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New public management, cost savings and regressive effects: A case from a less developed country

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ABSTRACT

This paper presents a detailed account of the regressive effects of cost management reforms in a Pakistani state-owned enterprise. In a bid to improve the economic efficiency of the public sector, Pakistani Government embarked on a reform programme soon after the appointment of a former multinational executive as the Prime Minister of the country. A 'successful' private sector manager (CEO of a multinational company) was appointed as the director general of the case firm to bring about the changes typically associated with new public management reforms. Cost savings through rationalization of senior management positions became a top concern of this particular reform. However, the reform led to regressive results *i.e.*, an increase in senior management positions rather than a decrease. The paper attempts to explain the circumstances and reasons leading to these regressive effects based on Sieber's (1981) work and the theoretical model developed in the spirit of the critical realist tradition (Bhaskar, 1979). The paper concludes with policy recommendations for public sector reform programs.

1. Introduction

Given the open nature of the social system, human actions can always result in unanticipated outcomes (Merton, 1936). Perhaps because of the drama associated with the subject, this has always been an area of interest to fiction writers and academic researchers alike (Smith, 1776; Ross, 1996). Eminent scholars from the fields of sociology, economics, and organisation studies have thus studied the conditions or the paths that lead to unintended outcomes of social actions. Public sector reforms, including new public management (NPM), are also known to be prone to unintentional and surprise outcomes (Merton, 1936; Spencer, 1946; Hood, 1998; Hesse, Hood, & Peters, 2003), and the paradoxes and unintended outcomes of NPM have become an important area of investigation for researchers (Hood & Peters, 2004). Management accounting and control forms a very important part of NPM (van Helden, 2005), and accounting researchers have already documented the issue of unintended consequences of management accounting and control reforms (Laughlin, Broadbent, Shearn, & Willig-Atherton, 1994; Broadbent, Jacobs, & Laughlin, 2001). However, given the significance and the frequency with which this phenomenon is encountered, the issue of unintended consequences of management accounting and control reforms requires more focused scholarly attention. This paper is an attempt to analyse a particular type of unintended consequence in a public sector organisation, *i.e.*, the 'regressive effects'[1] of intended management accounting and control

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[1] Regressive effects indicate the reform resulted in a deterioration of the very conditions that the reforms were trying to address.

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reforms. As will be explained later in the theoretical framework section, 'regressive effects' are different from the unintended consequences of reforms, *e.g.*, null effects or side effects. Despite the academic and policy significance of regressive effects to public sector reforms, the area remains under researched and under theorized.

The empirical site of this research is a public sector organization in Pakistan, namely, Civil Aviation Authority (hereafter CAA), which underwent a series of management accounting and control reforms. These reforms are reported to have increased the number of safety breaches and to have given rise to life-threatening situations (Khan, 2008). The case study thus presents us with an excellent opportunity to study and theorise the dynamics of reform, in our case, the regressive effects of reform. Locating Sieber's (1981) work on regressive effects of reforms in a critical realist tradition (Bhaskar, 1975; Sayer, 1992; Archer, 1995), the paper develops a processual model of regressive effects. We seek to make an important contribution to the field of cost management reforms in less developed countries by understanding the 'structural conditions' and 'agential actions' that lead to regressive results.

The paper begins with a brief review of NPM studies in relation to management control changes and outcomes in both developed and less developed countries; this is followed by a section on the theoretical framework on the regressive effects of reforms. The paper then briefly explains critical realist interpretations of regressive effects followed by a description of the research methods. The empirical findings are presented and discussed, leading to theoretical discussions and conclusions in the final section.

2. NPM, management controls, and outcomes

NPM involves the autonomisations of large public sector organisations into smaller units and the introduction of market or (quasi market) competitiveness within these units (Diefenbach, 2007), akin to the environment of private organizations. Once these organisations are exposed to the market competitiveness, a private sector management style also becomes relevant. This includes a cost control and audit culture, greater managerial discretion, specific performance measures linked with outputs rather than processes, the evaluation of performance against pre-established standards and economic efficiency (Hood, 1991). The move is intended to make public sector organisations more 'business like', *i.e.*, a greater focus towards cost management, performance measurement and audit (Diefenbach, 2007). Since NPM involves prioritising economic efficiency, cost control, and performance measurement and audit, the increased importance of (management) accounting was an expected feature of this movement (Power & Laughlin, 1992).

In a series of very insightful papers, Jane Broadbent and Richard Laughlin, with various colleagues (see Laughlin & Broadbent, 1993; Laughlin et al., 1994; Broadbent & Laughlin, 1998; Broadbent et al., 2001), analysed NPM-related changes in the management accounting and control of different public sector areas, in particular, the healthcare and the education sectors in the UK. Drawing on the Habermesian notions of 'life-world' and 'steering mechanisms'; Broadbent and Laughlin's works provided detailed accounts of 'unsuccessful' reforms including theorisation of varying degrees of resistance to these management accounting changes. They argued that resistance strategies of actors depend on the level of perceived threats (Laughlin & Broadbent, 1993; Broadbent & Laughlin, 1998). Weak threats encourage organisational members to adopt 'absorbing' strategies leading to work 'as before' while accommodating the demands of the state (Laughlin et al., 1994). If, however, the threat level was great, then a more open resistance strategy was adopted (Broadbent et al., 2001).

Public-sector organisations operating in less developed countries have unique historical, cultural, and political circumstances (Hopper, Tsamenyi, Uddin, & Wickramasinghe, 2009). Most of the less developed countries have gone through a similar historical transformation: independence from a colonial power during the middle of the twentieth century, state-led industrialisation cum central planning during the 1950s, and privatisation and NPM-related reforms during the 1980s and 1990s (Alawattage, Hopper, & Wickramasinghe, 2007). Most of these shifts in policy are often a function of international politics and of the economic dependence of these countries on economically stronger nations (*ibid*). This political and economic context has had a direct bearing on the management accounting and control practices of public sector organisations in less developed countries (Hopper et al., 2009). First, in most of these public sector organisations, 'bureaucratic' management accounting and controls were in place to enable the state to make rational decisions about resource allocations. However, in practice, politicians often interfered with these formal rules (Alawattage & Wickramasinghe, 2009). Most of these public sector organisations suffered heavy losses partly due to this political interference, thus adding to the economic burden of the state.

Subsequent changes to management controls in the public sector were generally linked with poor financial performance followed by 'reform' programmes advised by international lending agencies (Uddin & Hopper, 2003; Hopper et al., 2009). These reforms took the form of partial or full privatisation of state-owned entities (Uddin & Hopper, 2001; Wickramasinghe & Hopper, 2005; Uddin & Tsamenyi, 2005). However, in most of these cases, the 'reforms' did not materialise because of a host of factors normally linked with local politics and bad governance. In some cases, especially privatised organisations, management controls took a more exploitative shape whereby both the labour force and the state were the ultimate losers, while the new owners benefited (Uddin & Hopper, 2001). In those organisations that were not privatised, not much changed in terms of management accounting and control practices (Uddin & Tsamenyi, 2005). Thus, current research on management accounting and control in less developed (as well as developed) countries has revealed a number of cases where either the efforts at reform did not produce any results, *i.e.*, the conditions remained exactly the same, or the reforms produced