

Applicability of New Public Management Principles in Estonian Local Government

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Abstract:

The focus of the paper is on the modern market-oriented practices in the Estonian local government the country has been experimenting with since the beginning of the 1990s. The paper warns about the uncritical adoption of various NPM-type principles. First, there are serious questions raised concerning the appropriateness of modern management approaches in the public sector at all. Second, transitional countries share problems rather than solutions with Western countries. The instability of the systems, the constantly changing targets and the low level of administrative capacity create challenges for the public organizations. Third, the limited human resources, the special characteristics of the organizational culture and the prevailing common values in Estonian municipalities make the situation even fuzzier. Especially dangerous can be ready-made-for-use models and ideas. The paper comes to the conclusion that all of the four discussed NPM themes should be implemented very consciously in Estonian local governments.

Introduction

In Estonia, as in the rest of Europe, the study of Public Administration has shown growing interest both in local government studies and in the modernization of public organizations. Often the provision of services has been delegated to individual municipalities increasing the need for general discussion about appropriate approaches and management tools. The subsidiarity principle strongly promoted by the European Union creates additional attention on local governments and their modernization plans. Various modernization ideas and activities around the world show that there is not any single model for efficient and effective public management. Country-specific characteristics and traditions are central in the planning and implementation of public administration reforms. Countries with different development levels also have different goals of their reforms. For established democracies flexibility has been the keyword behind public administration reforms. Transitional countries on the other hand have too much flexibility due to general political and economic instability. They try to

establish their traditions, principles and mindset of people in accordance with the new economic, social and political reality. Starting from the end of the 1980s, discussion about appropriate management practices and modernization initiatives has often been followed and enhanced by pro and con arguments of the *New Public Management* (NPM) approach. This approach is mostly referring to the market-oriented principles and private sector practices that are meant to be transferred to and applied by the public sector.

The focus of this paper is on the current management practices in the Estonian local government. The central aim is to analyze some of the main NPM-type management ideas which Estonian local governments have been experimenting with since the beginning of the 1990s. Although certain aspects of national and European levels are looked at and analyzed together with the characteristics of the transitional countries in Central and Eastern Europe (CEE), the main analysis concentrates on Estonian local level. Only if the developments on the organizational level in Estonian local governments are combined with the developments in the broader context, an adequate picture of an analysis could be expected.

Development of Estonian local government

In order to analyze the current development of Estonian local government, one should look back to the recent history. While the importance of historical developments and path-dependency is crucial for analyzing Estonian reality, a short historical overview of Estonia and its local government provides necessary background information for analysis.

After regaining its independence, Estonia had to transform itself very quickly from an occupied soviet republic to an independent European state. It meant transition from the communist past, systems and structures towards market economy principles and liberal democracy. According to the World Bank (1996: 9), Estonia chose a clear strategy of the reform “to launch a rapid, all-out program, undertaking as many reforms as possible in the shortest possible time”. The market was considered as the only and reliable future and that is why economic reforms got most of the attention. As Estonia’s former Prime Minister Mart Laar

(1996: 97) has stated: “We tried to learn from the experiences of other countries which had undergone a similar transition. Two main lessons emerged. One was to take care of politics first, and then to proceed with economic reform”. In this environment, the development of public administration was not a priority. However, within public administration, local government reforms have been rather attractive to the politicians since the end of the 1980s.

Starting from the beginning of the transition, the administrative reforms have been rather unfocused both on the central and local levels because of too many competing targets. The lack of know-how and experience of how to transform the local government system made prior thorough analysis an unlikely option. Time pressure and limited expertise forced a development of Estonian public administration that was neither rational nor consistent (Randma-Liiv, 2005a: 101). The proposed approaches and suggestions about what, when and how to reform were closely connected to the experience and understanding of “the talker”, not so much to the situation itself. “The internalisation of transition countries has followed a specific model in which foreign aid, in the form of imported expert knowledge, has had an important role in transition analysis” (Temmes *et al.*, 2005: 69). In Estonia, quite a few established practices on the local level were worked out on the examples from the neighboring countries around the Baltic Sea (e.g. from Finland, Denmark) and policy transfer was used rather widely, at least in the initial transition period. Then again, “although certain influences from various model countries are acknowledged, the major decisions about the design and operation of Estonian public administration have remained “home-grown”” (Randma-Liiv, 2005b: 484-5). Within a short period of time, Estonian local governments had to create new organizations and new structures. It meant a quickly built-up process with frequently unpredictable results.

