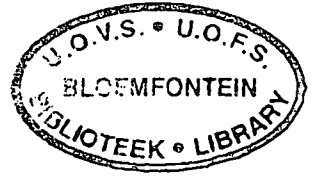


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*Promoting the General Welfare:
Public Sector Management in the 21st
Century*

**THESIS SUBMITTED TO COMPLY WITH THE REQUIREMENTS
FOR THE DEGREE
PHILOSOPHIAE DOCTOR (Ph.D)
IN THE FACULTY OF ECONOMIC AND MANAGEMENT
SCIENCES
(DEPARTMENT OF PUBLIC MANAGEMENT, UNIVERSITY OF
THE FREE STATE)**

*Submitted by F. Minnaar
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DECLARATION

I declare that the thesis hereby submitted by myself at the University of the Free State to comply with the requirements for the degree Ph.D (Public Management) –

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ACKNOWLEDGEMENTS

I am submitting this thesis with humble thanks and appreciation –

- to my **Heavenly Father**, for giving me the physical and mental ability to complete this thesis,
- to **Professor J.C.O. Bekker**, who I regard as my academic and professional mentor,
- to my **wife Andrieka**, for her loyal support and understanding,
- to my **father** – my intellectual companion of many years, and
- to all the **colleagues, friends and lecturers** that have crossed my path over the years.

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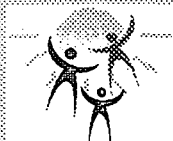
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Promoting the General Welfare: Public Sector Management in the 21st Century



CHAPTER 1 INTRODUCTION

"We cannot cram the embryonic world of tomorrow into yesterday's conventional cubby-holes. Nor are the orthodox attitudes or moods appropriate."

Alvin Toffler, well-known futurist

1.1 INTRODUCTION

The average 21st century citizen does not like government. Years of disillusionment with irresponsible service rendering, inaccessibility, nepotism and institutionalised bureaucracy have resulted in mass apathy. In democratic states, voter-turnout is constantly dropping. All around the world, people are dissatisfied with government. The elected government is more often than not the less unpopular of the available options, rather than the most popular political (or ideological) grouping. In a recent poll conducted by a national radio station in South Africa, more than 70 per cent (70%) of callers indicated that they regard politicians as having lower morals than prostitutes – and this in a relatively new democracy, where the euphoria about a new, duly elected and truly representative government is still supposed to be part of the national psyche. Obviously, the situation in autocratic states, where government accountability is a philosophical reality only, is much worse.

The "problem" with 21st century government, and the reasons for the above-mentioned state of affairs, are basically two-fold, viz.:

- The immense bureaucratic, power-centred application of government power has resulted in enormous hierarchies that consume the magnitude of available public resources to maintain it, and keep it functioning and operating, leaving only the

crumbs for actual service rendering to satisfy the needs of sophisticated, “de-massified” and affluent customers (community).

- Outdated organisational and management theories and methodologies, designed in 19th and 20th century circumstances, but applied in a fundamentally different 21st century reality. In an era, and environmental reality of constant change and breath-taking advancement, these designs are simply unable to meet the ever-increasing demands of a 21st century clientele (citizenry).

The result of the above-mentioned scenario is an outdated bureaucratic, power-centred government hierarchy that is unable to meet the demands of a sophisticated, 21st century public citizenry. In the recent past, and under the banner popularly labelled *Re-inventing Government*, various lofty attempts have been made in countries throughout the world to transform the traditional government bureaucracy in order to get it to be more responsive to the needs of its customers – with varying success. However, almost all these initiatives and attempts have had one thing in common – they were implemented within the framework of existing hierarchical government bureaucracies. The net positive results of these efforts were few and not even worth mentioning.

There is no virtue in trying to implement new management solutions, tailor-made for a progressive, post-bureaucratic organisational reality, within the existing structures and processes of archaic, traditional public bureaucracies. Consider, for instance, the example of project management – a phenomenon that has become ingrained into the management methodology of government organisations throughout the world. If project management is implemented within the existing structures of public bureaucracies, it becomes nothing more than yet another expensive experiment that consumes scarce resources, without giving the desired results. An additional burden is placed on organisational resources to support the new structure that have been added to the organisational infrastructure. The only way to reap the true benefits of project management is to implement it within a truly transformed, post-bureaucratic organisational context, where an entire organisation is structured around project portfolios. These projects and portfolios should be based on mandatory core functions; with optimal shedding of non-core functions – the so-called “support functions” by way of outsourcing to those agencies, and/or private sector firms whose actual core function it is to render those kinds of support services. Loaded support structures are enormously expensive, and tend to become bureaucratic entities *per extraordinaire*. They almost always gradually take over control, and the tail is starting wagging the dog.

At this stage, it is important to put what has been argued above in proper perspective by defining the theme of the thesis as attempting to the proposing the transformation of the public sector (and then specifically its management agencies) in such a manner as to make it more responsive to the needs of 21st century citizens – that is, to promote the general welfare in a sustainable manner. However, the basic philosophy will be that outdated bureaucratic notions of organising and management (and even governance) cannot be transformed – it must be replaced all together. What will be required; will not so much be organisational and management *change* - in the sense of transforming present government bureaucracies, but an all-encompassing *replacement* of power-centred government organisational and management *paradigms*.

The recommended paradigm shifts will not be thumb-sucked – it will rather be concluded from innovative suggestions and developments originating from contemporary responses to declining governing, organisational and management performance in the private and public sectors alike. In this regard, special mention can be made of initiatives originating from the present drive towards re-inventing government in public sector circles worldwide, as well as from private sector initiatives that have found generic managerial application, such as performance management, corporate governance and marketing management.

1.1.1 RATIONALISE THE PROPOSED PARADIGM SHIFT: FROM THE “AGE OF REASON” TO THE “AGE OF CHAOS”

If the 19th century was referred to as the “*Age of Innocence*,” and the 20th century as the “*Age of Reason*,” general consensus exists that the 21st century can be called the “*Age of Chaos*”. Modern means of communication, such as the Internet, e-mail, and so on, have all but removed the constraints of space and time as corporate realities that must be overcome to ensure proper execution of management and decision-making functions. No need should exist for managers to make use of slow-moving, time-consuming postal services to convey essential information for management decision-making any longer, or to struggle with a clumsy filing system.

