

Mitigating Corruption in New Public Management

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Executive Summary:

Corruption has been identified as a major barrier to economic and social development in developing countries, and considerable research has been done into the causes of and the solutions to corruption in these countries. Several factors that lead to or mitigate corruption in developing countries have been clearly identified: Revenue Proximity, Accountability, Information Transparency, Participation, Equality of Power/Wealth and Culture. In contrast, virtually no research has been directed at corruption in the context of the trends toward what is known as the New Public Management, or NPM. NPM is a new pattern of governance associated with the use of a wide range of different “tools” and with a reliance on third parties to manage and deliver government services. However, the factors of corruption identified by international research can be used to provide an environmental design framework to advise planners and public officials about the potential for corruption and how it can be mitigated with the NPM.

The Emergence of New Public Management

New Public Management (NPM) is a public management trend that is gaining popularity throughout the United States. The NPM style of government involves using a wide range of “tools” like grants, loans, contracts, vouchers, and other alternatives to direct government provision. Many of these rely on third party actors to play an active role in delivering government services or to act in the public good. These actors form shifting networks of third parties that work with each other and with government agencies.

New Public Management is perhaps most distinguished by its use of internal competition to accomplish its ends but is multi-faceted. Rhodes (1996) notes that NPM refers to two concepts. The most relevant to this paper is the new institutional economics. "The new institutional economics refers to introducing incentive structures (such as market competition) into public service provision. It stresses aggregating bureaucracies; greater competition through contracting-out and quasi-markets; and consumer choice." (Rhodes, 1996.)

The NPM style of government involves distinguishing between policy decisions and service delivery. Service delivery, proponents of NPM argue, is best left to "entrepreneurial" governments based on principles like competition between service providers, outcome based performance standards, decentralized authority, market mechanisms and other qualities not traditionally found in government bureaucracy. Rhodes notes that "NPM and entrepreneurial government share a concern with competition, markets, customers and outcomes." (1996)

How does corruption relate to New Public Management?

As Salamon notes, “What is distinctive about many of the newer tools of public actions is that they involve the sharing with third-party actors of a far more basic governmental function: the exercise of discretion over the use of public authority and the spending of public funds.” (Salamon, 2002) As such, New Public Management has two major implications for corruption. First, NPM creates the potential for corruption in a wide range of actors and that the *flexibility* of these networks makes it more difficult to maintain accountability and oversight. Secondly, and perhaps more importantly, the line between the government and private actors becomes increasingly blurred in NPM.

Unfortunately, there is very little empirical research into the relationship between corruption and NPM. Most of current research focuses on developing countries where development agencies like the World Bank focus most of their attention. There is also a substantial amount of cross-national studies that compare the level of perceived corruption across many countries. Neither of these sources looks at corruption at the sub-national level in developed countries, and this is where NPM strategies are most common.

This paper attempts to move past the lack of empirical research specifically aimed at corruption in NPM environments by using common themes, lessons and issues taken from the international corruption research. Hopefully, these factors will help policy makers mitigate corruption in NPM environments by providing an environmental design framework that reduce the potential for corruption.

What is corruption and why is it bad?

The literature review produced several definitions of corruption. Harrison & Huntington define it as “...efforts to secure wealth or power through illegal means – private gain at public expense” (Harrison & Huntington, 2001) However, this defines corruption in terms of legality, which makes it difficult to talk about corruption across different legal systems. A better definition is “the misuse of public power for private profit.” (Joseph Senturia, as quoted by Smelser, 1971) This definition encompasses a wider range of activities, but there was concern that it did not require intentional misuse (as opposed to accidental or unknowing uses of public power that benefit individuals at the expense of the public). This paper ultimately took these definitions and defined corruption *as the intentional abuse of public power for private gain*. This includes all cases where an organization or individual abuses government authority, influence or funds for private benefit or the benefit of another private actor.

