LEARNING FROM BUSINESS – A CRITICAL ANALYSIS OF PERFORMANCE-BASED MANAGEMENT IN PUBLIC ADMINISTRATION

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ABSTRACT

This paper offers a critical analysis of performance-based public management currently popular in a number of developed nations. It argues that while the impetus behind adopting performance management was to emulate business practices, in fact the adoption of performance management is rooted in an outdated understanding of how contemporary businesses operate. The paper shows that although an arm's length approach between customers and suppliers, based on performance contracting, was indeed predominant a few decades ago, today some of the most successful companies rely on a different approach–networked production–which is based on iterative goal setting and extensive collaboration between business partners. The paper reviews extensive evidence showing that the performance management philosophy gives rise to a host of problems, including inability to deal with goal fragmentation and dysfunctional responses such as cream-skimming and gaming. Using the U.S. employment and training programs as a case study, the paper finds extensive evidence of the dysfunctional responses found elsewhere in the literature. Based on a review of the recent business literature on networked production, the second part of the paper advances several ideas for the reform of the government-sponsored job training sector inspired by some of the better-known modern business practices, including benchmarking, simultaneous process engineering, and error detection and correction.

KEYWORDS

Network forms of organization; Performance management; New Public Management; public-private collaboration.

INTRODUCTION

After its heyday in the 1990s, the New Public Management (NPM) doctrine has been under intense scrutiny for the better part of the last decade. An outgrowth of the ideological battles caused by the prolonged recession of the 1970s and the ensuing decline in government revenues in most developed countries, NPM put forward a reform program that aimed to produce nimbler, more efficient, and more frugal government. The cornerstone of this program was the notion that government should learn from, and emulate, business practices. Decentralization, privatization of services, and performance contracting were some of the main methods that were advanced toward this goal. But when NPM-inspired reforms were applied in a host of countries, the results fell short of what had been expected. Instead of government downsizing, the NPM reforms led to an increase in government regulatory agencies (Hood et al 1999). And while the initial hope was that privatization would drive down the cost of operating public services, insufficient competition between providers often resulted in local cartels and monopolies (Carey 2008).

This paper focuses on the third pillar of NPM reforms, namely performance monitoring. To the proponents of NPM, performance monitoring was the logical consequence of decentralization: since public authorities often no longer supervised directly the lower rungs of the administration, performance measurement was necessary to hold them, as well as privatized service providers, accountable for their performance. But to an even greater extent, performance management was required because, as the thinking went, it was a common business practice.

This paper takes a different tack. It argues that performance management in business, which public organizations have been striving to emulate, is no longer the predominant way of coordinating the relationship between economic agents. A thorough survey of contemporary trends in industrial organization, shown in this paper, reveals that globalization and several trends associated with it are pushing business organizations toward novel collaborative arrangements that go beyond the imagery of the principal-agent relationship, which forms the basis of performance management as it is currently applied by NPM practitioners. Together with a critique of NPM, the present paper constitutes an attempt to imagine alternative scenarios of public administration accountability which would not rely – at least not integrally – on performance management as we know it.

The U.S. employment and training system constitutes the fertile empirical terrain on which this discussion will be based. Choosing this case is appropriate because the U.S. Department of Labor (DOL), which manages U.S. publicly-funded job training programs, has been at the forefront of the performance management movement (Heinrich, 2004). DOL began promoting performance-based accountability at least a decade before it acquired widespread appeal as a component of the "reinventing government" reform program in the 1990s. As a result, performance management has been around for more than thirty years, and as a result, there is rich evidence allowing us to describe and assess its effects. The U.S. job training system, which provides federally-funded job search assistance and instructional training for low-income and unemployed people, is also substantially decentralized. DOL completely devolves the operation of the system to state workforce agencies, which in turn typically devolve operations to Local Workforce Investment Areas (LWIA). In other words, DOL – which funds the system - bows out of the picture almost completely once it disburses funds, and uses performance

management as a way of ensuring that states/local areas will align their interests with those of DOL.

The first sections of the paper set the stage by offering a detailed description of NPM and its effects. Next, I review the story of NPM reforms in the case of U.S. job training programs. I find that the programs' emphasis on customer-centered services and customer choice, the large degree of internal decentralization, and the comprehensive performance monitoring system are all characteristic markers of an NPM-driven governance philosophy. It is perhaps not surprising, therefore, that some of the dysfunctional aspects observed elsewhere in regard to the operation of NPM-based governance systems should be discovered in the employment and training system. I provide evidence that dysfunctional behaviors such as creaming and gaming, observed in other of NPM-driven governance, were found in this case, as well. In the next section, I review the extensive literature on decentralized production networks, emphasizing the diminishing role of performance contracting for cross-firm coordination and the increased role of cooperative forms of coordination. Next, I use the insights gleaned from the review of decentralized production arrangements to suggest novel forms of coordination for public administration. I emphasize the role of benchmarking, simultaneous process engineering, and continuous quality control, in achieving better coordination and accountability without the use of performance monitoring. In the last section, the paper discusses the larger implications of our findings and offers a few caveats.