Don Tapscott, well-known management consultant and Chairperson of *Digital4sight* (2001: www.7stepstonirvana.com) remarked, “*companies are functioning in an unprecedented environment. The markets for industrial-age goods and services are evaporating, as customers demand more. Products and services, from soapboxes to refrigerators and cars, are becoming Internet appliances – infused with knowledge and services. And the only way to meet these heightened expectations is for*

business leaders to lift their productivity capabilities to new heights." This viewpoint reflects something of the perspective that will be presented in this thesis: The environment in which the citizens of Village Earth exist, live and work is dynamic and ever-changing. This reality is true for both the global, and the organisational environment. New ways of communication and social interaction have necessitated a re-defining of traditional needs-satisfying solutions.

Although the majority of the world's citizens experienced the profound changes taking place at an ever-increasingly rate all around them, and slowly losing faith in the system that was increasingly unable to satisfy their needs, the "*ringkoppe*"¹ could not imagine themselves even thinking about getting rid of it. The reason for this was the inherent nature of bureaucracy, *viz.* - the fact that it is founded on *power and influence*. As a freshman progresses through the hierarchy, personal prestige and power in that specific bureaucratic set-up gradually increases. In the process, personal kingdoms are built and then vigorously protected.

The ultimate rationale for undertaking far-reaching paradigm shifts relating to public management is to *re-invent* government and more specifically, its management apparatus to reflect the changes in its environment. The first issue to be addressed will therefore be an analysis of "a 21st century environment". The 20th century was characterised by events that changed traditional thought about management philosophy beyond recognition. In less than a hundred years the world has experienced the demise of agriculture as a dominant economic activity, the rise and fall of industry and mining to perform this role and eventually the rise of the service industry to see out the century. The same age experienced the explosion of knowledge and information, and the coming-about of numerous new fields of profession and science – including the so-called management sciences.

In line with the industry-demands of the time, the focus of these early-day attempts to formalise the management philosophy focused on time-and-motion studies. Very little cognisance was taken of the human aspect of management. As the socio-political order and cultural inclination of society changed, so did the emphasis in the application of management sciences. The human aspect of management enjoyed more and more attention. However, the foundation of the so-called modern organisation and the bureaucratic structure was apparently performing well and survived almost untouched.

¹ An Afrikaans word originating from the African tradition for the elderly and wise men in the tribe to meet and discuss important issues, and take decisions regarding these issues. In broad terms the concept can be translated as "leaders of society."

At the start of the 20th century, democracy was a relatively new political concept and was slowly spreading through the rank and file of the then economic dominant nations. The pace of economic interaction was, in comparison with what is known today, painstakingly slow. Labour rights were a virtual unknown concept. Most people, even in industrialised countries were illiterate and the spread of knowledge was very slow in comparison with the modern-day knowledge explosion. Under these circumstances, the relatively slow, but secure decision-making processes of bureaucracy was the ideal model to secure results. In this system, success was measured in terms of processmatic efficiency that was supposed to optimise goal-achievement.

The world has since slipped into fast-forward mode and the pace of change is ever increasing. The way in which the success or failure of organisations and management was viewed also changed. Industry, as the basis for economic growth and success faded in the situation characterised by a gradual over-supply of industrial products to those markets that could afford it. Computers were introduced in 1955 when IBM produced the first commercially successful computer (History of Computers <http://goldenink.com>). This revolutionized the way in which the world communicates and the way human beings think about and *experience* the boundaries of space and time. With it goes a total value shift in the basic social fibre of society - the way in which humankind lives and works. Gone was the days of relative certainty and stability – and with it the usefulness of bureaucracy.

When analysing this reality, and its implications for public sector management in the 21st century, the natural starting point would be “at the top” – in terms of where the strategic decisions are take, and in a public sector idiom that is the exercising of political control.

1.1.2 TOWARDS A PARADIGM SHIFT IN THE APPLICATION OF POLITICAL CONTROL: A KNOWLEDGE-RESPONSIVE IDIOM FOR THE GOVERNANCE OF PUBLIC SECTOR ORGANISATIONS IN THE 21ST CENTURY

In a democratic state government power is vested in the electorate, who elect legislative representatives to govern and make laws on their behalf. These laws, or policies, must then be implemented by managerial agencies, acting on behalf of government. In practice, government policy-making is driven by ministers, acting in an individual capacity in so far as the activities of specific government agencies are concerned and collectively - embodied in a Cabinet (or Executive Authority). Each of

the major service rendering (managerial) agencies has a minister, appointed under legislative oversight, by the head of government to see to it that government policies are properly executed. If this process fails, public service rendering suffers as voters do not receive the promised services and government's legitimacy suffers.

Mere "ministerial control", or "political control", is outdated concepts. The problem is that it is has been designed for an era long gone. In that era, the known reality was characterised by relative stability, mass production to a known and (in comparison with today) unsophisticated market. During that period it was indeed within the physical, emotional and technical capacity of a single person to oversee the formulation, implementation and execution of government policies. At that time in history, the concept of ministerial control (or oversight) was adequate to see to it that government agencies properly execute the responsibilities entrusted to it, and (in so-doing) implement government policy, because, the ultimate resource required for effective governing of management agencies in this environmental reality, was timely and accurate *information*.

However, the known reality has since changed fundamentally. The world entered a new era; with reason and stability replaced with the era of chaos and instability, in terms of the inherent continuity thereof, stemming from its development and renewal dynamics. The traditional certainty in terms of place and time as prerequisites for engaging in business and organisational activities has been replaced with a virtual reality, where both time and place have lost its traditional importance of organisational and management prerequisites. The information highway and cyberspace technology simplified access to government services to the touch of a button. Mass-markets have made way for quality-driven individualised notions of service rendering expectations. The crux of the matter is that the 21st century government environment is *knowledge based* – it requires applied information, or knowledge to govern public sector organisations – this is much more than obtaining mere timely and accurate information. In this context, it is simply beyond the emotional, physical and technical ability of a single person, or even a collective body of non-specialists, such as the Cabinet, to govern executive policies and programmes effectively. The argument will, of course, be that political controlling individuals and collective bodies have functional specialists in the form of public officials available to advise and support them. However, the problem with this scenarios is that it boils down to the worst possible form of government bureaucracy; which is to "transfer" democratically allocated, all-encompassing government decision-making power to public bureaucrats. The unavoidable result is that the tail

starts wagging the dog – especially where the same government governs for a lengthy period of time.