If the first part of the 1990s in Estonian local governments was characterized by *doing things*, though often with the price of speeding and lack of analysis, then the first part of the current decade could be characterized by a certain satisfaction of *having these things*. After reaching a certain point in the modernization process, quite a few local governments saw this process as a successfully finished transformation, not as the beginning of a bigger transformation. Even if some municipalities understood the need to think about

other broader democratic, political, administrative and managerial issues, there were often no skills for that. By now, several municipalities have understood that such a short-term and narrow approach to reform processes does not fit very well with the principles of sustainable development of their own organization as well as of the whole country. Even if it is often stated that long-term plans and strategies are needed for the best possible usage of the resources today, local governments do not often have enough skills and knowledge to develop them and to improve the existing state of affairs. There are studies showing that only 9% of Estonian local governments invest based on their long-term development principles and plans (Soiver, 2004). It has led to the situation where most municipalities deal with their own everyday problems when having no interest and resources to deal either with their long-term plans or Estonian public administration development in general.

New Public Management

Recent public management reforms around the world have been affected by the *New Public Management* movement. Estonia's re-independence and its development of the basic principles of public administration coincided with the era of the NPM ideology. That is why this approach has left a certain footprint on Estonia's public sector. Even if major NPM reforms are analyzed rather critically or even faded away in most of the developed countries so that "[m]ost of us could write the New Public Management's post mortem now" (Lynn, 1998: 231), these principles have changed our way of thinking about public administration and we can not go back to the unchanged situation where we started from (Peters, 2001: 199-201). Thus, NPM approach helps to understand the development and the path of changes in Estonian municipalities. It provides a good framework for thorough analyses of the reasons and motives of the reform ideas. Widely known is the framework of Peters (2001) who grouped the features of transformation in government organizations as follows: marketisation, participation, flexibility and deregulation. While this approach gives a good overview of the major trends and prevailing thinking in public administration, the current paper also draws on it while analyzing the changes and reform ideas in Estonian local government.

Marketisation

The market approach for reforming government emphasizes market incentives, private sector techniques and decentralization. “The primary intellectual root of the market approach to changing the public sector is the belief in the efficiency of markets as the mechanism for allocating resources within a society” (Peters, 2001: 25). The idea behind it is the assumption that traditional bureaucracies do not provide sufficient incentives for public servants to perform efficiently and effectively. That is why the central value is the basic belief in virtue of competition. The advocates of this approach believe that the closer public sector comes to market interventions, the better the outcomes will be. Entrepreneurship, customer satisfaction, efficiency are just some central keywords used within this framework. According to this approach, good managers can produce better government with less money. For that, the managers need to have enough freedom and flexibility to be able to manage. It is believed that techniques and motivational systems from the private sector are the best ways to reach these aims.

There are studies showing that in local service provision, the part of private service providers has grown and the part of public subjects has decreased in Estonia (Kõre, 2005). The management of various spheres of life (e.g. garbage collection, municipal housing, social services, etc) is gradually being given over to the private sector. Contracting out to the lowest bidder from the private sector is widely practiced in Estonia, especially in case of technical tasks (Ministry of Interior, 2005). At the same time, there is a study showing that public organizations in Estonia are not able to act as a “smart buyer” because of institutional settings which are too weak to control and steer complex contracting relationships (Lember, 2004). Certain political, legal, administrative and economic aspects hinder the marketization processes in Estonia making it rather questionable for Estonian local governments as well. One of the central arguments is that there is not actually any real market on Estonia’s local level. The number of potential service providers is usually very small, being in most cases just one or

zero. “With the possible exception of Tallinn and maybe some strong regional centers, local governments are unlikely to find NGOs that would be willing and capable to act as partners in service provision” (Lagerspetz *et al.*, 2002: 83). Since the central idea of the market approach is competition, implementing marketization principles on local level does not respond to the real idea of the approach.