NEW PUBLIC MANAGEMENT AND PERFORMANCE MANAGEMENT

The New Public Management (NPM) is an influential contemporary public administration doctrine that seeks to make government more efficient by incorporating

management strategies used in the private sector (Osborne and Gaebler, 1993; Kettl, 2002). The proponents of the NPM advocated flattening hierarchies as a measure that would allow decisions to move faster through the system. Furthermore, it was suggested that state agencies should develop a "customer orientation" (Pollitt et al, 2001). In order to be more customer-oriented, large departments and ministries must be disaggregated into smaller agencies that are clearly responsible for a policy domain – and would thus be more accountable to their would-be customers. Third, the effectiveness of state units must be assessed using performance indicators. The NPM promoted the transition from "process accountability" to accountability in terms of results in judging the civil service's performance (Hood, 1995). This principle was significant because it made privatization, contracting out, and competition between agencies performing the same function viable options in the pursuit of increasing efficiency (Suleiman, 2003).

Because of the political support they received, NPM reform strategies generated significant change in a majority of Western states. Structural dissagregation, devolution, and contracting out, under various guises and with differing amplitudes, have been noted in many, if not most Western developed countries during the last decades. In the UK, for example, the Next Steps program broke large ministries into smaller agencies with independent status. Within one decade from the program's inception, more than 80% of the civil servants became employees of such agencies. Similarly, by the early 2000s "arm's length" agencies employed 28% of the Dutch civil servants and a significant proportion of the New Zealand public service (Pollitt et al, 2001: 272). A thorough survey of twelve OECD countries concluded that the use of specialized and managerial bodies and agencies had grown in at least ten of the twelve countries studied (Pollitt and Bouckaert, 2004: 83). In addition, a transition from control and coordination based on inputs

and procedures to one based on targets and outputs was clearly visible in a majority of Western states (Pollitt and Bouckaert, 2004).

As stated above, performance management is one of NPM's main pillars, and has become popular in many Western countries during the last two decades. For example, the American Government and Performance Results Act (GPRA), issued in 1994, required all federal departments to develop annual performance plans linked to measurable outcome indicators (Propper and Wilson, 2003). In large part, the popularity has stemmed from the belief that performance management, with the market-like discipline it imposes, was a fundamental principle of accountability in business that could produce better accountability in government, as well. Performance management systems can take many shapes, but at their core, they consist of a set of indicators that state agencies must meet, together with a data measurement system that allows performance data to be known and communicated. The indicators themselves can take a variety of forms, including outputs (such as number of clients served), standards (such as the maximum number of hospital beds in a room), or outcomes (such as the change in earnings associated with participating in a government program).

Yet despite its popularity, a body of research has shown that performance management systems in public administration are associated with multiple problems. Some of the critiques presented in the literature start with the observation that government agencies are not equivalent to businesses, and therefore that performance management is bound to create difficulties. This line of reasoning has produced several types of arguments. The first argument is that unlike businesses, which have primarily one goal – to maximize profits – government bureaucracies may pursue several goals at the same time. Departments and agencies often have multiple sets of constituencies and stakeholders, which usually means that there is usually no universal

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understanding of what constitutes their main policy objective (Behn, 2003). What is more, the multiplicity and fragmentation of goals is often built into the originating legislation (Heinrich, 2002), which is not entirely surprising given the fact that legislation that passes through a parliamentary process can often survive only if certain compromises with the opposition are reached (Radin, 2006). Goal multiplicity can be a thorny problem for performance management in several distinct ways. If some of the goals are mutually conflicting, and they are being evaluated using performance measurement, accomplishing one goal may effectively work against fulfilling other, conflicting goals (Propper and Wilson, 2003). Alternatively, if some objectives are being monitored but others are not, bureaucrats will predictably tend to focus on achieving only the goals that are audited, leading to what some authors have called "tunnel vision" (Soss, Fording, and Schram, 2011).

Together with the uneasy relationship between performance management and goal multiplicity, the literature has also stressed the role of performance indicators in inducing a set of dysfunctional responses. This set of behaviors has several manifestations, but at its core, it involves some strategic planning aimed at attaining the performance targets without actually increasing the quality of public services. In the domain of social service delivery, for example, bureaucrats may choose to serve only the customers with the fewest "barriers", which ensures that customers have good subsequent outcomes. This type of dysfunctional behavior, known as "creaming" or "cream skimming", allows public agencies to hit their performance targets, but at the cost of under-serving the most in need beneficiaries (Brodkin, 2007). Thus, performance targets cause bureaucrats to focus on strategic behavior instead of improving public services, a phenomenon which Bevan and Hood (2006:521) aptly summarize as "hitting the target and missing the point".

The literature has identified several other problems and tensions related to the performance management movement, but the arguments presented so far convincingly indicate that there are serious drawbacks to performance management in public administration. It is much less clear, however, what needs to be done to correct these shortcomings. Some authors suggest frequent revisiting and fine-tuning of performance standards so that regulators can stay ahead of malfeasants (Courty and Marschke, 1997). Others propose a broad range of alternative principles, which relax some of the assumptions behind performance management, to guide the day-to-day activity of government units (Radin, 2006). For the most part, however, it is probably accurate to say that we do not yet have a clear understanding of how to adjust performance management systems to deal with some of the problems enumerated above.

The ultimate purpose of this paper is to offer some suggestions on how to improve the performance of public sector organizations in light of the problems detailed above. I illustrate some the problems associated with performance management using the example of employment and training programs in the U.S. This constitutes a fitting case study because the delivery of publicly-funded job training services in the U.S. has been thoroughly reshaped along NPM policy prescriptions during the last few decades. It thus constitutes a typical case in which the effects of performance management can be observed, and it is also a good test case for the alternative policy solutions discussed in the second half of the paper.