This thesis will suggest that the most suitable "solution" to the challenge of effective governance of government organisations is to make use of the principles associated with private sector corporate governance. Not only does this approach make adequate provision for the composition of a duly qualified functional governing board, but it also embraces principles inherently capable of sustaining performance-based organisational and policy controls. These include audit committees, a strong emphasis on corporate ethics, and the utilisation of risk management and internal audit functions as pro-active methods to manage the organisational environment, and set strategic direction for government agencies.

1.1.3 PUBLIC SERVICE RENDERING IN THE 21ST CENTURY: ADD VALUE IN A SUSTAINABLE MANNER TO THE MANAGEMENT ENVIRONMENT

Government must manage its service rendering efforts in such a way that it can regain, and/or optimise its *legitimacy* in the eyes of the average citizen. This can only be achieved if the entire government sector, its management agencies, systems and processes are *mobilised* for service rendering.

Only one way exists in which government can promote the general welfare – and that is by rendering services to the community in such a way that the standard of living is continuously advanced. If such a process could be maintained for a reasonable period of time, sustainable development would result. If this process could be maintained successfully government would succeed in fulfilling its ultimate mandate in a sustainable manner.

By rendering services government is creating and/or adding value to its environment. The paradigm shift to be recommended in this regard is to suggest that the public sector could learn a great deal from the way in which the private sector has structured its management arrangements to reach its clients successfully and creates a favourable perception of the company and its products among clients. The implication is that the principles of private sector marketing management will be recommended as an appropriate way of managing public service rendering in the 21st century. By focusing the attention of a specialised team on product (service) design, pricing (costing), distribution and promotion, a useful structure could be established to mobilise and legitimise public service rendering.

The thesis will also attempt to identify those "key performance requirements", in terms of public service rendering, which, if they are being successfully met could

indicate acceptable performance in terms of a universal quest for public service rendering in a 21st century fashion. In this way, the public service rendering process could be *benchmarked*. This will be linked to a short discussion of innovative service rendering initiatives that have been instigated worldwide in an attempt to meet the challenges of the 21st century pro-actively in a service rendering environment.

1.1.4 MANAGE PUBLIC ORGANISATIONS AND SERVICES TO CREATE AND ADD VALUE: *OPTIMISE MARGINAL VALUE*

In the 21st century, the success or failure of management and organisational activities will be measured in terms of its ability to create and/or continuously add *marginal value*. The ultimate aim of public sector management is to *promote the general welfare*. If one analyses the term in the context of a 21st century public sector management idiom, primary elements thereof would include concepts such as wealth creation, development, sustainability and the creation of, or adding of value, with a unique action component, which could be defined as service rendering. Wealth creation and development actually represents the intangible end-result of a successful, sustainable process of service rendering. The way in which these concepts are transformed into a measurable result (outcome) of the public management process is by linking it to the concept of value creation or value adding. Marginal value - that is net value added or created, is measurable, and therefore provides an excellent instrument to measure the success or failure of the public management process aimed at promoting the general welfare.

Value created or added in terms of service rendering to the community is successful if, and when, it optimises marginal value. The concept of marginal value refers to the net value created or added after the cost of producing one "unit" of service rendering has been deducted from the gross benefits received from achieving a specific management goal. Ultimately this boils down to improving the quality of life of all citizens with the least expenditure, without neglecting quality.

If the focus moves in on an organisational "level", the first issue to be considered will be how a public sector organisation must structure its management practices and systems in order to promote the general welfare. The answer to be suggested for the purposes of this thesis is that public sector management efforts must be aimed at continuously adding and/or creating value throughout all organisational management practices and systems. Ideally, this will manifest itself in adding and/or creating value to the management environment.

1.1.5 BEYOND THE BUREAUCRATIC IMPASSE

The time has come to consider transforming public bureaucracies into dynamic, flexible organisational entities, capable of responding quickly to a changing environment. Organisational activities must be focused on achieving the core functions expressed in organisational mandates, and not on serving the bureaucracy. In this regard, the trend towards project-based organisations must be encouraged. Bureaucracy is irreconcilable with the challenges poised to both organisational efficiency and service rendering in the 21st century. The system was developed in an age of total domination, designed to serve an environment that can at best be described as static if compared today. Since then the third wave of democratisation has swept around the globe. The argument remains that one cannot use a "dinosaur" form of organising to provide value in the age of ever-increasing democratisation. Neither can such a model be used to achieve the recognition of human rights as a global morality or to satisfy a rapidly changing corporate environment where the known boundaries of space and time have become just as virtual as the corporate structures in which it operates. An alternative model must be found – a model capable of facilitating value creation and able to add value to the community.

Bureaucracy, as an organisational system, is per definition unable to respond and provide marginal value in an Age and Era for which it was not designed. Government needs to find another paradigm to manage its executive policies in the 21st century. One of the major drawbacks of bureaucracies that stemmed it per definition unable to renders services in a 21st century environment is its *inflexibility*. It is simply unable to react responsively to sudden changes in its environment. Changing needs in the environment (when those are eventually acknowledged by public decision-makers) means only one thing – a lengthy "workstudy" investigation, endless discussions, layer-upon-layer of approvals that must be obtained before structures can be changed or added. In today's rapidly changing world, by the time this process has been finalised, the requirements of the environment have changed again and the entire process starts all over – and the organisation is always one step behind and irresponsive. The irony is that everybody caught up in this bureaucratic process are just too happy, because the red-tape confirms the need for their jobs and makes them feel important – especially those "bosses" who are the *only* ones authorised to approve, or for that matter, reject these changes. The longer one can postpone the process, or delay the process with some kind of ridiculous enquiry or concern, the more proficient and "excellent" one is considered.

