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New Public Financial Management and Its Legitimacy

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Abstract

This paper's for discuss the importance of New Public Financial Management (NPFM) legitimacy. As part of the new regulation in the finance sector, NPFM promotes the application of transparency and accountability of company expenditures, risk management and value for money. However, literature study revealed that NPFM is not implemented yet in the public organization, especially in the developing countries, like Indonesia. It is predicted that it is due to socio-cultural aspect of the implementation of NPFM does not meet the society expectations. This paper explores and suggests that socio-cultural aspect should be taken into account in the implementation of NPFM or NPM.

Keywords

NPFM, NPM, public sector, manajerialism.

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Introduction

New Public Financial Management (NPFM) has been taking place for 30 years, since its inception in the early 1980s. As the essential part of the new public management (NPM), new public financial management (NPFM) promotes fundamental principles in managing government finances, such as: 'expenditure management transparency and accountability, value-for-money, risk management, transparency and accountability, and accounting and reporting' (Guthrie et al 2003, p.6-7). Moreover, many key multi-national financial institutions, such as: IMF, World Bank, ADB, have been constantly promoting the adoption of new public financial management (NPM), in developed as well as developing countries, all over the world.

The Benefits of New Public Management

To some extent, NPM does contribute to some positive impacts to the public organisations running under it. For example, since 'the introduction of the public financial management information system in 1999, Bosnia and Herzegovina has experienced substantial positive results from its application with respect to budget

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execution, auditing, reporting, reversing the issue of budget arrears and addressing unmet infrastructure requirements' (Vickland and Nieuwenhuijs 2005, p.102). Similarly, New Zealand's State Owned Enterprises (SOEs) have been enjoying remarkable financial returns attributable to significant public financial management reforms since 1980s (Luke et al 2011, p.337). The government, as a result, will generate returns, with respect to dividends and tax payments, with consistent growth in returns from income tax (Luke et al 2011, 337).

However, some opponents of NPFM denounce the transformation of public administrators into public managers, provided with the fundamental differences existing between public and private organisations. For example, Andersen (2010, p.131-2) argues that 'public and private organisations have different characteristics, in terms of leadership and managerial decision-making styles, as well as motivation profile'. Similarly, Hooijberg and Choi (2001, p.404) believe that the two organisations differ in 'leadership roles, environments, and effectiveness'. Because of these concerns about the characteristics of the public sector and the private sector with managerialism, it is contended that NPM is illegitimate to apply in the public sector organisations and its implementation will pose several problems to public services delivery.

The Characteristics of Public Sector

The first thing that needs to be addressed in evaluating NPM is that Public organisations differ in their objectives compared to those of private organisations. First of all, public organisations focus on delivering public service to the community, while private organisations are aimed at gaining profits from their activities. Secondly, public organisations have greater job security than that in the private companies (Baldwin in Hooijberg and Choi 2001, p.405). Thirdly, private organisations have more flexibility, in terms of lifetime job security, in order to cut expenditure, compared to that in the public organisations (Boyne et al 1999, p.413).

However, there are also similarities between them, and the most apparent similarity between public and private organisations is that both organisations use the same universal management process, such as: planning, organising, actuating, measuring, and controlling results (Genck in Murray 1975, p.365). Not with standing some similarities between them, the different characteristics between them do outweigh the similarities. Furthermore, it is evident that NPM is not legitimate to be applied in the public sectors, provided with many distinctions existing between the two organisations.

Firstly, public and private sectors share different characteristics. Public sectors are aimed at gaining public trust (Salminen and Norrbacka 2010, p.653) and consensus (Murray 1975, p.365). Moreover, in a democratic society, public trust plays a pivotal role to keep democracy effective (Lewis and Gilmand in Salminen and Norrbacka 2010, p.649). Meanwhile, private entitiess are aimed at generating profits and shareholders' return on capital (Mulgan 2000, p.93). Consequently, if public administrators are transformed into public managers, they will tend to create negative impacts to the society, as they try to gain financial profits as higher as possible, neglecting their primary function to the society, that is to deliver public services as well as maintaining the public trust and consensus on them.

The impact is, then, that public trust and consensus will be diminished and this will endanger democracy. For example, based on the survey conducted in rural China in 2007, (Li 2011, p.305) argues that ‘distrust in incumbent government leaders’ commitment to the public interest leads to strong urge from the public for leadership change’.

Secondly, transformation into NPM (NPFM) in the public sector will lead to public services delivery disorder. Once a public organisation is transformed into a performance-based organisation, it has to change all the system and culture it has long performed at the first place. For example, the given public organisation needs to change the system and the bureaucratic attitudes of its public servants dramatically, aiming at improving ‘the quality of organisational communication and management processes, so as to achieve better outcomes’, inter alia, a better quality customer services delivery (Brunetto and Wharton 2008, p.38). Unfortunately, as the given public organisation is in a transitionary process, it cannot anticipate the public needs to the maximum as it is still undergoing a radical transformation in all aspects. The citizenry, hence, will have reduced trust on the organisation as it now fails to deliver public value as expected.

Next, the Organisation for Economic Cooperation and Development(Haque 2007, p.181) argues that over-reliance on results-based performance will possibly create a short-term outputs oriented at the expense of long-term outcomes. Furthermore, performance budgeting, to some extent, fails to prove its robustness in the public sector. For example, Greece is experiencing acute Euro-zone financial crisis, even after implementing performance budgeting since themid-90s (Karkatsoulis 2010, p. 456). It is clear that NPM needs to be re-evaluated since it does not provide positive outcomes to the public organisations running under it.