PERFORMANCE MANAGEMENT IN U.S. EMPLOYMENT AND TRAINING PROGRAMS

By the time the American Government and Performance Results Act (GPRA) – the act that instituted performance management throughout the entire U.S. government – was passed in

1994, DOL had already been experimenting with performance measurement for more than a decade. From 1973 to 1982, employment and training programs were provided through the Comprehensive Employment and Training Act (CETA). In late 1970s, economists working for the assistant secretary for policy, evaluation, and research put forward the idea that local CETA programs should be held accountable for their performance by measuring the earnings and employment of the people who participate in the program (Barnow and Heinrich, 2010). This performance accountability mechanism was officially institutionalized under the Job Training Partnership Act (JTPA), CETA's successor which operated from 1982 to 2000. After JTPA ended in 2000, the Workforce Investment Act (WIA), which is currently the legislation governing this policy domain, maintained the performance management system inherited from JTPA. As a result, the publicly funded employment and training programs instituted by DOL is one of the most exemplary instances of NPM-driven governance as one is likely to find.

The WIA service delivery system, which has been operating since 2000, is a highly decentralized system which offers federally funded employment and training programs to U.S. citizens. It is aimed at assisting individuals to overcome unemployment and poverty by helping them find employment or gain additional skills through training. In contrast to JTPA, which directed services toward a more narrowly defined population, WIA is meant as a universally accessible system (D'Amico and Salzman, 2004). Service delivery under WIA is organized in three tiers: core services (consisting of mostly unassisted services such as job search and the use of self-help services), intensive services which consist in staff-supported activities such as assisted job search and resume building, and training (either classroom-based or occupational-based). Whereas core services are available to everyone, intensive and training services are only available to certain individuals who are deemed in need for such services. The entities which

provide these services are called Local Workforce Investment Areas (LWIA). The local areas operate a network of career centers in a largely decentralized manner within each state (with the exception of a few "single area" states where service delivery is run directly by the state), but are regulated by state-level workforce agencies. In turn, the state-level agencies are coordinated (but not directly supervised) by DOL.

Following the requirements of WIA, DOL originally established 17 performance outcomes for four groups of participants: adults, dislocated workers, younger youth (14 to 18 years), and older youth (19 to 21 years) (Dunham et al, 2006). Among these outcomes, arguably the most important ones are post-program employment and earnings (especially so for the adult programs, perhaps less so for the youth program). Known as common measures, these outcomes were meant to provide the basis for the entire system's governance as follows: DOL sets the standards and holds the states accountable for fulfilling them, whereas states set standards for their local areas (which may be identical to, or different from, the ones established by DOL) and monitor LWIA performance. To further motivate states to take performance seriously, DOL also established incentives for states which meet and exceed performance targets while imposing sanctions for states that failed to meet their targets. To receive an incentive award, states had to exceed their performance goals for each of the four groups detailed above. Conversely, if a state failed to meet its targets for two consecutive years, the state could lose as much as five percent of its WIA allocation. In turn, states have broad discretion in establishing performance targets for their own local areas (Dunham et al, 2006).

Whereas current legislation indicates the types of indicators that must be used to assess performance, the actual performance thresholds are set through negotiation. Under JTPA, state performance goals (and in many states, local area performance goals) were calculated using a

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regression-based modeling technique which adjusted performance targets for factors thought to be outside the control of states and local areas (for example, the local unemployment rate). Under WIA, however, this system was abandoned largely because the complex regression models were hard to understand by non-specialists, and also because the local areas could not easily anticipate what the future performance goals would be (Barnow and Smith, 2004). As a result, under WIA states and DOL were expected to set performance goals through negotiation, although some states continued to perform regression models and use the results as the basis for negotiation.

As we have seen, one of the chief problems of performance management systems in public administration is goal multiplicity. This aspect has also been documented in the U.S. employment and training system. As we have seen, two of the most important goals advanced by DOL through the performance management system are post-program employment and post-program earnings. These goals, however, are frequently in tension with each other. If a local area wants to exceed its entered employment target (one of the measures), many of the jobs that individuals will acquire in a short time frame are likely to be lower-paying jobs. But if many program participants obtain low-paying jobs, this naturally causes the local area to fail to meet its earnings goal. Conversely, pursuing high-level jobs may hurt the local area's entered employment rate.

Together with goal multiplicity and conflict, research has uncovered substantial evidence of strategic responses like gaming and creaming. Through their ability to decide who and when can enter and exit the program, local areas can often boost their performance outcomes. Creaming, or cream skimming, is done by enrolling individuals who are more likely to get jobs after their program participation ends (Shaw and Rab, 2003). Creaming, of course, contravenes

the spirit (if not exactly the letter) of WIA since intensive staff-assisted and training services are meant primarily for people with significant employment barriers.