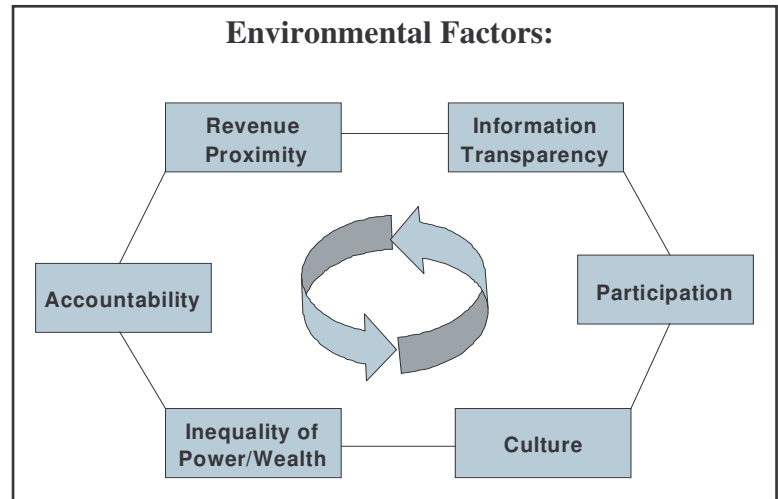
Empirical research into the effects of corruption shows that it is not simply a moral concern or a matter of principal. Rather, corruption has a very negative effect on government performance and on the well being of individuals without money or power. International research has shown that a .78% increase in the rate of corruption leads to a decline of the income growth among the poor of 7.8% (Lipset and Lenz in Harrison and Huntington, 2001). It is no surprise, then, that the World Bank called corruption the “single greatest obstacle to economic and social development.” The perception of corruption also has negative consequences as citizens are likely to grow cynical of government when they feel the government does not work on their behalf.

Why does corruption occur?

The temptation to abuse public power for private gain is a natural result of peoples' self-interest. This temptation can be reduced by creating an environment where corruption is difficult and does not pay. Planners and policy makers can create such an environment by understanding the environmental factors that influence corruption.

Environmental Factors of Corruption

As mentioned earlier there is very little research focusing specifically on corruption within New Public Management. There is, however, a fair amount of international research that has been done on corruption in general and by studying this we hope to identify environmental factors of corruption that can be used in any municipal context. Examining case studies and other research, primarily done by the World Bank, this

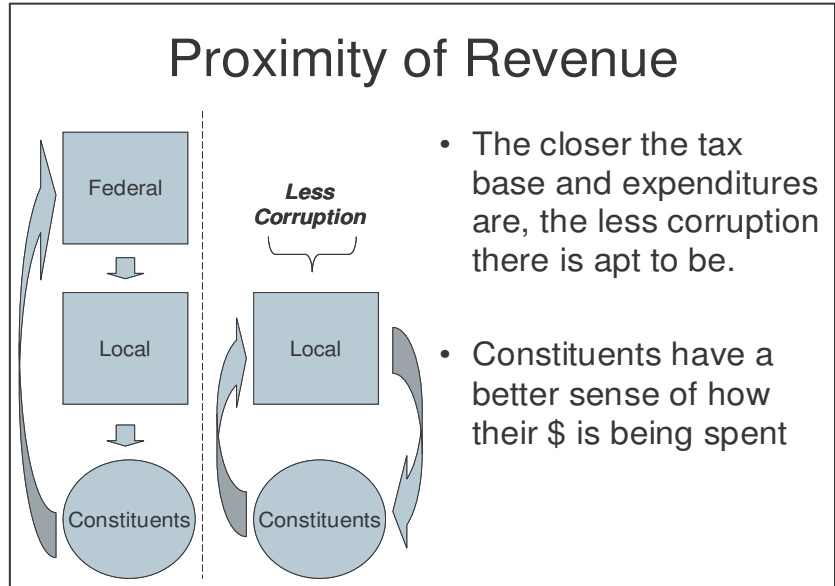


report identifies six environmental factors that have an impact on corruption in international contexts. They are: Revenue Proximity, Accountability, Information Transparency, Participation, Inequality of Power/Wealth and Culture.

Although each has its own drivers, these factors are closely related to each other and tend to reinforce one another. Focusing on any one factor at the expense of the others will not effectively curb corruption. Each factor has to be dealt with individually and as a set.

