaucrats was interdependent in nature, and the level of competence varied, as the quality of performance was contingent on the political affiliation of the official. A high degree of politicization had contributed to all these changes. The bureaucracy took advantage of weak political and national institutions, and senior bureaucrats gradually shifted from a position of domination to alliance with powerful stakeholders in the system (Huque and Rahman, 2003).

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A number of reforms were attempted with various objectives. They were initiated by the Government of the People's Republic of Bangladesh to ensure continuity of government (1971), control bureaucracy (1972), win public support (1972, 1976, 1984, 1986, 1098, 2004, 2008), strengthen bureaucratic elite (1976), review organization and personnel (1982), decentralize administration (1982), and make civil service effective and efficient (1997). In addition, the International Development Association (in collaboration with the government), World Bank and the United Nations development Program also undertook studies to identify problems and recommend measures for improvement. Accountability has featured in almost all the studies as a critical requirement, but there has been little progress in this area mainly because most of the reports from reform bodies (except the National pay Commissions) were either ignored or partially implemented.

Therefore, the internal and bureaucratic mechanisms for accountability remained ineffective and recommendations for reforms to improve the system were not fully implemented. This points to the need for exploring the extra-bureaucratic mechanisms for accountability and assess their potential for making public administration more accountable in Bangladesh. In addition to the legislature and judiciary, the media and civil society are demonstrating increasing concern over this issue. Besides, since Bangladesh is heavily dependent on external aid, the donors (World Bank, International Monetary Fund, International Development Association, the United Nations and a number of industrially and economically developed countries) take a keen interest in enhancing accountability in the country. Finally, the private sector is also participating in the debate as their operation and productivity is often jeopardized due to lack of accountability in government.

### **Problem areas**

An overview of the institutional arrangements and relationships as well as bureaucratic behavior points to a number of factors that act as impediments to accountability in Bangladesh. They are institutional disharmony, political partisanship and politicization of the bureaucracy, and high incidence of corruption. Each of these factors has impacted the effectiveness of the internal mechanisms for accountability and a combination of these constitutes a major challenge.

#### *Institutional disharmony*

The Constitution of the People's Republic of Bangladesh (Bangladesh Government, 2004) stipulates the role of the key national institutions and the nature of their interaction. Unfortunately, frequent political changes in the country did not allow the constitutional practices to take root, and the institutions have regularly been manipulated to protect the interests of the ruling groups. The constitution was amended several times, often for trivial reasons (see Hakim and Huque, 1995). The Constitution of Bangladesh was adopted in 1972 and it provided for a multi-party parliamentary democratic form of government. Powers were vested in the legislature and the President was a titular head of state. In 1975, the constitution was amended to revert to a single-party presidential system. The country remained under Martial Law for four years (1975-1979), and the military rulers further curtailed the authority of the national institutions. A multi-party Presidential system continued until the next

military takeover in 1982. Bangladesh returned to a multi-party parliamentary democratic system in 1991.

The inter-institutional harmony was further disturbed by the adoption of an interim, non-partisan caretaker government since 1996. Owing to complete lack of trust in the government in power, an arrangement was made to form a caretaker government that is composed of politically neutral advisors under the leadership of a Chief Advisor. The mandate of the caretaker government is to hold elections within 90 days and hand over power to the new elected government. Even this arrangement for ensuring neutrality did not succeed in establishing trust among competing political parties. On occasions, the defeated parties have placed the blame on caretaker governments, alleging that they helped their rivals. Hoque and Ahmed (2004, p. 130) observed that the political leaders who were instrumental in influencing the introduction of the caretaker government “have paradoxically become its worst critics”.

Frequent tinkering with the constitution thwarted the prospect of establishing conventions and practices to guide the behavior of the actors involved in ensuring accountability in the public services. The bureaucracy has been a dominant partner in governing Bangladesh for various reasons. Political leaders with scant experience in governing relied excessively on non-elected members of the bureaucracy to make policy decisions and implement them. The expertise and experience of the bureaucracy was recognized by the leaders of Bangladesh, both in civilian and military governments. This further undermined the sovereignty of the Parliament and the executive continued to dominate the legislature even after military rule was terminated. For similar reasons, the judiciary was unable to perform its expected role. It can be said that the lack of harmony among the national institutions has not allowed the principle and practice of accountability to work in Bangladesh.

#### *Political partisanship*

Bangladesh has a history of experiencing political change through violence as two Presidents were assassinated and the military took over power several times. The two principal political parties (Bangladesh Awami League or BAL and Bangladesh Nationalist Party or BNP) have never been able to work together effectively as the government and the party in opposition in the political system. These political parties have demonstrated absolute intolerance of one another, and the party in opposition refuses to attend sessions of the Parliament. Such strong political division has permeated all the other institutions. Each party seeks to identify and support its supporters in the bureaucracy and military while they are in power. With a change of government, there is a turnaround, and supporters of the other party are appointed to key positions where they can continue to promote the interest of the governing group.