The Problems of Managerialism

The second issue to address in evaluating NPM is related to the application of managerialism in the public sector. Managerialism can be defined as ‘giving line managers more authority to manage programs than before centrally formulated, directed, and controlled by political executives’ (Maor 1999, p.5). Next, Reed (1999, p.263) argues that managerialism per se is based on ‘the delegation of central government power and privatisation of essential public functions’. It assumes the public managers to enhance the efficiency, downscale excessive expenses and improve the organisational performance in a competitive situation (Dixon et al 1998, p.164). However, it is evident that managerialism in many instances has created some problems leading to turbulence and imbalances in most of public organisations relying on the implementation of it towards the attainment of public services and needs either in developed or developing countries all over the world.

Firstly, managerialism leads to the threatened perception among political executives towards local governments or line managers in decision-making process and implementation. It has been a very nature of political leaders to have more control and power over every single activity related to public order and public routine. However, as their discretion or authority is reduced to a huge degree as the expense of managerial reforms in public organisations taken place under NPM, they are tempted to continually gain control by imposing more controls to the public managers. Consequently, this phenomenon results in trade-offs leading to trivial results in public-oriented services and outcomes, since the greater authorities are given to the public managers, the higher the surveillance and policy control by the central government are imposed on them. Hence, the programs and targets set by the public managers are sometimes going nowhere.

Next, Maor (1999, p.6) claims that 'investing in the public administration's managerial capital, that is giving public managers more authority to manage programs, is most likely to cause political leaders to disinvest in the public administration's political capital, that is giving ministers greater power for setting central directions, priorities, control, supervision, and intervention in personnel matters'. In order to maintain certain criteria of oversight and supervision, ministers might set certain employment conditions for those public managers or public servants or what we refer as merit systems (Maor 1999, p.13). In fact, this action is counter-productive to the spirit of managerialism per se. As a result, the public managers are "restricted" intrinsically to implement further with confidence their set targets and agendas for public services and needs. Then, the targets and agendas are merely set and achieved just in order to get certain merits from the central government, in terms of compensation and promotion, rather than for the purpose of fulfilling and anticipating the public needs and public value, which are truly the nature of public administration and management.

Secondly, managerialism creates disequilibrium and inequality among states or provinces running under NPM. It has been widely known that the quality of human resources is different in every province or state. However, managerialism does not factor that determinant in its implementation. Consequently, the disparities or Grand Canyons of performance gained over the implementation of managerialism are apparent. The inequality will create gaps in terms of economic and social development. Desai and Imrie (1998, p.635) argue that managerialism is contradictory and flawed to the objectives it tries to carry on as it is characterised by 'de-democratising tendencies and a fixation with procedural and technical processes'. It means that managerialism only focuses on de-democratization and fixed procedural and technical embracement, denying the importance of human capital on its components'. Therefore, managerialism cannot really provide a cure to a systemic and acute problem in public sector performance.

Further, Gramberg and Julian (2000, p.488) argue that the inequality in the local government relying on managerialism that may come from repressed or at best restricted managerial strategy formation has been creating compliance, rather than performance-oriented focus. Similarly, Jingjit and Fotaki (2011, p.11), based on their research in Thailand, conclude that managerialism cannot fully and universally be applied in non-western countries, since the different characteristics that may apply in different countries. Despite its progressive massive-scale reform, they found that hierarchical and clan-based cultures were prevalent and persistent in Thailand. Thus, the assumption that NPM is universally applicable and compatible across the globe remains white elephant and, consequently, the presumption that managerialism is a widespread solution for alleviating the public services performance across the globe is undoubtedly declined.

Thirdly, managerialism is exposed to corruption in the local governments, in the absence or near absence of central government control. Since the implementation of NPM in the public sectors in 1980s, there have been frequent cases of corruption and abuses of power by the local government authorities all over the world. For instance, based on the survey in Germany in 2004, Maravic (2007, p.440) concludes that the devolution of authority from the central government to the local public governments or enterprises has not only echoed a transformation of administrative delegation, human resources, and financial capital to newly built public enterprises or local governments, but also has induced a new theme of decentralised corruption.

Further, Sarker (2003, p.529) upholds that good governance and NPM concepts fail to take into consideration socio-economic structure and history of a given country before applying NPM in a local government of a particular country, since those factors do have significant contribution over a success of managerialism accomplishment without any deviation, in terms of corruption, bribery, kickbacks, collusion, and nepotism. For example, Malaysia keeps on experiencing inefficiency, corruption, ineffective accountability, poor performance, red tape, and other problems, even after the implementation of NPM (Siddiquee 2006, p.351). Those things happen as the public sectors in Malaysia have become more passive, indirect, and facilitating functions, rather than exercising, directing, and controlling functions, since the adoption of NPM (Siddique 2006, p.351). Consequently, the central government has reduced controls 'over the economic activities, income distribution, vested interest, widened opportunities for kickbacks and graft' (Siddiquee 2006, p.351).

Conclusion

It is noticeable that the transformation of public administrators into public managers is illegitimate, provided with unique characteristics public organisations have, compared to those of private companies. Next, NPM does impose some negative impacts towards society, if applied without due diligence and care. It is, then, suggested that policy makers make allowances to socio-culture, strong political will, developments of the internal structure of each public organisation, and historical perspectives of their respective countries, before applying NPM. By taking those elements into consideration, it is expected that NPFM trajectory becomes more legitimate to apply in the public sectors, as well as reducing its travails.

Notes on Contributor

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