Proximity of Revenue

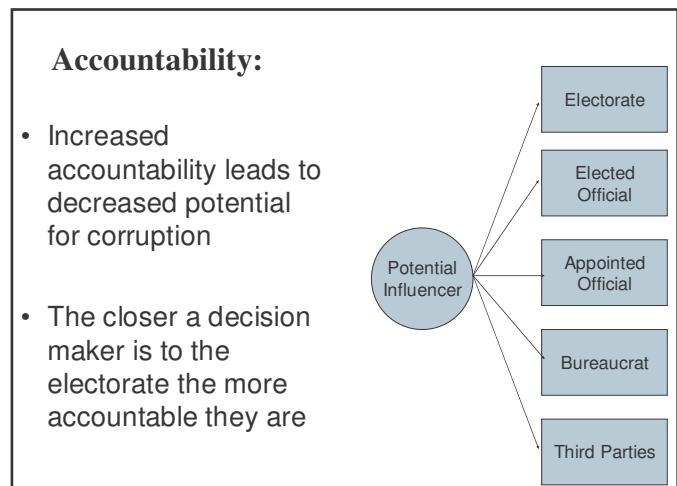
Proximity of revenue is how close tax revenues are to their respective expenditures. The further removed the source of funds is from those who decide how the money will be allocated, the greater the potential for corruption. (Fisman & Gatti, 1999.) Take two different



situations: In the first, the Federal government allocates a portion of its total tax revenues to a certain state with the understanding that the state will then allocate this money appropriately. In the second, the state taxes its own citizens and then returns that money to those same citizens in the form of services, etc. In the second example, the citizens receiving the services will hold the provider more accountable as they seek to “get what they pay for.” Whereas in the first example the state intermediary could opt not to forward federal money at all or could redirect monies from the intended allocation without the citizens missing the intended services .

Accountability

Accountability is similar to proximity of revenue but instead of dealing with money it concerns power. The idea here is that the closer a decision maker is to the electorate the less potential for corruption . If the electorate



does not approve of the actions of an elected official they can vote him/her out of office. If the electorate does not approve of the actions of an appointed official or third-party agent, they have much less recourse.

This dynamic is especially important given the trend in the United States toward NPM. Under NPM there is an increasing reliance upon third-party providers which are even further removed from the electorate than civil servants and as a result are even more susceptible to corruption. Long-term contracts that lock in third parties for extended periods of time may further increase the potential for corruption.

“Local elites often take leadership roles... this can result in the hijacking of resources unless transparency and accountability are somehow enforce.”
(Litvack, Ahman, Bird, 1998)

Information Transparency

Informational transparency is the third environmental factor. It contributes to the reduction of corruption in two ways. The first is that it helps identify those who are currently engaging in corrupt activities. This could be through audits, open budgeting processes or contracting and bidding that is open to the public and the media. The second is that informational transparency creates environments which are unappealing to those tempted by corruption. Nobody wants to get caught and so creating environments where the “lights are always on” makes those who might be tempted by corruption to think twice.

“one way to improve local participation and accountability is through transparent budgeting processes and public procurement procedures.” (Litvack, Ahman, Bird, 1998.)

The preponderance of third parties – particularly in the private sector – with the movement toward NPM has important implications with regard to information transparency. For profit concerns

often view certain types of information as proprietary. This means that they deem this information necessary for them to maintain a competitive advantage in their respective markets. There may be times when a public entity may need access to this proprietary information in order to make effective decisions about the continuation of contracts. In situations like these, information transparency may conflict with the private proprietary information of the third party. Sacrificing transparency for the sake of relationships with third parties will increase the potential for corruption.

Participation

Closely linked with information transparency is participation. All the information in the world is useless unless citizens engage and act upon that information. The opposite is true as well. Participation, regardless of how well intended, is blind without transparency. To truly mitigate corruption, municipalities need *informed* participation and this comes from transparency. In addition to intuitively making sense, research has shown that democracy (participation) is positively correlated with reducing corruption internationally. (Lipset and Lenz in Harrison and Huntington, 2001)

Inequalities of Power and Wealth

The fifth environmental factor which contributes to corruption is inequalities of power and wealth. As the difference between the “haves” and “have-nots” within a municipality increases there is a tendency for those with money and power to not only hoard and increase their shares, but also to strengthen their positions. This makes it more difficult for those without money or power to engage in the

“Often, corrupt opportunities arise from discrepancies of power between public officials or community leaders who have control over a good or service and the poor who lack education, knowledge, access to information, the financial resources as well as good connections.” (Teggemann, 2002.)

civic process and have a voice. This is an especially dangerous factor because it can become self-perpetuating as those in power institute structural changes to discourage real transparency, participation and accountability. The result can be a viscous circle leading to even greater discrepancies in power and a greater potential for corruption because corruption tends to slow economic growth in the lower strata.