Political partisanship has resulted in politicization of the bureaucracy at all levels. There is a tendency among bureaucrats to demonstrate their loyalty to the ruling political party, in exchange for promotion, prize postings and even the prospect of a political career after retirement from public service. It was reported that health sector jobs were “grossly politicized” as only the doctors affiliated with the ruling BAL “are being given lucrative posts while skilled doctors are being removed from responsible posts or transferred to remote regions because of their affiliation with other political parties” (Zannat, 2009).

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The ruling parties make special efforts to accommodate the expectations of their supporters. Every change in government is followed by reassignments, dismissals, promotions and handing out penalties in the form of designating officials as Officer on Special Duty (OSD). The OSDs receive pay and benefits, but are not assigned to perform any task. At present, 81 officers are designated as OSDs (*The Daily Star*, 2009b). Not only does this arrangement result in huge wastage of public resources, it also encourages political partisanship, because a change of government can reinstate them in important positions. The requirements of accountability are relaxed for supporters of the ruling political party, and their actions reflect much more power than they are officially accorded.

### *Corruption*

For several years, Bangladesh was listed among the most corrupt nations in the Corruption Perception Index compiled by Transparency International (see [www.transparency.org](http://www.transparency.org), various years). Corruption takes many forms in the public sector, and has rendered the framework of accountability weak. The incidence of corruption has progressively intensified since the independence of the country. Various newspapers reports identified some of the key agencies of government such as police, customs, taxation and the central secretariat as extremely corrupt. A study by Knox (2009, p. 129) noted the prevalence of petty corruption as well as the fact that key politicians of Bangladesh (including the two leaders who have served as Prime Minister and leader of the opposition for the past 18 years) have been charged with committing corruption[4]. This observation provides a picture of the severe incidence of corruption in Bangladesh.

Zafarullah and Siddiquee (2001, pp. 469-471) listed pilferage and larceny, responsibility lapses, bureaucratic intemperance, and patronage as various forms of corruption. The award of contracts and tenders for procurement and infrastructure construction without following due procedure is common. It is interesting that political parties in power initiate cases of corruption against those in opposition. Although it is claimed that the higher courts have taken a tough stand by delivering verdicts against powerful political leaders including former Presidents and Ministers (Zafarullah and Siddiquee, 2001, p. 480), most of these verdicts are overturned as soon as they return to power. The allegations of corruption are generally perceived to be accurate by the public, although they do not bear much impact as political pressure is exerted to dismiss them. Article 66 of the Constitution of Bangladesh stipulates that "A person shall be disqualified for election as, or for being, a member of Parliament, who has been convicted for a criminal offence involving moral turpitude, or sentenced to imprisonment for a term of not less than two years, unless a period of five years has elapsed since his release". These ideas appear to be based on unreasonable assumptions and might encourage corrupt personalities to run for membership of the legislature (Chowdhury, 2008).

Corruption and its consequences neutralize the official authority that helps to hold the officials accountable. Ministers and public officials become partners in corrupt deals, and avoid practices that make administrative systems transparent. Therefore decisions are made by people in authority without consulting stakeholders, and the network of corruption protects its members from being exposed or prosecuted.

Consequently, accountability suffers as the existing channels and frameworks are never put to use.

### **Extra-bureaucratic mechanisms**

Numerous obstacles exist in the way of ensuring accountability through internal mechanisms, and it is pertinent to consider the extra-bureaucratic options. Haque (2001, p. 606) describes the existence of certain basic mechanisms of accountability such as legislative committees, parliamentary debates, public hearings, ministerial control, ombudsman, and media scrutiny as some of the most crucial features of the liberal-democratic framework. Frequent disruptions in the political system of Bangladesh have not allowed most of these mechanisms to function effectively.

The Jatiya Sangshad (Parliament) is the highest lawmaking body in Bangladesh. According to Mondal (2009), lawmaking is the main function of the legislature, but it also investigates or inquires “into the activities or the administration of the ministries through standing committees”. However, Ahmed and Khan (1995, p. 573) described the parliament of Bangladesh as “not primarily a lawmaking body but one whose main function is to exercise oversight over the executive”. The task of oversight is performed through a number of ways.

Parliamentary questions provide an opportunity for members to bring to the fore cases of administrative actions and ask for an account from the Ministers concerned who, in turn, can require the officials in his ministry and department to comply. In the course of regular parliamentary procedures, issues of accountability and administrative problems can be brought up by members and assist with oversight. Ahmed and Ahmed (1996, p. 92) examined the performance of the parliament in Bangladesh and concluded that they “were generally not successful in ensuring responsible behaviour”.