Structuring local governments’ relationships with citizens as a market exchange action can be especially dangerous in Estonian municipalities since the strong and solid system of local governance is not in place yet. In addition, it can be damaging to public confidence and local governments’ reputation. “It is the symbolism of citizens as passive consumers, making judgments on preferences rather than participating in public processes, that needs reconsideration.” (Ryan, 2001: 107). This trend might create serious conflicts between managerial values on the one hand and democratic values on the other hand. Since the relationship between a local government and its citizens and inhabitants is more complex than a consumer-provider relationship, the role of consumers cannot replace the role of citizens either in the policy formulation or in the policy implementation process.

While for Estonian local governments it is easier to deal with and concentrate on their customers rather than on the citizens because of the limited resources, it is easy to equalize customers with citizens. This can easily reinforce the erosion of the already rather low public accountability in Estonian local governments. Also Parker and Gould (1999) find it alarming and dangerous that the concept of accountability to the public at large with the multiple dimensions has often changed to accountability for financial outcomes. Technocratic aims (e.g. cost-efficiency) have easily started to rule over democratic aims (accountability, transparency, etc). Since the philosophy of marketization is often utilitarian – being good equals being cost-efficient and being cost-efficient equals being good –, it has often led to over-concentration on financial efficiency. That has been happening also in Estonian municipalities where financial issues are often considered more important than general democratic issues. Another risk deriving from the marketization approach is that only organizational activities which can be quantified become the subject of accountability. Other characteristics of the services that are not measured or quantified may lose their value and/or take a turn

to the worse. The study based on the extensive e-survey in 2005 among Estonian local governments showed that financial accountability is considered the central one also in Estonian municipalities.

One crucial element of the market approach is the decentralization of policy making and implementation (Peters, 2001: 34). Decentralization might quite well promote the effectiveness of the organization while being able to address the grass root needs more appropriately, but it might also become dysfunctional or even dangerous when there is a need for coordination activities, quick and tough decisions and general common guidelines. Especially fiscal decentralization can create fiscal imbalances and endanger the overall development and stability. Some recent developments and/or cases in Estonian municipalities (bankruptcy of the city Püssi, cases of the municipalities overloaded by bank loans, etc) have shown that before a certain and functional system is in place and when the administrative capacity of local governments is not yet as high, a certain level of centralization would be rather useful. The advice to move into the decentralized administrative reform model could be an especially drastic mistake in transitional countries (Temmes, 2005) likewise in Estonian local governments, which often face quick and tough decisions in many life spheres. Implementing such a decentralized system assumes a capacity to monitor and assess effectively the performance of the decentralized bodies created (Peters, 2001: 35). If reforms are aiming for savings and rationalization, as many reform ideas in Estonian municipalities do, decentralization principles can cause problems particularly in the implementation stage.

Participation

Enhancing public participation involves a set of ideas and steps to facilitate citizens' participation in public administration. This approach to reforming the public sector is based on the assumption that "...governing should be about finding out what the public wants and finding ways of delivering those services" (Peters, 2001: 50). It tries to increase the input of citizens, customers and lower-level officials in the decision-making processes through empowerment and facilitation. The advocates of these ideas believe that the customers themselves and the street-level officials have the most appropriate information

and insights about the services and programs. If this information was utilized appropriately, the government would perform better. Thus, in order to increase the public administration effectiveness, public organizations should foster individual and collective participation. In addition, the theme considers involvement and participation as some of the most effective means for motivating public employees.