Whereas creaming involves a purposeful selection of program participants, gaming is a class of strategies revolving around the timing of participation in the program. Similar to creaming, there is substantial evidence that many local WIA operators engage in gaming. The process has been documented at both "ends" of participation - enrollment and exit. Local programs know that when a customer is enrolled in WIA, he or she will be included in the area's performance outcome measure. If a potential customer does not yet seem "ready" for the program, meaning the potential client does not seem likely to obtain employment, they receive a series of services which are in theory labeled self-help, but which in practice can be quite intensive, before formally enrolling them in the program. Another practice is to refer clients to partner agencies to receive services before enrolling them in WIA. The point is that counselors only enroll people in the program when they are fairly certain that they will "do" well (Dunham et al, 2006). The obvious downside of this practice is that people with significant employment barriers need help right away, but are frequently postponed participation in the program because they are deemed "unsuitable" for participation in WIA.

There is also substantial evidence that WIA operators manipulate the conditions of exit to maximize program outcomes. The expectation is that participants should be exited when they can no longer benefit from the program, in which case they stop receiving services. In practice, however, program exits are carefully timed so that the customers' impact on performance is positive. For example, participants with positive outcomes are exited right away while those with bad outcomes are being kept in the program in the hope of finding employment. For participants with bad outcomes whose situation is not expected to improve, counselors tend to exit them

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during "good" years – years when they know that the overall performance rate will be satisfactory – rather than during bad years (Courty and Marshke, 2004). These practices are quite widespread. A survey conducted by Social Policy Research Associates in 2006 found that for 81 percent of the local areas surveyed, performance measures influenced the timing of their program exits (Dunham et al 2006: IV-31). And these gaming practices are effective in the sense that they significantly – and somewhat artificially – increase local areas' performance. Courty and Marschke (1997: 385) estimate that the areas would report an employment rate almost 20 percent lower if they had to exit participants on the day their training ended. It is true that Courty and Marschke's study uses data from JTPA, not from WIA. However, there is no reason to believe that WIA is any different from this perspective.

Perhaps the most troubling aspect of the performance management system in the employment and training sector is the fact that measured performance seems to bear little correlation to long-term impacts of the program (Heckman et al, 2002). In the 1990s, JTPA was evaluated using a rigorous experimental design that allowed the calculation of long-term impacts for all the study participants. When researchers aggregated the impact data by local area and compared the impact of JTPA with the reported performance, they discovered there was little correlation between the two sets of numbers. For the all-adult sample, the four local areas with the lowest measured performance ranked first, third, ninth, and fifteenth on long-term impact (Barnow, 2000: 134). It is unlikely that this large difference between impact and performance is caused entirely by gaming. A large part of the discrepancy is probably caused by the fact that performance targets are set at unrealistic levels – either too high, making it unlikely for some areas to meet the targets, or too low, making it too easy to pass. But gaming probably has a large

role as well, in that some local areas show performance levels that are more reflective of their capacity to game the system than their ability to generate positive outcomes for their clients.

The previous sections have shown that there are significant problems with performance management systems in public administration general, and within the U.S. employment and training sector in particular. Confronting these problems is arguably one of the most important tasks of contemporary governance, and one of the present paper's chief goals is to advance some ideas in this regard. The main starting point in this effort is to subject some of NPM's main assumptions to a rigorous analysis. Importantly, NPM's legitimacy rests largely on the claim that public agencies should adopt time-honored practices from the business world, such as decentralization and performance management, to become more efficient. But whereas most researchers of contemporary industrial organization would agree that decentralization has been a significant trend during the last few decades, the claim that performance management is how businesses administer their relationships with each other would strike many researchers as odd. For as we will see, performance management is rooted in an arm's length logic that was dominant during an earlier era of mass production. The last few decades have seen the advent of relational contracting characterized by hybrid forms of business cooperation – "neither market nor hierarchy" as a seminal statement by Powell (1990) defines them – which are characterized by network forms of organization where coordination is achieved through interactive means that go beyond rigid performance management requirements. Examining these network arrangements might give us some clues on how to tackle coordination problems for decentralized public agencies.

NOVEL FORMS OF INDUSTRIAL ORGANIZATION

Business organizations have been undergoing profound changes during the last few decades. One major trend has been the increasing decentralization of production as a result of advancing globalization (Schrank and Whitford, 2009). During the previous era of mass production, firms strove to acquire entire production chains because the resulting centralization of production allowed them to achieve economies of scale (Chandler, 1977). But this trend was possible because of the huge global demand for consumer and industrial goods that followed the Second World War. As the European and Japanese economies recovered their strength a few decades down the road, global markets became tightly competitive (Langlois, 2003) and the industrial giants of yore found themselves in a fragile position. The answer to increasing competition was to decentralize production by subcontracting the production of entire components to external suppliers. Subcontracting relationships with external suppliers allow firms to better cope with the uncertainties imposed by volatile and competitive markets. They allow firms to cut costs while at the same time diversifying production and shortening production cycles (Whitford and Zeitlin, 2004).

The upshot of the trends discussed above is that formerly integrated production networks have evolved into loose networks of original equipment manufacturers (OEMs), suppliers, and contractors, with production decisions allocated to various parts of these ecosystems. Whereas several decades ago suppliers and contractors were handed only the most routine tasks, nowadays they may be asked to contribute sophisticated tasks such as product design (Sabel and Zeitlin, 2004). As a result, how to manage suppliers has become a central component of overall corporate strategy (Whitford and Zeitlin, 2004). OEMs continue to manage some of their suppliers in the old-fashioned way: suppliers are handed detailed specifications of the product and the suppliers execute it (Herrigel and Witke, 2004). Increasingly, however, and especially

when dealing with complex and innovative products, the relationships between OEMs and suppliers are much more collaborative and iterative. Firms have been also changing internally as a result of increased interaction with external suppliers. What Helper et al (2000) denominate as the "non-standard firm" (from a mainstream economics perspective) is more like a federation than a centralized entity. As a result, project teams within the same firm may work more intensively with outside entities than with each other (Powell and Snellman, 2004).