Inequality also increases the opportunities for what Smelser (1971) calls “crossing-over.” This occurs when those with wealth or political power, but not both, use one to gain the other. Typical examples include a police officer using his political power to receive bribes or a business man using bribes to influence government policy.

Cultural Norms

Robert Merton, in his book *Social Theory and Social Structures* (1968) details the final environmental factor – cultural norms. Merton puts forward what is called a “means-ends” schema that suggests corruption is more prevalent in those cultures that place a high premium on financial achievement or success but which lack the means to attain these goals. Empirical data bears out this hypothesis in countries such as Russia, South Korea and Turkey which are relatively low in terms of affluence but which have relatively high cultural norms of achievement. (Lipset & Lenz. 1998.)

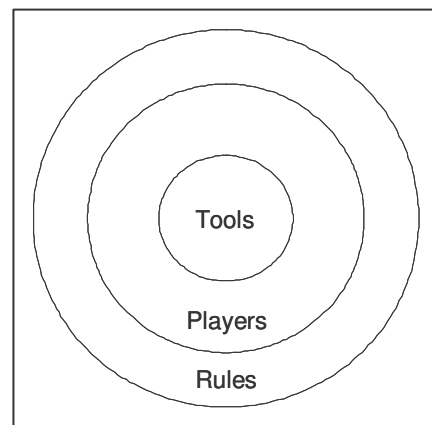
But how are cultural norms and their impact on corruption relevant to NPM? Although there is no data to support this, there is a striking similarity between the rise of NPM in the United States and the means-ends schema. As the Federal government continues to pass responsibility for the provision of public goods and services to the state and local levels there is an increasing expectation of success placed on local governments to solve problems and provide a growing array of services. However, local

governments have limited powers to raise revenue. They are entirely dependent upon the monies they receive from the state and federal governments, property taxes, user fees, and other sources of revenue . This is, in effect, creating the same disequilibrium between expectations for success and the means to achieve them in local governments in the United States as Merton observed in individuals in other countries. The result will, in all likelihood, be an increased potential for corruption within local governments as they try to “do more with less.”

How can corruption be mitigated at the local level?

Mitigating corruption at the local level revolves around taking a proactive approach to designing the decentralized networks that make up the backbone of new public management. These networks consist of three key components: *tools, players* and *rules*.

Municipalities can best address the environmental factors of corruption by designing the right balance of these key components. Like the factors of corruption each has its own primary elements but they all work together to influence and reinforce each other. Designing an effective system requires equally diligent attention to all three.



Tools

While tools are often determined by a higher level of government in the process of policy development, a deep understanding of the tool is critical at the local level. Tools are the heart of any decentralized system. Tools determine the type of intergovernmental transfer, the vehicle of that transfer and the delivery system or agency responsible. While tools can be classified in many ways, it is

important to understand that tools have different degrees of directness and automaticity. These characteristics often determine how and what types of corruption a system is susceptible to.

Direct tools can be less corrupt because they shorten the distance between policy and public administration and make it easier to define the agency accountable for administration. However, as local officials know, indirect tools such as grants, loan guarantees and vouchers have become increasingly common. As third-parties gain greater control over the spending of public monies and the operation of public funds, local officials must be keen to potential principal agent problems and emphasize relationships between organizations. (Salamon, 2002.)

“Automaticity measures the extent to which a tool utilizes an existing administrative structure to produce its effect rather than having to create its own special administrative apparatus.”

“Visibility measures the extent to which the resources devoted to a tool show up in the normal government budgeting and policy review processes.”
(Salamon, 2002.)

Tools with a high degree of automaticity are often popular with local governments decentralizing the provision of public services. By utilizing preexisting administrative structures these tools often invite agents with little or no experience providing public goods to the table (Salamon). Tools that are highly visible are less prone to corruption. By definition, such tools allow for transparency and easy access to information by outside monitors.

