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by

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Abstract

The concentration of the operational authority over public organizations in the hands of “chief executives” (CEs) is a striking feature of the “New Public Management” (NPM) that has emerged from about two decades of public sector reform in English-speaking nations. This article is concerned with the extent to which the new-styled CEs should be expected to exercise “leadership” as well as “management”.

Key Words: New Public Management; leadership; managerialism

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Although there are variations in the way NPM has been applied in different countries, it generally moves away from a traditional, highly prescriptive, administrative framework by emphasizing the importance of "hands-on" professional management and the "freedom to manage", the introduction of performance appraisal with explicit performance standards, and a greater use of output controls with their stress on results rather than procedures.

The restructuring required to implement these doctrines has often been radical as large bureaucratic structures have been broken up into "single-objective, trackable and manageable units" (Hood, 1991, p. 12) within which it is easier to match resources to defined tasks and to shift from controlling input to monitoring output. This reflects a fundamental realignment of the core administrative values that are embodied in organizational design. According to Hood (1991, p.11) the quest to implement the doctrines of NPM may advance what he calls the "sigma-type" cluster of administrative values that highlight "economy", and "parsimony" even where this makes it more difficult to realize "theta-type" of "honesty" and "fairness"; and "lambda-type" values of "security" and "resilience".

A number of writers have pointed out that NPM has been influenced as much by economic as by management theories. For example, Hood (1991, pp. 5-6) has argued that the core doctrines of NPM are derived from a "marriage of two different streams of ideas" - economics, and especially new institutional economics and public choice theory, with their emphasis on contractual solutions to agency problems in the public sector and "managerialism", with its emphasis on a "professional management" that is "portable", "paramount", "discretionary", "central", and "indispensable".

The compatibility of these two streams stems from the way economic contractualism seeks to depoliticize the CE's role so that they can be "freed to manage" through the application to public organizations of "best practices" developed in the private sector. If economic theory sees the public sector as a vertical chain of principal-agent relationships, then the goal of NPM-style reforms is to delineate accountability for "outcomes", "outputs" and "inputs". This process has been carried furthest in New Zealand where the State Sector Act of 1988 made Cabinet ministers accountable for "outcomes" so that they would have to contract with specific agents, including the CEs of government departments, to supply the "outputs" they deemed necessary to achieve these "outcomes". The CEs could then be made accountable for the delivery of these outputs but given the discretion to manage their inputs and delivery mechanisms in the manner they deemed to be most efficient. Through successive funding cuts it was hoped that these CEs would be placed under relentless pressure to save costs by restructuring their organizations.

The staff redundancies in the organizations being restructured have often been substantial. However, the costs incurred by redundant staff in retraining for, and seeking, new jobs and by the state, in providing them with income support while they are unemployed, are typically not internalized by the CEs of the restructured organizations. These officials are more likely to take into account the transactions costs involved in establishing the contractual and accounting systems designed to make them accountable for the efficiency with which they deliver specified "outputs". To rationalize the restructuring required to implement NPM, they can draw on both economic theories and managerialism to argue that a shift to NPM enables their organizations to potentially realize "productivity gains" with a net present value that exceeds these transactions costs.

Managerialism does, however, differ from economic theories in terms of the way it relates these productivity gains to the quality of leadership exercised by the CEs responsible for transforming public organizations according to NPM principles. While economists have traditionally neglected the study of leadership, managerialists have been able to draw from extensive studies in management and organizational behavior that have identified leadership as having a significant impact on organizational performance particularly during periods of discontinuous organizational change (Bass, 1990).

In surveying this literature Bryman (1986) has pointed out that there are as many definitions as there are theories of organizational leadership. This is because leadership is a multi-faceted phenomenon so that the definition can often do no more than highlight the aspects of the phenomenon that the subsequent theorizing sets out to elaborate. We shall recognize this by advancing a definition of leadership that brings together the political and social aspects that are the subjects of a wide range of other leadership theories. We will then show how economic theory can be modified to explain the social influence aspect. We will then argue, by way of conclusion, that there is a need to look beyond economics to explain the irreducibly political dimension of leadership in order to assess the contractualist view that the role of the CE should be depoliticized.

THEORIZING FROM DEFINITIONS OF LEADERSHIP

Many writers on organizational leadership seek to define this phenomenon in a way that distinguishes it from “management”. Two aspects of leadership are often highlighted. The first is reflected in the oft-quoted slogan that “management is about doing things right while leadership is about doing the right thing”. This focuses on the judgment-making aspect of leadership. To exercise leadership in these terms, a CE must make judgments that affect the direction of an organization’s development. Interpretive studies of leadership (Kay, 1996) stress the political dimension of this judgment-making process. They depict leaders as making these judgments through their involvement in the multi-dimensional processes of social interaction through which acceptable meanings of issues, events and actions are created and sustained.