But the important point is that the emerging forms of decentralized production raise significant coordination problems, problems which cannot be approached in the traditional ways. Importantly, performance management as a tool for coordination has been in marked decline. During the era of mass production, performance management was the main tool governing the relationship between OEMs and their collaborators. Contracts stated the exact specifications of what was going to be produced, the quantity of the produced items, and when the products were going to be delivered. But in a world where firms increasingly operate in volatile and turbulent markets, which make them rely on their suppliers to deliver know-how and technology, the linearity imposed by performance management is no longer satisfactory. Simply put, firms cannot tell their suppliers what to produce because, in many cases, they do not yet know what the final product will look like.

Rather than the linear process described above, decentralized production proceeds in an iterated and multifaceted fashion. The production cycle typically starts with a process called benchmarking, during which the partners search their repositories of knowledge to identify the best industry-wide practices and technologies relevant to the class of products being considered (Herrigel, 2004). Once the relevant knowledge is identified, the product is broken apart into several important components and project teams are instituted for each component. At this stage,

product design begins along an iterative pattern known as simultaneous process engineering.

During this stage, each unit responsible for the design of a component suggests changes to the

initial plan and also evaluates the possible impact of other teams' designs on their own product

(Helper, MacDuffie, and Sabel, 2000). After production begins, project teams continuously

monitor the products not only to detect manufacturing errors, but also, and more importantly, to

search for design flaws. This is achieved through a meticulous description of the tasks involved

by the production of each component, and by creating explicit rules about how tasks are

connected and what to do when flaws are discovered. For example, when a part breaks down, an

employee does not just take the part to a repair shop – there is a specific person who will assist

with that specific component, and there are rules about what to do when that person is missing

for whatever reason. As a result, there are no grey areas "in deciding who provides what to

whom and when" (Spear and Bowen, 1999: 100).

Taken together, the exchanges of information involved in benchmarking, simultaneous

engineering, and error detection and correction represent the main means of coordination in

decentralized production. And although the process described above has not been universally

adopted – many OEMs continue to collaborate with their suppliers in an arm's length fashion –

and also despite the fact that the relationships between partners are frequently antagonistic

(Whitford and Zeitlin, 2004), the model of decentralized production described above (also

known as "pragmatic collaboration") has become the most encountered type of supplier-

customer relationship (Herrigel, 2004).

PRAGMATIC COLLABORATION IN PUBLIC ADMINISTRATION

The brief survey of contemporary trends in industrial organization carried out in the previous section revealed that, if there ever was a time when goal-based performance management was the dominant mechanism used to ensure coordination, this is no longer the case. Contemporary decentralized production is a complex process where intra- and inter-firm networks come together and interact often without a precisely quantified, predetermined goal. If NPM's intention was to have the government incorporate management strategies used in the private sector, its understanding of what constituted predominant private sector management strategies appears surprisingly outdated. The focus on quantitative indicators of production was rather a characteristic of the mass production economy. Instead, decentralized production is more focused on a "quality first" philosophy and continuous improvement (MacDuffie and Helper, 1997). This section attempts to draw out the implications of this finding for contemporary public management. What solutions inspired by a network production perspective could be suggested that could result in better public management?

The starting point in this attempt is that we should not commit the same mistake made by many NPM theorists, namely to imagine that running a business and running a government agency is the same matter. As shown earlier in this paper, the literature has convincingly shown that businesses and public agencies are not the same. For a variety of reasons, including the presence or absence of a profit motive, the degree of multiplicity and fragmentation of goals, and the degree of embeddedness in political structures, public sector management is a different type of undertaking compared to private sector management. Thus, our goal should be to creatively adapt ideas from business to the realities of the public sector, not to copy them mechanically.

Despite the differences noted above, there are however strong similarities between public and private sector organizations, which suggest possible common strategies. One of the most

important similarities, already mentioned in the beginning of this paper, is that in most developed countries public administration has been undergoing rapid decentralization and privatization during the last few decades. As a result, many public sector organizations have become more decentralized internally, but they also have come to depend on a plethora of non-profit and for-profit organizations for actual service delivery. In other words, many public organizations have come to resemble OEMs in the business world and the relationship between them and external suppliers. Therefore, it appears that an attempt to mirror the process of networked production in public service delivery is justified at least in this regard.

The second similarity between contemporary business and contemporary government is that both are pervaded by high levels of uncertainty and volatility. Whereas in business increased competition is the main source of increased market turbulence, many government agencies experience drastic changes in funding from one year to the next. In addition, many of the problems that government agencies are trying to solve – such as poverty, providing adequate health care, and social inequality – are extremely complex, almost impossible to eradicate. The term "wicked problems" (O'Toole, 1997) was chosen to reflect the fact that such problems have no clear solutions, at best partial and imperfect solutions. But as we have seen in the previous section, network-collaborative arrangements are well suited to situations laden with uncertainty. And indeed, recent scholarship has suggested that network structures may be the best way to deal with wicked problems in public administration (Keast et al, 2004; McGuire, 2006). Network collaboration is seen as an effective way to coordinate the actions of a diverse of actors not only within certain departments, but also across departments and policy domains (Dawes, Cresswell, and Pardo, 2009). By contrast, using pre-determined, quantifiable performance outcomes not only presumes that we already know the answer to the complex problems facing us (Potts, 2009),

but it also leads to complacency because it makes bureaucrats not challenge existing goals (Moynihan, 2005).