On the local level, the leading role of the municipalities to foster transition through participation is usually smaller than the leading role of the central government on the national level. Usually, the incentives of the actors to participate in activities are bigger on the local level and that is why the leading role of creating local networks and fostering participation might be held by various actors. In addition, according to a recent study, Estonian local governments regard business actors as more influential than themselves (Sootla and Grau, 2005: 287). While considering such a network and consultation approach in the situation where businesses are already seen as very powerful actors, one has to recognize that constant negotiation and consultation seriously undermine the legitimacy of the state and local governments even more, which is again especially crucial in new democracies.

Several authors have argued that the quality of public service delivery depends more on cooperation than on government employees simply delivering the services (Walsh, 1991; Peters, 2001). Cooperation among public organizations (meaning also among local governments) has been one of the most serious problems in Estonia since the beginning of the transition. Since there are no common public service values or central principles in place yet, the general framework or basis for cooperation is often missing. Although partnerships between local governments, local non-governmental and business sector organizations have been promoted both by the state and local governments themselves with the common aim of finding solutions to local problems mostly in the fields like economic development, employment, social involvement, etc (Ministry of Interior, 2005), collaboration and networking among Estonian local governments is still rather weak. Since local governments by their very size make participation more likely and more meaningful than do national or regional

governments (Peters, 2001: 62), collaboration among local governments themselves could be viewed as an indicator for wider public participation on the local level. While small and compact territory favors networking in municipalities, the studies show that a strong regional identity of people correlates with networking and institution building (Raagmaa, 2002: 73). If cooperation is carried out among Estonian municipalities, then it is mainly on a contractual basis and by joint provision of public services especially in the areas such as waste management, education, transport, etc. While the studies of cooperation and coordination point out that organizations with different values (even if they deal with the same issues) have difficulties to coordinate (Gray, 1985), creating common values would most probably be a required precondition for enhancing cooperation in Estonian local governments.

Flexibility

The third alternative approach to the traditional model of governing by Peters (2001) is characterized by flexible administration as the response to the critics of traditional rigid public administration. “Flexibility refers to the capacity of government and its agencies to make appropriate policy responses to environmental changes” (Peters, 2001: 77). While traditional public sector organizations are often considered to be permanent entities, and public employment in many countries is regarded as a life time job, there is a modern trend to decrease this stability and to question the permanence of public organizations, structures, principles, and values. The general belief behind it is the idea of increasing societal abilities to respond fast and effectively to new challenges and to improve organizational capacities to survive in a constantly changing environment.

Even if the transitional public administration systems may not be optimal at the beginning of the transition, they still offer the heavily needed framework and stability for development. Constant changes together with a high level of flexibility will blur “the picture” and may create possibilities to follow self-interests, and to build up mini-states and power spheres within public administration. In this environment, most of the energy and resources would be used for creating, managing and understanding changes while trying to find one’s

own place and purpose. Before a certain change has reached its maturity and outcomes, new changes are frequently already on their way waiting for their turn in Estonian municipalities. Finally, there is no clear understanding about reality and “real” problems.

Another serious problem in Estonian public administration is coordination. In a time of rapid changes, together with the embracement of flexibility, actors have to become more and more involved with the various reasons and dimensions of the problems. In this context, coordination is conceptually more difficult. Changing aims and principles can easily create misunderstandings, misconceptions, as well as turf fights. The low level of coordination could easily become a central reason for the low level of efficiency. While the current public opinion tries continuously to reduce the size and influence of the already reduced public sector, where the coordination problem is acknowledged as one of the central ones, flexibility might be especially dangerous. In this context, stability would most probably have its own virtue. The long-standing existing organizational structures, basic principles and targets could help to maneuver through transition and to guide the administrators’ choices. Since organizational stability is an important source for organizational memory as well as for organizational capacity to avoid expensive errors (March, 1991), it is especially needed in Estonian local governments where the resources are rather limited. During times of rapid social, political and economic changes, stability can serve as necessary strength rather than hindering needed changes.