Secondly, many writers conceive leadership as a distinctive type of social influence relationship. To lead is to influence, to guide, to engage a following and build their commitment to realize a particular vision. According to Tichy and Devanna (1986, p.5), leadership involves pulling an organization into the future "by creating a positive view of what the organization can become and simultaneously providing emotional support for individuals during the transition process."

For CEs to be said to be exercising leadership in this way, they must be striving to influence the intrinsic and not just the extrinsic motivation of actual and potential followers. As CEs they will be in a position to exercise "reward power" by using extrinsic rewards to induce subordinates to perform the tasks they set them, or "coercive power" by administering a set of extrinsic penalties for non-compliance with their directions. They cannot be said to be exercising leadership *per se* if they choose to exercise only these forms of power. Leadership more essentially involves influencing the intrinsic motivation of followers through processes of "internalization" when they amplify values and beliefs that are shared by both leaders and followers and "identification" when they engage in behaviors that reinforce and strengthen the sense of personal identification and loyalty which followers place in them.

Comparative studies have often found these processes to be more advanced in private than in traditional public organizations. For example, a Canadian study by Zussman and Jabes (1988)

found that the percentage of middle managers who reported that their CEOs provided leadership in these ways was significantly lower in public than private organizations and that the level of public service leadership falls off much more rapidly as one goes down the organization than is the case in the private sector. The implication of these studies is that the implementation of NPM may give the CEOs of public organizations the opportunity to close this “leadership gap” by adopting private sector best practices.

In this article we will attempt to elaborate a definition of leadership that brings both its political and social influence aspects together. Accordingly we propose that: “a CE can be said to be exercising leadership when this official makes judgments about the direction in which an organization should be moving in a way that engages the hopes of its members to a degree that induces them to strive together to move the organization in this direction.” We also propose that economic theory can only make a contribution to understanding this concept of leadership if it is initially assumed that the judgment about organizational direction has already been made. This assumption can later be relaxed when we consider the implications the judgment-making process has for the politics-administration dichotomy.

THE ENACTMENT PROCESS

Once leaders have made a judgment about the direction in which they want to steer the organization, they will need to engage its members by calling them together, at all levels of the organization, to consider how they are to enact their leaders’ judgment and advance their quest. This enactment process can therefore set in motion interactions that can take the form of “expression games”. According to Goffman (1959), these involve “senders” who express themselves in particular ways, and “receivers” who take in and react to such expressions, forming an impression of the “senders”. The expression games generated by the enactment process can give participants the opportunity to express the hope they have placed in the leader’s quest.

The CEOs of large public organizations will typically only be able to engage directly in such expression games in interactions that bring together actors at higher levels of the organization. These interactions can however serve two functions. Firstly, they can give the CEOs the opportunity to model the behavior they expect of “followers”. Secondly they can give other participants the opportunity to identify themselves as such followers.

A “follower” in this context is someone whose hopes are aligned with those of the leader. To a varying degree such followers can look to the leader to strengthen their hopes. The leaders can also look to those followers who leave an impression of their trustworthiness to reproduce these expression games in interactions at lower levels of the organization.

Through the reproduction of these expression games, the enactment process may be accompanied by a diffusion of leadership and a development of a following at all these levels. To understand why this may have a significant impact on the organization’s culture and performance we need to examine the motivational effect of the hopes that are evoked and influenced through this process.

AN ECONOMIC THEORY OF HOPE AND LEADERSHIP

The traditional reluctance of economists to study the social influence aspect of leadership may have been based on the perception that, in seeking to influence followers, leaders are trying to change their preferences. The study of leadership would therefore seem to be out of bounds to the majority of economists who subscribe to the convention that economic analysis should either (i) take the preferences of individuals as given and not look inside the “black box” within which they

are formed and transformed; or (ii) assume that they are stable and explain apparent preference change in terms of adjustments in the shadow prices of inputs in household production functions (Stigler and Becker, 1977).

Recent attempts have, however, been made by Hermalin (1998) and Casson (1991) to analyse how leaders can influence followers by inducing them to internalize the externalities of their discretionary effort decisions. Hermalin argues that situations of asymmetric information may ironically give leaders the opportunity to alleviate the weak incentives followers have to supply effort to a team when they cannot be compensated according to their individual contributions. In these situations leadership by example may be interpreted as a signal that leaders have better information about the value of effort devoted to their common activity so that “the harder the leader works, the harder the followers work” (p. 1196).

This model is, to some extent, complemented by an earlier one proposed by Casson (1991) in which the effect on individual utility functions of the emotions of shame and guilt followers experience when they fail to internalize effort externalities, is susceptible to “moral manipulation” through rhetoric the leader addresses to the group as a whole. Casson goes on to show how leaders can compare the net benefits of raising the intensity of moral manipulation with those associated with more intense monitoring in a group in which individuals have varying “moral sensitivities”.