If decentralization and environmental uncertainty are two structural conditions similar to business and governmental organizations, and if performance management as we know it seems outdated and incapable of keeping up with the current conditions, how, then, can we re-think performance management in government? This is a complex problem and this paper cannot hope to offer a definitive solution. There are, however, several techniques that are already used by business organizations and which seem transferable to public management. In what follows, the paper's main focus will be on the relationship between government agencies and external service providers because this is the part of the process that is most similar to what happens in business organizations. However, the paper also suggests several ideas – albeit more tentative – regarding the relationship between government agencies and government regulators, a relationship without a direct counterpart in the business world. Many of the suggestions advanced here will be anchored in the case of the U.S. employment and training administration which was presented earlier in the paper.

Benchmarking

As we have seen, benchmarking is an important first step in networked production. Its purpose is to provide an accurate picture of the most efficient and technologically advanced production techniques available, together with an understanding of the best industry-wide managerial practices. Given the high degree of decentralization and uncertainty which now characterize most public agencies, it would seem highly useful for providers of public services to engage in thorough and continuous benchmarking practices. Yet performance management in the

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public sector has been a barrier to such benchmarking efforts. A highly competitive performance system tends to cause local operators to see each other in adversarial, rather than cooperative, terms (Soss, Fording, and Schram, 2011). As a result, public managers are frequently reluctant to engage in comparisons with other regions. In addition, local areas may try to keep their competitive edge by not revealing what they consider as their "best innovations" to other areas (Soss, Fording, and Schram, 2011). This situation is reminiscent of mass-production era business practices often characterized by arms' length relationship between firms.

What would serious benchmarking efforts entail for the U.S. employment and training system? For each local area, it would involve ongoing conversations, internally as well as externally, about promising practices observed in other local areas within the state and also local areas from other states. Perhaps small units charged primarily with benchmarking should be created on a regular basis, which would periodically scan the available information – government reports, academic publications, business communications – in search for novel ideas and innovative practices that would also be applicable in their area. Such information already exists because the Employment and Training Administration (ETA) within DOL is clearly aware of the high potential benefits that local areas can accrue from mutual learning. During the last few years ETA has produced a number of initiatives aimed at boosting benchmarking efforts. For example, ETA sponsored the creation of a web portal called Workforce3One, a website aimed at sharing reports, presentations, webinars, and how-to guides on a large number of topics. And ETA is also currently leading an effort titled "Workforce Practices Collection" which aims to build a comprehensive database of promising practices and evidence-based demonstration efforts which can be used to feed policy-making at the local level.

If the existing information is sufficient to sustain comprehensive benchmarking efforts, why are such efforts not undertaken more frequently and less perfunctorily? It appears that the barrier to a more widespread use of benchmarking is that local areas do not want to search for innovative strategies because they are afraid that once the new strategies are adopted, the impact on their measured performance will be negative. In this sense, the performance management system seems to have a dampening effect on benchmarking and innovation efforts. This suggests that altering the performance measurement system itself may be an important piece in a concerted effort to reform the public sector in general and the WIA system in particular.

Simultaneous Process Engineering

Simultaneous process engineering is arguably the most important component of pragmatic collaboration in contemporary decentralized production. When this process works, it makes it possible for a variety of partners to create innovative and successful products in a timely and cost-effective manner. But what would simultaneous process engineering look like in public administration? To reiterate an earlier point, the NPM perspective currently in vogue produces a system similar to the kind of performance contracting which was predominant during the mass-production era: customers tell suppliers, what, how, and when to produce certain components, and specify penalties for failing to live up to contract terms. This is precisely how most local administrative entities deal with their service providers in the employment and training system (Barnow and Smith 2004), and this is also the way in which DOL interacts with states. The fact that LWIA must, by law, outsource their "production" entirely to external contractors makes the system as a whole even better suited for a decentralized production perspective.

The basic starting point in adapting a simultaneous engineering perspective to public sector administration is the notion that a successful outcome is the result of several sub-systems that are tightly linked to one another. In the same way that producing a car involves the design of a propulsion system, a transmission system, wiring, and so on, that then have to be assembled on a common platform, an employment and training program (our chosen example) is a bundle of separate components – including skill testing, staff-assisted job search, instructional training, and supportive services to name only a few – that are assembled in different packages for each program participant. A simultaneous engineering perspective suggests that a separate project team should be identified for each of these components at the LWIA level. In the frequent case that the LWIA works with several contractors, the project teams should contain employees from all of the contractors. In addition to these program specialists, the teams should also recruit representatives from public sector programs that provide similar services – such as Wagner-Peyser and TANF – as well as representatives of educational institutions which serve the clients and representatives of the local business community.