This thesis will promote a perspective that accepts that attempts to reform traditional bureaucracy are futile. Bureaucracy must not be reformed – it must be replaced all-together. The main reasons for such a suggestion, is the fact that bureaucracy is inherently based on inflexible (“fixed”) organisational structures, and lengthy (“red-tape”-based) decision-making procedures. One of the most ridiculous phenomena that characterise the modern bureaucratic organisation is the way in which authority is distributed throughout the organisation by means of organisational delegations. The result is a phenomenon in whereby decision-making powers is allocated to “high-ranking” officials with much less functional knowledge about operational issues than the compiler[s] – and then the specific issue or document must follow the entire, lengthy decision-making channel to eventually reach the one person with “delegation” to approve or disapprove. The argument is that such organisational set-up makes it impossible for public bureaucracies to respond pro-actively to the constant changes in an ever-increasing dynamic environment.

Bureaucratic ways of thinking, acting and organising must be replaced with an arrangement that will allow for responsive service provisioning. Bureaucracies may create certainty, and even processmatic efficiency, but it certainly does not promote flexibility or responsive adaptability. However, perhaps the most important of all - the government sector in its broadest possible application will *have* to redefine the way in which state power, and organisational authority, will be applied. The bureaucratic way of doing is outdated, undemocratic and archaic in an age characterised by a massive wave of democratisation. It is *totally* irresponsive to the needs of the “virtual community”. It *cannot* create wealth or value in a sustainable manner in the 21st century.

The model to be suggested by this thesis to replace bureaucracy will have the following characteristics:

- The “rules of the game” have changed beyond recognition. Modern governments are increasingly faced with the reality of changed and ever-changing, notions of time and space. Modern, sophisticated users demand value for their tax money. They want government services at the touch of a button, individualised customer care and a responsive reaction to their needs. Increasingly, even the less sophisticated users of government services, insisting on immediate and sustainable improvement in their living conditions are demanding the same things.

Government will only be able to meet the demands of the 21st century consumers by arranging its service rendering procedures and apparatus in such a way that it can react responsively to the needs and expectations of its customers. In an age

of total democratisation, if government is not able to achieve this, it will be replaced constantly. The legitimacy of government, as a social institution, will continue to slide further and further down the road to extinction.

- Public service rendering organisations must transform them to get rid of bureaucracy in its management systems, processes and structures and make it responsive towards changes in its environment and the needs of its customers. The state must respect the boundaries of its powers and get out of the business of management. Politicians must act as a corporate governing body, and leave implementation and management to those competent and suitably qualified to perform those functions. These should be public managers - but then public officials must also keep out of the business of making government policy by means of the structures and processes of bureaucracy. They were not elected to do this and do not have the legitimate power to take over the public policy-making function.
- The only way in which public sector organisations responsible for implementing and managing government's policies, will be able to promote the general welfare in a sustainable manner in the 21st century, is by transforming itself into flexible, focused entities, responsive to its environment and to structure itself around its core functions expressed in terms of the goals and objectives exposed in its political mandate. The implications of this argument is that 21st century government organisations must be structured in terms of project-based organisational units and managed in terms of the principles of all-encompassing performance management.

1.1.6 THE KNOWLEDGE-BASED GOVERNMENT ORGANISATION OF THE 21ST CENTURY

The knowledge-based organisation is a natural consequence of a knowledge-based era. In the 21st century, post-information era of organisational development, knowledge will be the ultimate corporate resource. The natural implication is that, in order to achieve organisational excellence, a government organisation must pro-active manage its knowledge resources. These resources will be expressed in terms of concepts such as intellectual capital and emotional capital.

Acceptance of the knowledge-base of 21st century public management will introduce a total paradigm shift in terms of the traditional understanding and application of organisational resources-cum-assets. Government organisations will need to move far beyond thinking in terms of the traditional production factors that enable the

management process such as money, land, material and human resources. These resources were traditionally allocated, utilised and measured in terms of a financial methodology; that is, the ultimate organisational performance of organisations were expressed in terms of their financial statements. No doubt that these production factors will always be relevant, however, the scope of recognised organisational resources, in terms of the allocation, utilisation and measurement of organisational value, will be expanded to include concepts (and traditionally excluded, non-recognised corporate assets) such as emotional capital, the inherent human value captured in the hearts and minds of people involved in organisational and management activities). The structure assets, (expressed in terms of phenomena such as organisational capacity, innovation potential and the intellectual capital belonging to a specific organisation, lie in human capital. The latter (human capital) will be involved in a life-long development process, aimed at sustained expansion of the knowledge base of organisations and individuals that would increase its strategic advantage or "core capacity" to effectively manage its core functions and ultimately, realise the corporate goals and objectives expressed or implied in its corporate mandate. In order to achieve this, 21st century government organisations must become learning organisations in the true sense of the word.

1.1.7 "CREATIVE DESTRUCTION": TOWARDS 21ST CENTURY PROJECT-BASED ORGANISATIONAL STRUCTURING AND ORGANISING

This thesis will utilise the concept of creative destruction, as proposed by Foster and Kaplan, to rationalise the paradigm shift towards project-based government organisations. The ultimate aim is to identify an organisational model that allows all organisational resources and activities to focus on its market (customers) and not on the bureaucratic apparatus. The principle is that 21st century government organisations must be flexible to be able to respond pro-actively to changes in its environment and then specifically the demands of its customers.

The concept of creative destruction prescribes that organisational structures and processes must be built around discontinuity – the principle that an organisation, its composing parts, and its services has a natural limited life-span and that efforts to cling to "life for-ever" will bring about the eventual demise of the organisation. Corporate entities must rather concentrate on the natural life-cycle of structures, processes and services, and plan accordingly. This planning must centre around environmental realities and market demands.

The suggestion to be made in this book, is that future (21st century) government organisations must organise themselves in terms of a project-based structure; meaning that, in order to focus on the core functions of the organisation, emanating from its political mandate, formal, bureaucratic structures must be shed in favour of a form of organising where projects are pro-actively identified and structure around key (or core) service rendering goals.