In our view neither model lays an adequate foundation to explain how CEs can influence the hopes followers place in their quest to move the organization in a particular direction. The general approach Elster recommended in his article “The Emotions and Economic Theory (1998) may be more helpful in this regard. Elster basically argues that economists should reject this simple cost-benefit approach to modeling the effect of the emotions on behavior in favor of one, derived from cognitive dissonance theory, that views an emotion as a particular type of action tendency engendered by antecedent beliefs and the investment of emotional energy.

This perspective may explain why the members of an organization who have focused their hopes on advancing a quest to realize a particular vision may have an action tendency to interact in a way that reinforces their beliefs and enhances their emotional energy. These hopes will be based on beliefs that the advancement of the quest is “neither impossible nor inevitable” and that it is “worthwhile” or “important” in the sense that it is worthy of pursuit in a special way incommensurable with other goals.

If one cannot hope without holding a belief in the worth and possibility of advancing the quest that is the object of hope, it would seem that to hope is to locate oneself in a “space of questions” about both these beliefs and the authenticity of one’s claims to hold them. These questions may give rise to a dissonance that can only be alleviated by engaging in interactions with actors who can both supply clearer, more articulate, reasons for holding the beliefs that trigger hope and opportunities to authenticate these beliefs by striving to advance the quest in which this hope is placed. Leader-follower relationships will thus emerge in groups where one person, the leader, plays a focal role in supplying such “reasons” and “opportunities”.

The extent to which the process of enacting the judgments of a CE engages the hopes of an organization’s members may thus be gauged in terms of the way it draws leader-follower groups into a network that penetrates every level of the organization. To understand how the expression games pursued in such groups can enhance the capacity of their members to supply effort toward advancing the CE’s quest, it may be helpful to refer to Collins’s (1993) theory of “Emotional Energy as the Common Denominator in Rational Social Action”.

Collins focuses on the reinforcement and strengthening of emotional energy that occurs when “interaction rituals” (IRs) pass thresholds of “boundedness” and “density”. Leader-follower expression games may pass the threshold of boundedness when they give participants the opportunity to express an observable “passion” to advance shared hopes. Where such interactions also pass the “threshold of density” such that the participants are close enough for a sufficient period of time to ensure that they can be moved by one another's passion, the participating group's focus of attention and common emotional mood is likely to go through a short term cycle of increase and mutual stimulation until a point of emotional satiation is reached. The interaction will leave each participant with an “energetic afterglow” that “gradually decreases over time” so that individuals have an incentive to reinvest their emotional energy in subsequent interactions. It may therefore accumulate across IRs so that “an individual may build up a long-term fund of confidence and enthusiasm by repeated participation in successful IRs” (p.212).

The leader-follower expression games that are set in motion during an enactment process may thus significantly boost the emotional energy reserves of followers throughout the organization. This concept of leadership differs from that advanced by Hermalin and Casson in that it emphasizes the influence of leadership on the capacity rather than the willingness of an organization's members to supply effort in excess of that which they can be monitored and compensated for. As economic theories, all three concepts tend to ignore the complexities involved in the irreducibly political process of judgement making. The implications of this neglect in assessing the leadership role of CEs must be considered by way of conclusion to this article.

CONCLUSION: THE POLITICAL DIMENSION OF PUBLIC SECTOR LEADERSHIP

The process that is resolved when a CE makes a judgment about organizational development would seem to involve the type of “autonomous politics” that according to Barber (1984) characterizes occasions when “some *action of public* consequence becomes *necessary* and when men must thus make a *public choice* that is *reasonable* in the face of *conflict* despite *the absence of an independent ground*” (p.122 - original emphasis). Moreover, to the extent that this judgment sets in motion an enactment process that transforms the culture of an organization by focusing the hopes of its members on advancing a particular quest, it would seem that there is an irreducibly political dimension to the leadership that steers this process.

This is because there are likely to be competing perspectives on the appropriate culture for a public organization and no independent grounds for judging between them. It would therefore not be reasonable for a CE to make a judgment in this regard without striving to appreciate the divergent perspectives different stakeholders bring to this issue and giving them an adequate opportunity to make case for the values, interests and perspectives they are seeking to advance.

Significantly, the tenure of a CE may become unsustainable, particularly where they are not entitled to a renewal of fixed term contracts, when these judgments erode their relations of trust with portfolio ministers. These relationships are likely to be based on mutual impressions of reasonableness. They are clearly more personal and less “arms-length” than typical contractual relationships. The view that contractualist reforms of NPM can revive the traditional politic - administration dichotomy therefore seems to break down in the analysis of the leadership role of the CEs of public organizations. This role cannot be exercised outside a political relationship of mutual trust between these CEs and their principals. The political dimension of organizational leadership in the public sector must thus ensure it has to be collectively supplied.

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