With the project teams created, the process would look largely as follows. At the beginning of each planning cycle, the teams would formulate their vision for a new product or upgrades to existing products, specifying the technical parameters that have to be met, based on a thorough review of existing evidence obtained through benchmarking. For example, the skill-testing team might want to use a new type of software to identify clients' aptitudes because recent evidence shows the new test is more accurate. Then, each team would circulate their proposals to the other teams for careful review and analysis, and each team would evaluate the potential impact of other teams' designs on its own. For instance, if the team tasked with providing training services intends to extend the maximum duration of training for clients, the

supportive services team might want to adjust their procedures such that the services they offer – such as child care or transportation assistance – cover the clients throughout the training period. After the review process concludes, the teams would start delivering employment and services using the amended plans.

Notice that in this proposed scenario, the administrative entity does not impose outcome-based performance targets, such as entered employment or post-program earnings, on its contractors. It would be odd, for example, for a car manufacturer to tell the firm which supplies the cars' engine that their contract would be dropped if the car did not make X profit. This would be odd because while the engine manufacturer will definitely play a role in the car's commercial success (or lack thereof), so many other factors are involved – certainly the performance of the other project teams, but also trends in customer buying behavior, whether or not the regional economy is booming or experiencing a recession, and so on. Similarly, the expectation would be that often the operational parameters of social services would be unknown because new, innovative strategies and products are being adopted. In that case, for example, LWIA cannot mandate performance requirements – they are something to be discovered during the phase of benchmarking and simultaneous engineering.

The process described above is radically different from current practices in the U.S. employment and training sector. Currently, the way in which local areas interact with their contractors corresponds to an altered version of classic performance contracting. In keeping with the car manufacturing comparison used before, if LWIA are the equivalent of OEMs, LWIA essentially demand each of its suppliers to deliver fully built cars – not subcomponents, but fully built systems – and then evaluates them based on the profit made by each supplier. Needless to say, no respectable car manufacturer would construe this as a proper way to run its business.

Undoubtedly, many LWIAs regularly issue operational directives which specify the content of services and set out operational parameters. But based on the available knowledge, most of the LWIAs do not evaluate their suppliers based on compliance with the directives (they only monitor outcomes), and, most importantly, the interactive, team-based process described above is largely missing. And since we already are on the topic of quality control, let us introduce the last element of networked production – error detection and correction.

Error Detection and Correction

Networked production is a continuously evolving process. Faults and problems are continuously discovered and improvements are always being implemented. The basis for the capacity of the system to troubleshoot itself is a scrupulous description of tasks and explicit rules that connect project tasks, teams and employees within teams. This not only renders any deviation to the expected operational standards instantly visible, but it also makes it possible to deal with such deviations in a timely and precise manner. But could this level of specificity be attained in the provision of public services?

It seems entirely possible for public agencies to develop detailed error detection systems, although some thought ought to be given to the actual content of the work tasks, which may be different from networked production in manufacturing. For example, it may be difficult to itemize and prescribe completely the interactions between case managers and their clients because of the varied nature of the clients' situations and the varied requests they might have. A professional's job is to absorb relevant information about the case and to devise a menu of solutions/treatments which are customized for the client. The literature has already emphasized that NPM strategies have been producing de-professionalization of social services (Radin, 2006),

and it seems counterproductive to deepen this trend by excessively formalizing the interactions between case managers and clients. But even in the absence of pre-scripted interactions between case managers and clients, much can be done to render more the explicit the connections between the producers and suppliers of public services. Especially important is the ability of any person in the system, at all levels, to be trained to recognize errors and slippages (departures from the expected operational parameters), and the existence of very detailed guidelines stating where the problem can be reported and how it can be resolved. For unlike a classic Taylorist approach where employees are just nameless cogs in the system, in decentralized production every employee is expected to be an expert in their area of operation, and is empowered – and encouraged – to suggest changes to the content of their work where they feel is necessary.

DISCUSSION

Taken together, the solutions proposed in the previous section represent a major departure from the way in which decentralized public services currently operate. Where NPM reforms instituted relationships between regulators and service providers that can be characterized as arms' length and based on unilateral outcome measures, the model of pragmatic collaboration inspired by contemporary networked production suggests ongoing and mutually reinforcing connections between various stakeholders where performance is assessed using evolving standards that are being constantly re-forged.

The current paper argues that instituting the principles of benchmarking, simultaneous process engineering, and error detection and correction, would go a long way toward solving existing problems in the U.S. employment and training sector. More thorough benchmarking practices would allow local areas to be aware of organizational innovations developed elsewhere

in the system, providing a constant stream of ideas that could be adapted and implemented locally. Interactive goal-setting and error detection mechanisms would allow network participants to monitor each other at the same time with building trust between them (Gilson, Sabel, and Scott, 2009). Involving external partners and agencies in decision-making processes would enable an adequate response to complex social problems – such as workforce development – which require the deployment of multiple agencies and institutional structures to obtain good results. And because performance targets would be negotiated, interactively set, and constantly changing, it would be much more difficult for service providers to engage in unsavory practices such as creaming and gaming.