Deregulation

The fourth modern theme for reforming public administration is deregulating government while referring to internal management of the public sector. “The fundamental assumption of the move towards deregulating government has been that if some constraints on bureaucratic action are eliminated, government could perform its functions more efficiently” (Peters, 2001: 97). Deregulating can unleash the potential of civil servants and produce higher levels of government activities. It could be considered as a sub-approach of marketization through removing internal barriers and letting managers manage, or

as a complimentary approach to marketization since achieving the promised efficiency through market mechanism would be much easier without rigid constraints of the public sector apparatus. Advocates of deregulation believe that using public officials' personal judgment and exercising individual discretion is superior to any sort of rules, regulations and principles, leading to better, more efficient and effective outcomes. Sometimes, some contextual factors justified the rules initially, but after some time, they might have outlived their purpose and usefulness. It might happen that the roots for deregulation are more hidden in the perception of the overregulated and dysfunctional public administration held by the public rather than in regulations themselves, hindering the actions of civil servants.

In Estonia, most of the life spheres had to be built up from scratch during the 1990s. This process also required the establishment of a large number of new laws, rules, regulations and principles. In the situation where flexibility is already high in society because of transition, rules and regulations are needed in order to counterbalance. Imposing additional rules and controls might be counterproductive in developed countries where generally accepted public values and principles are already in place, but it might be productive in transitional countries where the basic principles of conventional public administration are not yet in place. That is why implementing deregulation in Estonian local governments might have a rather negative influence since there is no commonly understood and followed set of principles and values yet, guiding public servants' decisions and actions throughout public service. In this case, regulations and procedures provide some certainty and predictability of actions. Especially in decentralized civil service systems, they might have their value. On the other hand, it is very easy for Estonian municipalities to turn into a rule-driven system, where rules become aims themselves.

Increasing the level of deregulation in Estonian local governments might have both positive and negative results. On the one hand, since the general level of flexibility in Estonian public administration is already very high because of constant changes, regulations are needed to counterbalance the situation while providing some certainty and predictability of actions. On the other hand, regulations have the tendency to create learned incapacity, especially in situations

where there is a high degree of avoidance of responsibilities, as is the case in Estonian municipalities. Just after a certain level of development, competence and common understanding has been reached, deregulating processes might simplify the activities and improve the outcomes. If this level has not been reached yet, deregulation should be looked at with high caution.

Conclusions

While the reforms in Estonian municipalities have brought about some positive change, the transformation of Estonian local governments has not been easy. First, there are serious questions raised concerning the appropriateness of modern management approaches in the public sector at all. Second, transitional countries share problems rather than solutions with Western countries. In transitional countries, the legitimacy of the public sector has been suffering due to the negative nature of the communist pre-transition regime. The instability of the systems, the constantly changing targets and the low level of administrative capacity create extra problems for the public organizations. Because of transition, there has been significant pressure to adopt popular policies and approaches in Estonian local governments without having enough time to analyze and adopt these ideas in depth. Third, the limited human resources, the special characteristics of the organizational culture and the prevailing common values in Estonian municipalities make the situation even fuzzier. Managers with too little experience in the public sector or in change management may often fall into the trap of “fashionable approaches” while overestimating the positive outcomes of the new ideas and underestimating the negative drawbacks. Especially dangerous can be ready-made-for-use models and ideas that, due to lack of knowledge and broader understanding, might look promising.

The research comes to the conclusion that all of the four discussed NPM themes – marketisation, participation, flexibility and deregulation – might offer remedies to public organizations in the Western world (though even that is often questionable), but they should be implemented very consciously in Estonian local governments. Critical thinking and a broader analysis of Estonian local governments is needed before any of these principles would be implemented.

Municipalities, together with citizens, the private and the non-profit sector, can all make an important contribution while supporting and facilitating the general transition, but only a strong public sector as a *greater whole* can handle the effective execution of policies and sustainable transition. While the situation on the Estonian local level is similar to the situation in other CEE countries in many respects, the same conclusion will most probably apply to other transitional countries and their local administration as well.

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