However, the paradigm shift does not end here. It will also be proposed that the only organisational structure capable of supporting such a project-based philosophy will be the *circular organisation*, functioning on the basis of an *internal free market*. This, in short, refers to a situation where authority and communication channels flow diagonally through organisational structures, with authority been functional (and expert) based, rather than hierarchical. The concept of an internal free market refers to a situation where organisational support functions are not incorporated in "rigid" organisational structures, but are rather imported and exported at will and according to functional (project-based) need (requirements).

1.1.8 COMPREHENSIVE PERFORMANCE MANAGEMENT IN THE PUBLIC SECTOR: PERFORMANCE-BASED ALLOCATION, UTILISATION AND MEASUREMENT OF ORGANISATIONAL RESOURCES

Twentieth century government bureaucracies were and (to a large extent) still are, "efficiency-mad" – meaning that the ultimate expression of personal and organisational performance is measured in terms of optimal regulatory operation of organisational processes, practices and systems. Within the broad context of the bureaucratic organisation, informality, rules and procedures played a vital role to maintain organisational efficiency. As long as the rules were followed, a procedural correctness was achieved, and organisational effectiveness (or the private sector expression thereof – profits) followed. The problem with this is that such a system promotes an "inward" perspective on public bureaucracy. The focus of organisational activities is placed on loyalty to the bureaucracy, rather than to the services that it is supposed to render.

The performance approach to public management, which is largely based on the MBO (Management-by-Objectives) theory, allows for organisational activities to be designed around goals and objectives. Organisational management systems and processes are then structured around these goals and objectives, rather than around the bureaucratic apparatus. Resources (people, money, material, information, intellectual capital, emotional capital, knowledge) are then allocated to specific

service portfolios (expressed in terms of specific goals and objectives), rather than to traditional bureaucratic organisational structures and red-tape. Control over these resources are then arranged and exercised in a similar manner, and organisational performance is measured accordingly.

Comprehensive performance management in the public sector manifests itself in terms of modern management philosophies and concepts, such as performance management and development (which is essentially a human resource phenomenon), performance budgeting and analysing the success or failure of public sector organisations in terms of an optimal cost-benefit ratio. The concept and application of performance management cannot be separated from its strategic management roots. This thesis will suggest that not only is the bases of performance management (the MBO theory) based on the strategic management philosophy, but the ultimate expression of organisational performance can be expressed in terms of strategic performance concepts, such as organisational longevity, efficiency, effectiveness, economy (the 3xEs), and the cost-effective execution of the corporate mandate.

1.1.9 21ST CENTURY CORPORATE LEADERSHIP IN GOVERNMENT ORGANISATIONS

Some key ingredients of successful management is changeable; it could be taught, and (by means of acceptance of fundamental paradigm shifts) could be changed to reflect transforming realities. Most of what will be discussed during the scope of this thesis will actually fall in this category, from governance practices to service rendering methodologies.

However, the last of the key success indicators for management success in the 21st century public sector, is one of the few exceptions. Unfortunately, this is also the one "predominant" component of the management science that could make the difference between success and failure. It is also one of the least manageable and manoeuvrable ones. This aspect is *leadership*.

Academics and other professionals can argue about the "teachability" of leadership skills all they like – fact of the matter is that leadership is, and will always be, more of a personal characteristic than any other component of the requirements for effective management. A person has it – or he/she does not have it. Nevertheless, it is also true that the demands in terms of the types of leadership required leading and directing corporate entities are changing with time and that unique demands will confront corporate leaders in the 21st century – different from those that confronted

20th century corporate leaders. This thesis will investigate those unique challenges that will provide the framework for the identification and mentoring of public sector corporate leaders of the 21st century.

1.2 BACKGROUND TO THE THESIS

If the challenges posed by the management realities of the 21st are to be met successfully, a paradigmatic shift is not only necessary – it is unavoidable. A generation of students in Public Administration were taught that the primary function of the state was to “*maintain and promote the general welfare*” (Cloete, 1991: 28). No argument exist that, in its broadest meaning, this statement is accurate. The Preamble, as well as Section 8 of the Constitution of the U.S.A. echoed the sentiments of a growing number of Constitutions throughout the world, by calling upon that country’s federal government to “*promote the general welfare*” (ISCV: <http://www.libertynet.org>). Spannaus (quoting Lyndon LaRouche, 2000: <http://members.tripod.com>) expresses the opinion that the principle of the general welfare is the only legitimate basis for the authority of government.

This is exactly where the problem lies; a problem that Sobran (1999: <http://www.constitionparty.com>) formulated as follows: Strict constructionists have always objected that the broad and vague interpretation of the concept of “general welfare” endows the government with an unlimited range of power, making redundant nonsense of other sections of the Constitution, which lists the particular powers of the Legislature.

There was, or is, nothing wrong with the principle of government being tasked to pursue the “general welfare.” Indeed, with the responsibility to improve the general welfare goes the authority or power to act required to achieve this objective. Given the ultimate truth of the proverb of “*power corrupts, and absolute power corrupts absolutely*”, the lofty ideal was increasingly used as a rationale to enforce state power upon a largely powerless society and make them believe that such encroachment in their lives are to their own advantage.

True to the 20th century environmental and organisational reality, the machinery used by government to affect this encroachment was an ever-growing *bureaucracy*. Savas (1992: 25) interpreted it as follows: The word *government* is from a Greek word, which means “to steer”. The job of government is to steer, not to row the boat. Delivering services is rowing, and government is not very good at rowing. In so-called “Less Developed Countries” (LDC’s) the situation is even worse. Esman (1991: 26) expresses the opinion that the primary concern of the political elite in less developed

countries is to consolidate and maintain the hegemony of their regimes. All other goals, such as economic development, the cultivation of harmony, and the spread of education, must always be consistent with and subordinate to the imperative need for survival and consolidation of the regime's rule.

What made the entire situation worse was the fact that, as bureaucracies got entrenched in the organisation of state all over the world, the tail increasingly wagged the dog; most decisions that have had a tangible affect on the lives of ordinary citizens were made by public officials and not by political representatives. Pursuance of the "general welfare" has increasingly become an administrative exercise - with the officialdom, rather than the elected representatives of the community, deciding what services must be rendered to whom, when and where. This phenomenon was, and is, the worse possible form of bureaucratic governance.