Players

Players involve everyone from municipal employees, to elected and appointed officials, to third party contractors or agents. In NPM we see an increasing number of third party agents. These third-party agents often vary between localities and differ in their capacity to deliver public goods. A

principal agent problem often exists between local government and its agents. The principal-agent problem refers to the difficulty employers (the principal) have ensuring that employees (agents) to act in the best interest of the employers. Depending on the number of third-party agents involved in the network and the level of cooperation required among agents, principal agent problems can also arise between agents themselves. Third-party agents may not be accustomed to working with one another and may operate in very different ways. This can make managing the relationships between agents difficult and may open many opportunities for corruption.

Rules

The rules that govern decentralized networks can not be neglected. Rules can establish working relationships between agents, improve transparency of information and establish accountability throughout the provision of public services. Network rules can come from contracts between third parties and municipalities, or they can come from legislatures in the form of laws. When specified in contracts, the contractual relationship should be open to amendment by both principals and agents. Ideally, the relationships between agents can be worked out over time as agencies become familiar with each other's roles. Network rules need to be sensitive to each agency's culture and modus operandi as well as with the intent of limiting the opportunities for corruption.

An example of a very effective rule toward mitigating corruption passed in the Massachusetts legislature is the Pacheco-Manard Act. This act was passed in response to the ineffectual Weld privatization efforts in the early 1990s. It states simply that all contracts must undergo a uniform cost analysis. (Sclar, 2000). Although a seemingly simply law, it has far reaching impact on both accountability and transparency in contracting and as a result also serves to mitigate corruption in the

Massachusetts contracting process. Before the existence of this rule, decisions with regard to awarding contracts could be justified in any number of ways. There was no set accounting standard. With the presence of the Act, however, all parties are measured equally and contracts are a step closer to being awarded to those best able to provide the services truly needed by the municipality rather than those best able to game the system or have influential contacts.

Similar to thinking about the changing roles of the players in new public management, the increase in third party relationships in NPM means that an increasing number of rules that govern an area's ability to govern itself will come from contracts. For this reason a special focus needs to be placed on the short-term and long-term effects contract terms as well as the enforceability of these terms. Much of this will revolve around the ability to effectively monitor and change contractual relationships. Another way to look at protecting against corruption in the contracting process is by analyzing whether or not it makes sense to contract out services at all.

In the case of New Public Management this is a decision that will need to be made continually. This decision becomes a de facto rules question. Do we stick with the current system (whatever that may be) and its rules or do we negotiate a new system through a contract (a new set of rules). In his assessment of this process Sclar offers some important advice on those four things that one should think about continually when making these types of decisions. (Sclar, 2000.)

1. The first is to utilize good accounting practices regardless of whether you are providing services in house or contracting out. This includes understanding the true cost of the services in question through the use of activity-based cost accounting. The other important element here is to always fully account for transaction cost when contemplating a change in service provision.

2. The second rule is to always compare “three” alternatives. Whereas most people think in terms of should I contract a service out or not planners should entertain a third option. Namely, should I continue to provide services in house the way we are now? Should I contract the services out? Or should I restructure internally and continue to provide services in-house. This third alternative tends to yield the best results while at the same time being considered the least.
3. The third bit of advice is to make meaningful participation possible. This important bit simply implies that systems are comprised of people and any rules that are made concerning the development of new rules for the system should include the various people who will be effected by the rules. This may be unions, contractors, constituents or others. Both from an intelligence gathering perspective as well as a buy-in perspective this is crucial to arriving at sustainable solutions.
4. And fourthly, politics needs to be removed from contracting if at all costs. Ideally this would be accomplished by passing a law banning campaign contributions from contractors but in the absence of this strict enforcement of accountability and transparency rules will have to suffice.

Tying it all together – Leadership in New Public Management

Thinking about the components involved in the decentralized networks of new public management in terms of tools, players and rules can be helpful in keeping track of the various forces that may lead to corruption. But simply keeping track of these forces is not enough. To truly mitigate corruption requires a constant attentiveness to the interplay of the myriad forces that manifest

themselves in the forms of tools, players and rules and the ability to react accordingly. This is leadership. For, although one can design systems that help mitigate corruption the new public management, by its very nature of involving so many different parties, will be constantly changing. As a result, the systems will need to constantly change as well.