Despite the above-mentioned advantages, one possible argument against adapting decentralized network-based approaches to public administration turns on the notion of accountability. The argument would be that businesses have more freedom in choosing among a broad menu of governance mechanisms because profit (which is easily measurable) dictates whether or not products rise or fall. If a car model does not sell, it matters little whether the car was produced using an arm's length or a decentralized approach – the model will be likely discontinued. By contrast, because the "profit" generated by publicly funded job training services is difficult to define, and even more difficult to measure, performance management is required to see which arrangements work and which ones do not. But despite its appeal, I would argue that this argument overestimates the role played by profit in business decision-making. It is indeed the case that many businesses terminate parts of their operations as soon as they stop generating profit. Many companies, however, are much more patient – and especially so when new and innovative products are concerned. When a new capital-intensive product which incorporated significant R&D is introduced to the market, companies are usually willing to wait a certain

period before declaring it commercially unviable. In some cases, years may pass before products register a profit. In yet other cases, companies are willing to continue selling a certain product not because it makes a profit, but because it generates a certain cachet (such as being perceived as innovative, technologically advanced, or whatever the case may be) that the company uses to sell some of its other products successfully. In a similar manner, public agencies may not need to obsess about the outcomes and impact of their programs on a daily basis. Rigorous impact assessments, conducted at certain intervals, may be sufficient in generating knowledge about programs' impact. In the meantime, a continuous improvement ideology of the "products" being offered, which is deeply ingrained in the mechanisms outlined in this paper, may be adequate in generating accountability.

The present paper has focused primarily on local public administration structures because, arguably, the relationship between local public agencies and service providers is the one with a most direct counterpart in business dynamics. It has to be recognized, however, that the kind of radical reorganization at the local level that is discussed in this paper would almost certainly have to involve shifts in the way in which other levels of the administration interact with one another. Most importantly, performance management is in need of a rethink since it would be somewhat pointless to institute network governance structures at the local level if states continue to hold local areas accountable to rigid performance criteria, and if in turn the federal government continues to apply the same treatment to states. Re-imagining an entire performance management system at the national level is beyond the scope of this paper. However, there seems to be no inherent obstacle to taking network governance principles at higher levels of the administration. For example, state workforce agencies may be in a better position than local workforce investment boards to initiate benchmarking efforts because they have more resources

and arguably a better perspective. And whereas the network governance perspective suggested in this paper assumes that local agencies would develop interactive goal-setting with their contractors, state agencies could well engage in similar efforts with LWIAs and also with other state-level agencies (such as human services, health, and social services) on an ongoing basis. There is already an infrastructural basis for this endeavor – the One-Stop career system that currently co-locates, in addition to WIA, a plethora of other public agencies.

Ultimately, however, system-level change would not be possible unless DOL also embraces these principles. For that to happen, a major reconfiguration of the current performance management system is probably necessary. At the very least, this reconfiguration will have to involve a much more open and negotiated attitude toward establishing performance targets. Although WIA stipulates that performance targets should be established through negotiation between DOL and state workforce agencies, forming the basis of "shared accountability", so far DOL has shown little inclination to negotiate (SPR 2004). Ultimately, however, performance targets (either unilaterally set or commonly agreed) may be given up completely in favor of a network-based system where accountability does not result from arm's length regulation but from intimately knowing what all the relevant actors are doing, i.e. a system based on "learning by monitoring" (Sabel, 1995).

Finally, although this paper argues that a network-based approach would go a long way toward solving endemic problems created by NPM together with offering a better alternative in tackling complex social problems, it should be noted that even in the business world such approaches are sometimes difficult to institute and sustain. An emerging strand of the literature focuses on "network failure" (Schrank and Whitford, 2011) and identifies opportunism and lack of competence as the two most likely sources of network stillbirth or breakdown. Opportunistic

behavior is detrimental to network formation because it erodes trust, which is a quintessential resource for any network. But even when the network partners trust each other, it is often difficult for firms to find network partners who have the competencies and skills that are required for the tasks they will perform. Network failure is thus an important problem and it is likely that it would affect many attempts to institute network governance in public administration. However, there is substantial evidence that network failure can be countered by targeted interventions (Schrank and Whitford, 2011). For example, where lack of trust is prevalent, industry and trade associations and collaborative forums could help build trust between partners. And in the cases where a chronic shortage of knowledge and skills makes it difficult to find reliable partners, educational programs and training institutes can work to alleviate this problem. In the case of the U.S. employment and training sector, state workforce agencies and especially DOL are in a very good position to help provide the resources that would successfully counter network failure. Some of the resources enumerated above, such as trade associations and regional conferences, already exist. It is just perhaps a matter of scaling up these efforts to generate the expected beneficial outcomes.

CONCLUSION

In this paper, I have argued that many of the policy prescriptions put forward by New Public Management, an influential public management philosophy that argues that public agencies should emulate for-profit companies to be more efficient, are rooted in an outdated understanding of contemporary business practices. The paper has shown that although an arm's length approach between customers and suppliers, based on performance contracting, was indeed predominant a few decades ago, today some of the most successful companies rely on a different

approach –networked production – which is based on iterative goal setting and extensive collaboration between business partners. The paper reviewed evidence showing that the NPM-based philosophy gives rise to a host of problems, including inability to deal with goal fragmentation and multiplicity and dysfunctional responses such as cream-skimming and gaming. Using the U.S. employment and training programs as a case study, the paper found evidence of the dysfunctional responses found elsewhere in the literature. Based on a review of the recent business literature on networked production, the second part of the paper put forward several ideas for reform of the government-sponsored job training sector inspired by some of the better-known contemporary business practices. It has to be stressed, however, that the ideas discussed in this paper are not yet fully developed, and should not be treated as definitive answers, but rather as a starting point in a deliberation process that would involve academics as well as practitioners.

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