This thesis will suggest an all-encompassing paradigm shift to enable government to meet the challenges of the 21st century successfully, and restore citizens' trust; a paradigm shift --

- in the way that the essential task of government is viewed, *viz.* to improve the quality of life of all citizens (promote the general welfare),
- in the way in which organisational success or failure is viewed, and
- in the way in which public sector organisations are being governed and managed.

Meiring and de Villiers (1995:3-4) explains the concept of paradigm shifts by stating that almost every important scientific breakthrough is associated first a break with tradition, with old ways of thinking, with old paradigms. Ptolemy, the great Egyptian astronomer, regards the earth as the centre of the universe. Copernicus shifted this paradigm by declaring the sun to be the centre of the universe. As from that moment, despite resistance, everything took on a different meaning. Ordinary people are strongly influenced by *conditioning*, which in turn affects their *perceptions*. Paradigm shifts have everything to do with the way in which people are conditioned, which ultimately affects their perceptions (Meiring and de Villiers, 1995: 3 - 4).

The *first* paradigm shift to be mentioned would be to move away from the 20th century terminology of measuring the success or failure of government in executing its primary mandate in terms of non-quantified terms, such as "effective service rendering", "organisational efficiency and effectiveness", "value-for-money", and so forth. This thesis would suggest that the success or failure of government agencies in providing on the ultimate mandate of government and to promote the general welfare will be to assess to what extent these agencies have succeeded in creating (and/or

continuously adding) value, and then in terms of a collective unit, as well as in terms of the individual value-creating components (units, section) thereof.

The *second* major paradigm shift to be recommended in this thesis, is that the future (21st century) relationship between political decision (policy)-makers and their executive managers, must be formulised in terms of the principles of *corporate governance*.

The *third* issue to be studied during the scope of this thesis, also requiring a fundamental paradigm shift, is related to a re-assessment of the way in which government agencies structure themselves. This thesis would popularise the idea that 21st century government organisations must move beyond bureaucracy and be structured in terms of flexible, focused project-based organisations. The structure, scope and contents of the thesis is designed in such a way as to support and motivate (rationalise) the above-mentioned suggested paradigm. This includes a suggested performance-based approach to the management of public sector organisations, the adaptation of private sector marketing management principles as a viable option for the management of service rendering initiatives in 21st century government organisations. The measurement of organisational value is also by concentrating on its intellectual and knowledge assets, rather than to focus on financial performance only.

1.3 AIMS OF THE THESIS

The *aim* of the thesis can be presented as formulating a model of public sector management in the 21st century, capable of promoting the general welfare in a sustainable manner. Within the thematic context of this thesis, promoting the "general welfare" represents the *ultimate vision* for the government sector in the 21st century. The aims of the thesis will be as follows:

- To expose the challenges posed to Public Management in the 21st century in pursuing its ultimate goal which is to promote the general welfare. This entails a scientific analysis of environmental trends that would probably continue into the 21st century to provide the characteristics of a 21st century management environment.

Aim 1: Exposing the challenges posed to public management in the 21st century in adhering to the ultimate vision of government and that is to promote the general welfare.

- To present an alternative to the present paradigm dominating the theoretical framework for the application of the formal relationship between the ultimate

custodians of state powers (the community) and their representatives (government); that is, an assessment of the governing function, an investigation into traditional notions of political control.

- **Aim 2:** *Promote the general welfare in terms of a 21st century idiom: The social contract applied in a 21st century context.*
- To formulate a proposed model for Public Management, which account for all the demands and requirements placed on it by the a 21st century environmental reality.

Aim 3: *Towards a 21st century paradigm for the organising and management of public sector service rendering organisations.*

- To acknowledge the one least manageable determinant of 21st century public sector management, which may eventually plays the single most important role in deciding the success or failure of 21st century management in the government sector, which is *corporate leadership*.

Aim 4: *Public sector corporate leadership in the 21st century.* Ironically, leadership is the one vital aspect that cannot really be transformed into a 21st century idiom – leadership-is-leadership, an intrinsic personal characteristic.

1.4 PURPOSE AND SIGNIFICANCE OF THE THESIS

In his best-seller book *Future Shock*, Alvin Toffler (1970) remarked, “(t)he concept of future shock – and the theory of adaptation that derives from it – strongly suggests that there must be balance, not merely between rates of change in different sectors, but between the pace of environmental change and the limited pace of human response”. The idea captured in this quotation represents perhaps the greatest truth of modern history; *vide* the increasing pace of change versus the human beings’ inability to adjust responsively. This is reflected in the way in which public organisations, in particular and organisations, in general were structured and managed.

The system of bureaucracy worked well in the circumstances for which it has been developed. It was developed in a slower moving society, when change proceeded at a leisurely gait. It developed in an age of hierarchy, when only those at the top of the pyramid had enough information to make informed decisions. It developed in a society of people working with their hands, not so much their minds. It developed in a time of mass markets, when most members of the general citizenry have had similar desires and needs. It developed when strong geographic communities were the

norms – a society characterised by communicable-based norms and values, rather than individualism (Osborne & Gaebler, 1992: 15).

The 21st century reality, however, is vastly different. Breathtaking change is the norm, rather than piecemeal change-intervals. The world is finding itself –

- in a global marketplace, which puts enormous pressure on competition for scarce resources;
- in an information society, in which people get access to information almost as fast as their leaders do;
- in a knowledge-based economy, in which educated workers bridle at commands and demand autonomy; and
- in an age of niche markets, in which customers have become accustomed to high quality and extensive choice (Osborne & Gaebler, 1992: 15).

However, the dominant organisational structure to manage value creation in this new reality has remained bureaucracy. The result has been similar across sectoral boundaries. Consider the following statistics (Oosthuizen *et al.*, 1998: 5 – 6):

- Of the Fortune 100 largest companies in 1900, only 16 have remained, while a comparison of the Fortune 500 list of 1995 and 1994 shows a dropout rate of 71%.
- In the early seventies, the market value of IBM exceeded that of the Japanese stock market. IBM realised a record loss of \$6 billion profit in 1990 – and a record loss of \$8,1 billion in 1993. (However, after shredding most of its bureaucratic management practices, the company returns to profitability in the late 1990s).
- One in 38 major firms in the UK failed in the early 1990s.
- Michelin, the world's largest tyre manufacturer, declared a record loss of \$580 million in the first half of 1993.
- In the 1990s, Daimler-Benz (Germany's largest company) recorded its first loss since the Second World War – more than \$4 billion in 1995 alone.
- In 1990, General Motors saw its first loss in 60 years. However, after altering its management practices away from the bureaucratic-based approach, has returned the company to a success story.