Leaders in new public management will need to be fluent in their use and understanding of the various tools, players and rules available to them. They are the glue that will enable the systems to work. And they are also the individuals that will need to recognize when the current system is no longer appropriate and needs to be changed – whether this means contracting out a service, changing contractors or making the decision not to contract at all. The ability to both interpret and act on situations these situations takes training and this training takes money. And where does the money come from? It needs to come from the very municipalities that are trying to save funds by contracting out services. The irony here is that in order to make the new public management system of government work -- a system that has gained popular appeal by its purported ability to cut costs through the use of competition -- additional investment in government workers are needed so as to avoid the expensive threat of corruption.

Irony aside, the important thing to keep in mind here is that in order for corruption to be effectively mitigated under new public management it will require a new approach to leadership in the public sector. In order for this to happen effectively norms among the public that have until now not endorsed the types of leadership training that are more commonplace in the private sector will have to change. So, although new public management does create the increased possibility of corruption it can be controlled. But this will require not only a new model of leadership for the public sector but also a

new willingness on behalf of constituents to fund these new models in hopes that in the long run the quality of the services they receive are commensurate with the money being spent.

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Fisman, Raymond & Gatti, Roberta. "Decentralization and Corruption: Cross-Country and Cross-State Evidence." 1999.

[http://wbln0018.worldbank.org/eap/eap.nsf/Attachments/deccorr3/\\$File/deccorr3.pdf](http://wbln0018.worldbank.org/eap/eap.nsf/Attachments/deccorr3/$File/deccorr3.pdf)

This is one of the best empirical studies available that look at how several variables, across countries and within them, relates to corruption. The authors look at variables like CDP, decentralization, civil liberties, and the relative size of federal transfers to states.

Lipset, Seymour M. & Lenz, Salman. "Corruption, Culture, and Markets" in Harrison, Lawrence (editor) and Huntington, Samuel (editor). Culture Matters: How Values Shape Human Progress. New York, Basic Books. 2001.

Culture Matters is a collection of meta-studies on corruption. Lipset et al note the empirical relationship between corruption and poverty that other studies have found, and cite empirical support of Merton's means-ends schema.

Litvack, Lennie, Ahmand, Junaid & Bird, Richard. "Rethinking Decentralization in Developing Counties." The World Bank. Washington, DC. 1998.

This article deals with how to decentralize governments effectively. Corruption is one key concern in decentralization, and the paper discusses several strategies and case studies for increasing participation, accountability and transparency, and why these factors are important.

Merton, Robert King. Social Theory and Social Structure. 1968. New York: The Free Press

Merton's work is a classic of modern sociology, and deals with a wide range of topics. The most useful for those dealing with corruption is his "ends-means" framework. Those societies that stress ends that are beyond the means of most people to achieve will create corruption.

Rhodes, R. A. W. 1996. "The New Governance: Governing without Government." Political studies XLIV: 652-667.

Rhodes discusses several conceptions of governance, including the minimal state, corporate governance, the new public management, "good governance," a socio-cybernetic system and others. He defines governance as "self-organizing, interorganization networks" and defends this definition.

Salamon, Lester M. 2002. The Tools of Government: A Guide to the New Governance. Oxford: Oxford University Press.

Salamon surveys about a dozen different government tools, from loans to social regulation, and rates each on several criteria. These include automaticity, directness and visibility, which are strongly related to reducing the potential for corruption.

Sclar, Elliott D. 2000. *You Don't Always Get What You Pay For: The Economics of Privatization*. New York: Cornell University Press.

This is an excellent book that focuses on government contracting. It also deals with the difficulty in writing a good contract, contract enforcement, oversight, and other issues that deal with corruption in government contracting.

Smelser, Neil, J. "Stability, Instability, and the Analysis of Political Corruption." In Stability and Social Change, edited by Barber, Bernard, and Inkles, Alex. Little, Brown and Company. Boston. 1971.

The most relevant part of this article is the view of corruption as "crossing over" between the economic and political spheres.

Teggemann, Stefanie. The New Anticorruption Home Page. "Corruption, Poverty, & Inequality" The World Bank. It was last updated on March 26, 2002.
<http://www1.worldbank.org/publicsector/anticorrupt/corpov.htm>

This is the World Bank's online source for corruption related material. Much of this relates to developing countries, and especially to managing the World Bank's projects in these countries, and their broad recommendations (like an open media, independent judiciary and well-paid civil servants) are also aimed largely at developing countries.