**CUTBACKS AND INNOVATION : PUBLIC MANAGEMENT REFORM IN AN AGE OF AUSTERITY**

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<u>Introduction</u>

Most EU countries currently have to make cutbacks in public expenditure. In some - Greece, Ireland, the UK - these cuts are unprecedentedly deep. In others - such as Denmark and Finland - they are large but not quite so out of scale with the past. The UK is having a particularly bad time because its economy houses a bloated financial services sector and a bloated property market - the two sectors which have sourced the global crisis. The effects of the cuts are already fairly unpopular, and will become more so as their impacts become more visible and concrete.

In the face of these difficult times and painful decisions we are beginning to hear quite a lot of relatively optimistic or upbeat discourse. It comes from some of those politicians who have responsibilities for the cuts, and from some senior public managers and management consultants. This more hopeful rhetoric tends to focus on three principal themes. First, there is an emphasis on the acute need to hunt down and eliminate waste. This is usually based on the assumption that there is lots and lots of waste in the public sector and now we really have to find it. The second is about opportunities for innovation. Cuts are a chance to try radical new ways of doing things, the argument goes (management consultants are particularly keen on this line, since they hope to use it to gain business – Pandey, 2010, p568)). The third is about collaboration. We must all pull together, it runs. More than ever before, public services will have to be delivered by partnerships of public authorities, business firms and civil society associations. UK Prime Minister Cameron's idea of 'The Big Society' combines all three themes. People must do more, collectively and collaboratively, to help themselves. This will lead to many innovatory ways of tackling problems - government often doesn't know best. Meanwhile government itself should remove bureaucracy and regulation - much of which is assumed to be wasteful and inhibiting of innovation.

Let me say straight away that I think there are very considerable difficulties with all three of these arguments. Whilst it is of the utmost importance to do all we can to protect valued public services, and while the current pressures may well lead to certain innovations, the high probability remains that the cuts will be damaging to the aspirations and expectations of many citizens – not to speak of public sector staff. These are not the circumstances any sensible person would have chosen in order to promote innovation in public management. And the public sector is not in this situation because it has done something wrong, it is in this situation because the banks and finance houses have done something wrong, and because, in some countries, the property developers have aided and abetted the recklessness of the financiers. If, as public administration academics, and supposedly independent thinkers, we enthusiastically embrace the idea that the current situation is a great opportunity for improving public services then we will run the risk of being seen as naïve and out of touch with the everyday experiences of citizens and public service staff.

Problems with the three optimistic arguments

The main problem with the *waste* argument is that there does not seem to be enough of it! Some politicians seem to want to believe that the public sector is absolutely swimming in waste. If asked to produce examples, however, they usually cite what are, on the scale of the savings which have to be made, quite trivial examples, or they give examples of bigger savings which would probably be extremely difficult actually to realize. The sad truth is that many western European governments have been pushing for more efficiency and less waste for much of the past thirty years. This is not the first but the umpteenth hunt for waste, so the stuff probably is not lying around in vast quantities. [Nor, for that matter, should one assume that the proposed savings will actually be achieved: one lesson from previous attempts to reduce the overall level of public spending seems to be that it is very hard to do (Dunsire and Hood, 1989; Hood, 2009)].

The problems with the second argument - the one about *innovation* - are several. To begin with, our knowledge of how to encourage innovation in public organizations is limited (Hartley, 2005; Mulgan, 2007) but one element in that emerging knowledge is that innovation requires a willingness to take risks and that in turn requires a culture of trust. A degree of organizational slack also helps - one person's waste is another person's slack, one might say, and slack gives an opportunity for fresh thinking and experiment (Berg, 2010). Yet harsh budgetary constraints, greater work pressures and staff layoffs - three likely features of the crisis - tend to *squeeze out slack*, *discourage* risk-taking and *lessen* trust. In a performance audit of innovation in central government in the UK 'Making funds available' was cited as the most important internal factor in promoting nominated innovations (National Audit Office, 2006, p29). A large scale American survey of research literature on successful organizational change in the public sector came to a similar conclusion (Fernandez and Rainey, 2006). However, it is already clear that, in some UK local authority services, the early expenditure reduction decisions have been directed at safeguarding core services and have, in consequence, wiped out existing innovations and recent initiatives. Peters concurs that 'The presence of crises provides opportunities for innovation, but by no means does crisis ensure that governments will be innovative' (Peters, 2011, p79). As Mulgan (2007, p18) put it (and he was writing in the middle of a *boom* in public spending): 'Old and ineffective programmes continue while new ones have to struggle for small sums of money'. Finally, we should not forget that not all innovation is good (Hartley, 2005, 2008). Some innovation is bad because it doesn't work - most writers on innovation accept that it is a risky business in which one must expect a steady flow of failures as well as successes (Mulgan, 2007). Tolerance for failure tends to decline during austerity - the pain of perceived waste is that much sharper. Other innovations are bad because they do work, but represent a lower quality service, or even an ethically unacceptable practice (Hartley, 2005; Mulgan, 2007). The guillotine, the electric chair and the concentration camp were all public sector innovations.