Unfortunately, similar statistics are not available for public sector organisations. They hide behind the comfortable excuse of not being profit-seeking enterprises and that they have “unique” mandates. However, one can bet that the trend was similar and even worse, because the public sector was always, and still is much more bureaucratic, and less efficient than the private sector; a reality reflected in the increasing legitimacy crisis of government worldwide.

The time has come for a new look at not only the governing function aimed at promoting the general welfare and the vehicle used by government to promote the quality of life of citizens (public bureaucracies), but also at both the management processes applied by these agencies in pursuing government policies (goals), and the very nature of the normative concepts utilised to measure the ultimate success or failure of these systems, structures and processes. This is where it became important to re-define both the concept of "promoting the general interest", as well as the management paradigms to handle it.

1.5 LIMITATIONS IN REALISING THE THESIS AIMS

The human being is afraid of change. From its very nature, it prefers to stick to the known, regardless of whether or not it suits the purpose. The problem is that humans are live in an age of continuously accelerating change – such as in technology, science, communications, ways of interaction. Everything is continuously changing – except the structures and management processes and systems used to render services to the community.

It is true that lofty attempts have been made to change the public sector in some countries, such as the U.S.A., where an agenda for change has been pursued by the Clinton Administration under the leadership of Deputy President El Gore. These renewals were done under the commonly known term of "re-inventing government." New Zealand has gained worldwide recognition for transforming its public sector management framework in an attempt to introduce the concept of performance management and to increase accountability. South Africa also followed suit.

However, visit any of these countries today and with a few noticeable exceptions, the basic bureaucratic structures, processes and system would be found intact. The problem is that few people in positions of power within these bureaucracies will be willing to dismantle the very system that supports their positions of privilege. Those willing are mostly in lower hierarchical positions, grown up in a bureaucratic system, were educated in it and became institutionalised therein. They are simply unable to think beyond it. The approach in this regard is well worded in the following passage quoted from Campbell (1997:9): "*The words bureaucracy and bureaucratic have, over recent years, become understood as being synonymous with 'red-tape,' 'officialdom' and the general impersonality of large and inefficient organisations. Such a conception of bureaucracy, whilst understandable, is a rather cynical description of some of the negative features of this otherwise highly effective method of organisational management.*" Unfortunately, this is exactly the kind of textbook

rhetoric that captures a generation of students, lecturers and practitioners in a paradigmatic frame of mind from which seemingly no escape exists. This reality will be the single most important draw-back in the practical value of this thesis – the inability of participants involved in Public Administration and Management to overcome the paradigmatic barrier required to transformed bureaucratic organisations – and ways of thinking in order to create service rendering agencies capable of taking the public sector into the 21st century.

Another limitation on realising the objectives of the thesis will be the practical reality that the future, the 21st century reality, is unknown territory. As stated earlier, the way in which possible 21st century scenarios will be identified for the purposes of this thesis will mainly be by means of trend-identification. However, a highly respected futurist such as Alvin Toffler does not think kindly of such an approach when he stated that that people who talk about trend analysis and trend projection, are peddling a poor way of thinking about the future. Trends are usually interpreted to mean straight-line development so that if something grew by 2% last year and 2% the year before, it will continue to grow at 2% this year and next year. When living in times like the world is presently experiencing, which are extremely turbulent, in which fundamental changes are taking place at high speed and manifest itself on a global level, trends analysis as a reliable method of building future scenarios must be rejected (Swan, 1998: <http://www.abc.net.au>).

The drawbacks of the trend-analysis approach are self-explanatory from the opinion expressed in the above-quoted passage. Without a reliable indication of what a future management and organisational environment will look like, it is extremely dangerous to suggest a management and organisational model. However, having self-qualified the trend-exploration approach, it will nevertheless be recommended for the purposes of this thesis as the only more or less scientific method available. It will further be linked to the opinions of Toffler, Drucker and other futurists and management thinkers to ensure optimal results and try to overcome the obvious drawbacks identified.

The third and last limitation in the preparation for this thesis that needs to be mentioned is the purely technical aspect of a lack of sources dealing with future management and organisational models in the public sector. Although the topic of management and organising in the 21st century is currently enjoying primary attention in especially the U.S.A., the reading material available is almost exclusively directed at the private sector, with a few noticeable exclusions. However, in line with the spirit and nature of this thesis, the author improvised by making ample use of the available literature by simply applying it in the appropriate, public sector context. In this regard

the Internet was tremendously useful in obtaining source material required for the purposes of this thesis.

1.6 HYPOTHESIS

Government exists to continuously improve the standard of living of all citizens under its jurisdiction. If it is not able to ensure a maximum standard of living to at least the majority of its citizens, it fails in its ultimate aim – the final rationale for its existence. The result is that government is losing legitimacy – which weakens it, and reduces its mobility in respect of its obligation to deliver services to citizens.

This was exactly what happened to government today; it was increasingly unable to satisfy the demands and needs of its citizens, and, as a result, those citizens started losing faith in government. The reason for this was the inability of decision-makers in government to notice, and timely identify the fact that government's executive agencies must reflect the changes in its environment. When they eventually noted, and acknowledged these changes, and the need to respond to it, they tried to incorporate new organisational and management theories and philosophies within the framework of existing, bureaucratic organisations and management paradigms. This was doomed to fail. The 21st century environmental paradigm requires a 21st century organisational and management paradigm. There is no change of succeeding in forcing 21st century organisational and management paradigms into the archaic structures and theories of 20th century organisational and management paradigms.