Parliamentary committees are expected to serve as a more effective tool in this task. According to Article 76 of the Constitution of the People’s Republic of Bangladesh (Bangladesh Government, 2004), the Parliament shall appoint a public accounts committee, committee on privileges and “such other standing committees as the rules of procedure of Parliament require”. The current parliament appointed from among its members, standing committees on Public Accounts, Government Assurances, Private Member’s Bills and Resolutions, Estimates, Rules and Procedures, Public Undertakings, and Petitions. In addition the Business Advisory Committee, House Committee, and Library Committee are also standing committees. Additionally, the largest group of Committees is related to the Ministries and their departments. These committees examine draft bills and legislative proposals, review the performance of the ministries, and look into any irregularities in their operation. The committees in the current parliament were formed within a short time, and they have been holding regular meetings. A positive sign is that legislators from the opposition political parties have demonstrated their willingness to contribute, although their parties are boycotting sessions of the parliament. However, disharmony among institutions and loopholes in the existing framework of governing has allowed avoidance of responsibility in many cases[5]:

The parliamentary standing committee on the law, justice and parliamentary affairs ministry has put forward a legislative proposal aimed at compelling individuals summoned by it or

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any other such committee to appear before it. The proposal also stipulates that the committees must be provided with any documents they ask for at any time (*The Daily Star*, 2009c).

This is expected to strengthen the extent of oversight by the committees of the Parliament.

In addition, a number of independent commissions have a role to play in ensuring accountability. The Election Commission, Anti-Corruption Commission and Public Service Commission are statutory bodies that have the mandate to operate independently. In the past, the commissions have been criticized for being biased because appointments to these bodies were made by the President on the advice of the Prime Minister. Most of the appointments were made to reward supporters of ruling political parties, and they worked to protect the interest of their appointers. The members were generally drawn from retired personnel of the judiciary, bureaucracy and armed forces. At present, all the three Commissions are headed by retired bureaucrats, and there is dissatisfaction among political and civil society leaders over their performance. These appointments were made by the caretaker government that governed Bangladesh for almost two years, in contravention of the stipulation to hold elections within ninety days of taking charge. Consequently, the caretaker government which was adopted to strengthen democracy, “has become a threat to it” (Hoque and Ahmed, 2004).

Civil society organizations in the form of non-governmental organizations (NGOs), indigenous community groups, mass organizations, cooperatives, religious societies, professional bodies, trade unions, think tanks, and interest groups have flourished in Bangladesh since the early days. Immediately after achieving independence in 1971, a number of NGOs participated in relief, rehabilitation and reconstruction tasks, and over the years, has established their position as useful participants in the process of governing. The state “failed to assist the poor or reduce poverty”, and NGOs stepped in to fill this gap (Ahmad, 2001). These organizations are involved in social and economic programs of poverty alleviation, literacy, human rights, health care, micro-finance, environmental protection, as well as awareness of social and political rights. Their efforts have raised the level of awareness among the citizens – both in urban and rural areas – and the impact is gradually becoming visible. Citizen awareness is a significant element in ensuring accountability and the progress in this area has been impressive.

Although each civil society organization may be driven by its own agenda, they contribute to the accountability of the government by facilitating and disseminating public opinion. For example, NGOs and other representatives from civil society “are increasingly putting pressure on the government to improve its administration in order to meet the growing social needs” (SIDCA, 2001, p. 31). The Centre for Policy Dialogue, a prominent think tank summed up the role of the civil society in the following words:

Areas of involvement of the civil society in the context of Bangladesh are policy advocacy, mobilization of public opinion, demand creation, active participation in policy formulation process, bridging the gap between citizens and government pressurizing the government with the help of the media, supporting the popular movement in favour of a given policy issue, lobbying with the donor groups/development partners, playing the role of mediator/arbitrator between citizens and government, and policy analysis (CPD, 2001, p. 9).

Bangladesh has a thriving network of media in a variety of forms. Noticeable progress has been made in terrestrial and satellite television broadcasts, and internet versions of newspapers are read by Bangladeshis from all over the world. Although some sections of the media are dedicated to support certain political parties, they serve as the first mechanism to detect problems and disseminate information to a worldwide audience. In recent years, the electronic media has proliferated, and the citizens have access to overseas channels through satellite links. The government controls only one television channel while there are a number of privately owned channels. The private channels report regularly on maladministration, irregularities and administrative lapses and the government has become more sensitive to adverse reports in the media due to its ability to reach huge number of people both at home and abroad. Round table discussions sponsored by think tanks and newspapers and chat shows on television are increasingly attracting the attention of more citizens and ideas and strategies for progress are discussed. Blair (2001, p. 185) found that civil society supports and strengthens democracy through increasing accountability by widening participation.