The third argument is about collaboration and partnership. Of course this is a not a new argument. On the contrary, it has been very popular for more than a decade now, and is

simply being given a new twist in the context of expenditure cuts. We have been hearing about joined-up government for more than a decade (Bogdanor, 2005), and now, more expansively, we are reading books about the New Public Governance (Osborne, 2010). The problems here are perhaps less large and less obvious than with the first two arguments, but problems there nonetheless are. For one thing, experience with partnerships and collaborations is that they are often rather long-winded and wasteful ways of organizing, even if in the end they arrive at possibly superior solutions (Huxham and Vangen, 2000). But according to our first optimistic argument, all such waste and inefficiency must be ruthlessly eliminated. A second problem is that they don't even necessarily arrive at superior solutions. The scientific literature is very mixed, but some of the best work finds that public-public partnerships are those that tend to work best, while public private partnerships do not, on average, show strong gains in efficiency or effectiveness (Andrews and Entwistle, 2010). A third difficulty is that, in some countries at least, 'collaboration and partnership' can look surprisingly similar to old-style NPM 'privatization and contracting out'. Again, the UK coalition government's current proposals that banks could come in to fund and have a hand in the running of state schools will raise some political hackles (quite apart from the extraordinary assumption that the banks should be regarded as a fountainhead of management excellence!). Public-private partnerships also pose accountability problems, just at a time when politicians are talking of the need to be more transparent and to achieve "real democratic legitimacy" (Prime Minister, 2011).

So far, so bad. Nevertheless I believe there are things that can be done, and I would like to say a little about those now. But I want to speak of them from a critical realist perspective, one that recognizes the depth of our difficulties and does not use wildly optimistic arguments to pretend that we can somehow slide out unharmed into a bright new future.

Trying to think positively

One important insight is that the relationship between expenditure cuts and innovation is likely to change over time - it will probably have a strong temporal dynamic. Another is that, as with many other aspects of public management reform, a similar-sounding reform will work quite well in one context but fail in another. A third is that we have to look at agents as well as tools and structures. I will try to say something about each of these in turn.

*Over time.* Much depends on how big and how prolonged cuts turn out to be. Frequently, an initial reaction is to try to protect whatever are regarded as the core businesses, abandoning or contracting out or selling off everything else. Couple this to a hiring freeze and perhaps a pay freeze, and you have a classic strategy for getting through a period of austerity. It may work, for a while, and for small and medium-sized cuts (let us say 5 or even sometimes 10%). Limited efficiency drives are actually quite good at stimulating innovations (National Audit Office, 2006, p24). However, these tactics are likely to prove inadequate for deeper cuts over the longer term (many public services in EU member states are facing cuts of 20% or more). These will sooner or later force a

reconsideration of core programmes, and at that moment more fundamental innovation may be possible. But there is nothing inevitable about this. There are several alternative possible trajectories. For example, public reaction to the early cuts may be so negative that the government is voted out, or loses its nerve and retreats. Or when the moment comes for major innovation in core services, a dangerous or volatile option may be chosen. Some think this is what is happening with the UK NHS, as the coalition government is placing so much of its faith in groups of primary care doctors who are now (apparently) going to determine where patients and money will flow in and out of the hospital sector. Nevertheless, after all these 'ifs' and 'buts', the next 12 months - when the initial cuts have been decided upon and begin to be implemented - could be an opportunity to think of more radical, considered changes to core programmes.

Beyond the next year or so, however, there lies a strange, murky era. Governments like those of Greece and Ireland face an entire decade of austerity. Even the UK Treasury has said that the cuts programme will need to extend for at least five years. Little is known of the behaviour of politicians, voters and public servants in relation to such long term pressures. The 'down' part of the public expenditure cycle has not been as long since the 1930s, and the political record of that period is not something that can be regarded with equanimity. The contrast between the corporate sector and the public services may become particularly stark: how will the public react if we reach a point in economic recovery where firms are making large profits (as some banks are already doing) while basic public services are still cut to the bone? Private affluence and public squalor is hardly compatible with the much-vaunted 'European social model'.

*Contextual variation.* A comparative history of public management reform shows time and time again how contextual differences can make big differences to the success of a particular set of ideas and practices (e.g. Pollitt et al, 2007). At the macro-level the whole of Europe may be facing the same economic crisis, but that crisis is structured very differently in different states (European Commission, 2009) and systems of political management and control also vary greatly from one country to another (Pollitt, 2010; Pollitt and Bouckaert, 2011).

