

# **COMMERCIALISATION AND COMPETITION IN PUBLIC SECTOR AUTHORITIES – A CASE STUDY IN HUNTING WITH THE HARES AND RUNNING WITH THE HOUNDS**

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## **ABSTRACT**

New Public Management has spread to many government jurisdictions over the last 15 years. It relies on principles of commercialisation, competition, and corporatisation. How do governments maintain control of commercialised public sector bodies? Is the notion of control of a commercialised public sector organisation appropriate, given the competitive marketplaces in which many of these bodies operate? This research discovered conflicts between public sector oversight bodies set up to assist, monitor and control commercialised organisations, and commercialised organisations over issues of senior executive remuneration. These conflicts bring into the question the very notion of ‘government’ commercialised organisations.

## **INTRODUCTION**

Public administration and management in western countries has changed in many ways over the last fifteen years. Often these changes have been driven by the need to improve efficiency and effectiveness, and regularly have resulted in the commercialisation of the public sector. Despite the emphasis on commercialisation, governments still regulate public sector employment in their ‘commercialised’ bodies through various public employment offices, which are usually charged with supporting good governance by promoting and providing advice on the application of public sector employment and conduct principles. To achieve this, such offices often conduct and coordinate development programs, educational and networking forums, as well as agency visits. If much of the public sector is being encouraged to operate on fully commercial principles, and to become competitive and act as if they operate within the private sector, how do these bodies which monitor public sector employment impact on the management of commercialized public sector organizations? This research was undertaken to determine if the bodies which monitor performance assist operating units to behave in a commercial manner, as required by government, or if they detract from the ability to operate this way.

The Australian public sector is operating in an environment of considerable change and uncertainty. Public sector organisations are being transformed as the principles and practices of the New Public Management (NPM) take hold. NPM and its ideals of competitive frameworks for public sector are spreading everywhere (1). The benefits of NPM are said to be greater accountability, transparency, and resource efficiency (3). However, there are issues of co-ordination and management (1) in an environment in which the public sector is no longer the direct provider of services. For reasons of transparency and accountability to the public (2) commercial data should be disclosed (4), but commercial-in-confidence principles may prevent such disclosure. The result may be less accountability and transparency, both in service to the public and in employment. Accountability processes to external and government stakeholders must operate within current legislative frameworks (1) and as such, the competing values of accountability and commercialisation may conflict.

Market mechanisms used to enhance NPM include external competition; quasi (internal) competition; and non-market competition (1). Delivering public services on a commercial/quasi-commercial basis requires agencies to implement private sector management techniques and processes to develop a more efficient and effective public sector (2) but commercialisation falls between traditional public service and principles of contestability.

## **METHODOLOGY**

A public sector operating under NPM needs to balance the competing pressures of market style mechanisms (1) with rules and procedures to ensure fairness. Can new models be used which preserve the ideals of public administration? Broader government policies such as the maintenance of regional employment levels through public sector employment may mitigate full commercialisation. Agencies must try to balance internal pressures to maintain employment against external demands for commercialisation (2). There are difficulties in balancing economic rationalism with need for a public service responsive to stakeholders. The public sector faces issues of coordination and control with respect to legislation, finance, collaboration, negotiation, instruction, regulation and standards (1), which are not faced to the same extent by the private sector. Despite NPM, commercialisation and other private sector practices, public sector organisations operate in an environment which is different from that of the private sector. The forced adoption of some private sector practices combined with policy formulation requirements and some statutory responsibilities imposed by government can result in great operational difficulties for some public sector organisations attempting to achieve nebulous outcomes.

Against this background, a study was designed to investigate the impact of public employment bodies on the implementation and effect of commercialisation in former public sector organisations. This research studied the impact of public employment bodies on the implementation and effect of commercialisation in former public sector organisations through the lens of senior executive remuneration in a single case. The research approach was to interview a number of stakeholders from three different client organizations: a Board Chair, a board member, a CEO, a Finance Manager, an Administration/Legal Manager and a Human Resources Manager. The CEO and three project officers from a public sector oversight body (PSOB) were also interviewed:

## **RESULTS**

Staff of the PSOB believe they provide services of value to client organisations. They can provide information to boards about remuneration issues, which makes employing an outside agency to do the same work unnecessary, saving time and resources. The government's remuneration principles require that remuneration is sufficient to attract, retain and motivate senior staff without being excessive. Clients acknowledge that the PSOB in general provides services of value to organizations, and managers generally have good relationships with it. However there are perceptions that there is confusion between the role of a PSOB as a central agency with a reporting and monitoring function, and its role as a helping agency. There is conflict between these two functions. The role of assisting with developing comparable remuneration levels is not visible to clients.

PSOB members see their as being about ensuring accountability to government of commercialised bodies. Client organisations are accountable for how they spend government funds on remunerating CEOs, to ensure that remuneration packages are not excessive. The PSOB provides measures of accountability, which can be used by government and by boards. From the client perspective, the PSOB is highly interventionist and complex. Users note that organizations are held accountable for the achievement of their objectives and should control their own operations, but believe the PSOB imposes "arbitrary" rules and forces organizations to adhere to those rules. The remuneration rules are in conflict with the requirement that these organisations should go out and run their own businesses, and stand or fall on their own performance.

The biggest problem appears to relate to the issues of market based remuneration. There is a clear conflict between the PSOB members' belief in their understanding of market based remuneration and clients' belief that the PSOB does not understand the market place for executives and their remuneration. It is clear the PSOB members that they believe they have a sound understanding of the principles of market levels of remuneration. Clients think the PSOB does not understand the commercialised market place. To clients, the remuneration rules that are imposed by the PSOB have little relationship with the marketplace levels, where clients are operating, as the PSOB doesn't understand the marketplace.

One area in which a clear disparity between clients and the PSOB exists is in the conceptual understanding of commercialization. The PSOB members noted that competitive practices do not necessarily result in competition. Clients view themselves as operating in a commercial world, as they use the language of business and are increasingly adopting business practices and the government has set them up to operate as commercial and competitive organisations. The PSOB members suggested that the rigorous implementation of policy will manage and reduce risk for a more ‘positive’ result. In contrast, clients perceive not risk mitigation, but inflexibility. They do not believe that policy needs to be better communicated, but that the PSOB has a limited understanding of the unique circumstance of some organisations. When isolated incidents occur which require more flexibility, and which should be dealt with at an organization/board level, it is perceived that the PSOB won’t allow the required flexibility. Attracting the right staff into rural areas is difficult, and the remuneration levels in rural areas may be too low to attract staff. There is no flexibility to pay more to recruit and retain people.

We suggest that a disconnect between clients’ perceptions and public employment bodies’ perceptions could be overcome if, in consultation with clients, these bodies could better articulate and develop a **service** role, while placing relatively less emphasis on the reporting and monitoring role. This would also require public employment bodies to be more sympathetic to the needs of some clients who are operating in an ill-defined environment. This research demonstrated different perceptions of accountability, and this is a difficult problem to resolve. PSOB notions of accountability are related to reporting to the Government on remuneration and executive employment issues: clients’ notions of accountability are related to overall functional performance. Commercialising public entities is fraught with difficulty around the issue of senior executive conditions. The major difficulty lies in the conflict between the pressures to act commercially, while at the same time they are monitored and accountable to a public employment body. If a resolution cannot be achieved, then governments must question whether there is any point in setting up “commercial and competitive” public sector organisations, which cannot operate in the same way that similar private sector organisations do and thus cannot compete.

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