While the level of effectiveness of bureaucratic mechanisms for accountability appears to be low, the extra-bureaucratic means hold better prospect. The central legislature provides a forum for raising questions on issues of significance, and registering concern at the highest level of government. The independent commissions are making efforts to become established as useful paraphernalia in strengthening accountability, and civil society organizations are contributing to the process through programs to include the disadvantaged groups as well as the urban élite in public affairs. The media performs a critical role in informing the citizens and this has the potential to promote accountability in the public service. Committees of the legislature, debates in the parliament and public hearings, and constant vigilance by the media have the potentials to promote accountability in Bangladesh.

### **Conclusions and recommendations**

Although this paper suggests the strengthening of extra-bureaucratic means and mechanisms of accountability in Bangladesh, several constraints remain. The same factors that impede internal bureaucratic mechanisms for accountability inhibit the extra-bureaucratic agencies to a certain extent. The Parliament has never been fully effective in the sense that there has never been an effective opposition in the legislature. It has either been dominated by an overwhelming majority, or boycotted by the opposition who did not participate in the proceedings. These factors point to the need for the promotion and inculcation of a democratic culture in which the level of trust among political parties will be higher. There is a need for tolerance of diverse views and opinions and the ability to incorporate input from all stakeholders, including the members of the opposition, to decisions on public affairs. It is imperative to restore all authority to the national institutions in accordance with constitutional provisions.

Civil society organizations have proliferated and have a presence in all geographical regions of the country, yet their contribution remains limited. Their activities are generally based on specific issues, and they will be more effective if the public space could be opened up so that these organizations could participate in the governing process. They will be able to provide diverse perspectives based on their experience at the grassroots level. Additionally, a vibrant network of print and electronic media has

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successfully highlighted problems with accountability and the need to deal with it. The civil society and political leadership could work together to overcome problems resulting from institutional disharmony by initiating major changes in the political culture. The incidence of corruption could be minimized through the introduction of a system of rewards and incentives and taking a strong stand with the full force of political will. Politicization can be facilitated by establishing a fair and equitable system in which all citizens will have the opportunity to achieve their potentials. Finally, accountability in the political and administrative activities will enhance the legitimacy of governments.

Accountability can be fully effective only after implementing qualitative changes in the management of public affairs. This involves widespread political, electoral and administrative reforms. While some progress has been made in the area of public service reform, they have not had much impact due to the bottlenecks inherent in the political and electoral arrangements. The approach to governing needs to be shifted from the traditional, rigid, hierarchical and rule-based form to a flexible and role oriented nature. Most importantly, Bangladesh needs a democratic political culture and a restoration of trust in the electoral system to develop a culture that will be conducive to the integration of accountability in all the critical areas. Ackerman (2004, p. 447) developed a model of “co-governance” for accountability that would allow social actors “to participate in the core activities of the state”. Given the proliferation and perceived effectiveness of extra-bureaucratic mechanisms of accountability in Bangladesh, the model of co-governance could be appropriate.

The notion of accountability is intimately linked with the concept of open and democratic governmental structure and processes. While the internal bureaucratic mechanisms are relatively less complicated and appear amenable to all organizations regardless of the dominant culture and approach to governance, extra-bureaucratic mechanisms depend on the support from numerous stakeholders in the society. Therefore, values associated with democracy such as rule of law, inclusiveness, human rights, free and fair elections, and a competitive political party system need to be strengthened in order to develop an effective system of accountability in Bangladesh.

### Notes

1. For details on the independence of Bangladesh and subsequent political and administrative developments, see Lifschultz (1979), Maniruzzaman (1980), Zafarullah (1987), Ahamed (1988), Huque and Akhter (1989), Huque (1997), and Zafarullah and Siddiquee (2001).
2. The idea of “good governance” as the remedy to most political and administrative problems in Bangladesh appear to be the conclusion of most seminars, workshops, television talk shows and media reports in the country. In recent times, the idea resonates in the speeches of political leaders.
3. For an interesting analysis, see Jackson (2009).
4. It was not surprising to see that soon after assuming power, both leaders have had cases against them (and their party leaders) thrown out of court on the excuse that all the cases were politically motivated.
5. For example, parliamentary committees have summoned the former Speaker, Deputy Speaker and Chief Whip of the Parliament and the former Chair of the Anti-Corruption Commission to appear and testify. None of them appeared (*The Daily Star*, 2009a)

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#### **Further reading**

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