The same is true for innovations at a more micro scale - TQM works in one organization and fails in the next one (Joss and Kogan, 1995; Zbaracki, 1998). Our academic theories usually provide helpful prompts but not much more:

> '[T]he salience of diverse contextual factors contributing to complexity means that the status of these ideas can be only that of empirically-backed stimuli for practical reflection' (Wallace and Fertig, 2008, p274)

One implication of this is that it will be important to have some experienced and relatively independent persons who have time and opportunity to assess innovations in their contexts and to consider the extent to which they may be transferable to other contexts. This kind of critical realist evaluation is rewarding but time-consuming (Pawson and Tilley, 1997). Unfortunately one of the impacts of the crisis is that there will probably be fewer such people in circulation. For public agencies independent evaluators may begin to look like a luxury, while in cash-strapped universities academic

evaluators may find it more difficult to take 'time out' for *pro bono* work in public service delivery organizations. Research councils are already cutting back, and 'safe' research geared to narrowly defined objectives may be all that survives.

*Agents and agency.* A discussion of the effects of cutbacks cannot be complete without recognition that much depends on the reactions of public servants themselves - both the leaders and the led. For the leaders, current circumstances throw up huge challenges (Bouckaert, 2010; O'Donnell, 2009; Pollitt, 2010). The existence of a 'burning platform' may help sometimes (Mulgan, 2007, p24) but it can also hinder, by fertilizing employee resentment (Kelman, 2008, pp48-49). The 'social contract' between public service employers and public service staff is considered, by the latter, to have been violated (Pandey, 2010, p567). We know from the past that senior public servants have sometimes managed to steer their agencies through hard times, gradually build coalitions of support, and push through crucial legislation (Carpenter, 2001). On the other hands, in more recent times things have changed, in ways that make those sorts of long term strategies more difficult to carry out. For one thing, politics is more volatile, and support is more fickle. For another, public service leaders themselves tend to stay in office for shorter periods, and may therefore have less motivation and opportunity to build gradually for the long term (Pollitt, 2008, pp121-123 and 171-176).

Leadership heavily interacts with context. 'Political context and institutional form have these effects because they shape the type of dominant change agent that is likely to emerge and flourish in any specific institutional context, and the kind of strategies this agent is likely to pursue to effect change' (Mahoney and Thelen, 2010, p15). So this is another reason why it is misguided to search for some best strategy that will work everywhere, or even in most places. The majority of effective leaders are finely attuned to what is hot and what is not, and what the opportunities and bounds of acceptability currently are in *their* particular part of the woods.

Moving from the leaders to the led, we find a number of politicians promising greater freedom. Prime Minister Cameron says he is "Liberating the hidden army of public service entrepreneurs" (Prime Minister, 2011) but it remains to be seen what substance will be given to this rhetoric. No-one has ever managed to do this before - except, perhaps, in war time - and there is as yet precious little detail as to how it is supposed to work this time. One promising example might be the 'Total Place' programme in the UK, where groups of local agencies first volunteered to take part in an experiment and were then given great freedom with respect to both topics and methods (H.M.Treasury, 2010). They came up with quite a variety of ingenious ideas for pooling budgets and joining up different services. Yet even here it is by no means clear that the innovatory side of the programme will win out over the cost-cutting side. Local governments are now talking about a shift from 'retrenching to redeveloping', once the first wave of cuts are over. However, the substance of this 'redevelopment' appears to be increased selling of services to individuals, large scale withdrawal from direct service provision, and a focus on trying to build trust and social capital (Total Place and Community Budgets Update 68, 2011). It is hard to see how a massive round of contracting out will improve local authorities' chances of creating trust and building social capital. Neither are the

thousands of redundancies which local authorities have begun to announce since the beginning of 2011 likely to 'liberate' many middle managers or street-level operators.

One piece of common ground in the burgeoning literature on public sector innovation seems to be that, frequently though not always, good new ideas both arise from and are disseminated by informal, flexible networks.  Formal hierarchies, by contrast, are portrayed as less fruitful in this respect.  'Innovations in public services are often spread through open, collaborative networks, and between organizations, services and institutional fields' (Hartley, 2008, p209).  Wise leaders will therefore foster and pay attention to such networks.

Concluding reflections

The good news is that current pressures will almost certainly throw up some good leaders, and spur some valuable public service innovations.  Indeed, it already has (H.M.Treasury, 2010).  The bad news is that these gains may well be outweighed by the widespread misery of deteriorating services, mass redundancies and a disgruntled citizenry.  The duty of academics, I suggest, is to identify, analyse and theorize *both* the gains and the losses.  The responsibility of public servants is to search high and low for *both* efficiencies and innovations, collaborating and learning from every likely source. The pain of the cuts must not tempt us to turn inwards.  One lesson from the innovation literature is that new ideas and synergies can come from anywhere.  They may arrive from front-line operatives, from middle management, from top leaders, from the private sector, from civil society non-profit organizations, even from academia!

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