It is possible to formulate a hypothesis of a 21st century organisational and management paradigm, capable of enabling the public sector to promote the general welfare in a sustainable manner in the 21st century. This can be done by analysing the environmental demands of a 21st century public sector reality, and then utilise the principles inherent to modern, and even post-modern, organisational and management inventions to formulate a 21st century organisational and management paradigm, which could provide the basic principles of a successful 21st century public sector organisational and management scenario.

A prerequisite for organisational and management success, or performance, in the 21st century, is that classic 20th century bureaucracy must be dumped. Bureaucracy, with all of its associated hierarchical and red-tape-based decision-making characteristics, is simply too clumsy, time-consuming and inflexible to provide the answer. Successful 21st century government organisations must be flexibly structured, and managed in such a way that the client (community), and not the

expensive apparatus of the bureaucracy, stand central in all organisational processes and systems. This implies that organisational processes, geared at maintaining operational efficiency, must be replaced with project-based notions of service rendering and organisational arrangements.

However, a requirement for such a model to work is that the way in which organisational authority is applied must change. Government organisations must get rid of hierarchical chains of authority, which drag out the decision-making processes, and replace it with circular-structured notions of organisational delegations and communication, where authority flows diagonal and freely, both within, as well as outside the organisation.

The underlying paradigm for "doing business" in the public sector must change. Traditional idealistic and lofty, but not quantifiable expressions of organisational success in the government sector, such as "serving the public" and "achieving the policy aims of government" must be replaced with a quantifiable notion of organisational and management performance in terms of a 21st century paradigm. A viable suggestion is that the concept of value created and/or added throughout the management process must be utilised to play this role.

If the above-mentioned could be realised, it would imply that government service rendering agencies must organise and manage themselves in such a way that they are able to continuously create and/or add value. Organisational resources must be allocated, utilised and measured in accordance with the principle of continuously creating and adding value throughout the management process, and by all organisational systems and processes. This reality makes a knowledge-based approach to the management of government organisations in the 21st century an absolute necessity for optimal performance. It also implies that 21st century government organisations must manage its *core functions*, and that the success or failure of such organisations (organisational performance) must be strategically managed in such a way that scarce available resources are allocated to resource core functions aimed at executing policy aims originating from an organisation's policy mandate, and then in such a manner that the cost/benefit ration could be optimised.

In spite of the paradigm shift recommended above, and throughout the thesis, there is one reality which could determine the ultimate success or failure of 21st century organisation – even if the required paradigm shifts are made, and successfully so. That aspect represents the one key aspect inherent to the success or failure of many a management attempt throughout the Ages – namely *leadership*. Leadership represents a uniquely human quality, which will always and under all circumstances

be required to ensure organisational and management success – and will be approached accordingly for the purposes of this thesis.

1.7 METHODOLOGY, TERMINOLOGY AND SCOPE OF THE THESIS

The research for this thesis primarily originates from the following sources:

- A wide variety of books, articles, scientific journals, reports, etc. dealing with management in general and public administration and management, in particular. These sources ensured a proper understanding of the most basic and fundamental management concepts and principles, most of which are sound and indispensable, and will have to form part of any, and all possible management models for the 21st century.
- A variety of sources such as books and journals dealing with, or at least proposing subtle changes to the traditional approach to public management and organisational theory. In this regard the publications of well-known futurist Alvin Toffler, Peter Drucker, and leadership-guru Warren Bennis deserves special mention – not perhaps so much as quoted sources in this thesis, but more importantly for the influence it exercised on the author's thoughts and eventually his analysis of the contents.
- Books such as *The Third Revolution* by Richard Koch; *The 500 Year Delta* by Jim Taylor and Watts Wacker, *Crafting Competitiveness: Developing Leaders in the Shadow Pyramid* by Albert Vicere and Robert Fulmer, *Intellectual Capital* by Roos, Edvinsson and Dragonetti, and the work of South African management consultant Dr Arnold Mol has tremendously influenced the perspective reflected in this thesis.
- A wide variety of material has been obtained from the Internet. Extensive use has been made of these sources for the writing and completion of this thesis. This thesis is essentially dealing with future *scenarios*, and very few books and/or journal articles are available to lead the proposals and recommendations contained in it – especially in the format in which it has been formulated. In this regard, the Internet ensured readily available access to the most contemporary reports and writings from governments and futurists authors at the touch of a button.
- The personal experiences of the author of this thesis as a public official. More importantly – the frustration gradually building against a system that prevents one from being innovative, whilst the time, energy and resources wasted far exceeds

losses that might have potentially originates from an alternative form of organising and/or management based on innovation and creativity. Add to this the realisation that a boss - is – a – boss - and will always remain a boss, regardless of race, - gender or physical condition. The more the author thought about it, the less he could imagine how a public sector already unable to facilitate tangible and sustainable development will be able to do so in 50, 500, and 5,000 years' time. Obviously, what will be recommended in this thesis will also not be able to meet the demands of the next 500 and 5,000 years – at the rate at which successive waves of change are at present sweeping the world, perhaps not even the next 100 years. However, it will definitely be better suited to produce results over the next 50 years than the rapidly failing bureaucratic system and build a suitable platform for the system that will eventually replace it. It needs to change with time, and adapt constantly to be able to serve the demands of the time best.

1.7.1 TERMINOLOGY

An important orientation to address at this stage is the use of “management terminology” during the scope of this thesis. The first of these is the term *corporate*. The traditional sentiments were to avoid this term when referring to public sector organisations. It has been closely associated with, and even used to identify, private sector organisations as oppose to public sector ones. However, in the recent past, the term has gained recognition as identifying a dynamic organisational entity (and specifically the *managerial* component thereof). It is in this context that the concept will be used in this thesis.

The second term continuously used during the scope of the thesis and that may result in controversy is that of *agency*. In some countries, such as the United States, this is a commonly used term in referring to public sector institutions and offices. In others, such as South Africa, the term is less popular and more controversial. The underlying principle is that the term agency reflects the relationship between political policy-makers, and the *agencies* established to execute those policies; an institution established to perform the management function on behalf of the policy-maker, as its agent. The thesis will use the term in this context. However, reference will also be made to *institution, department, and so on*. The essence is that reference is made to a management entity that acts on behalf of a governing one, and that no ideological or deep-rooted meaning must be attached to it – other than the explained conceptualisation.

A third issue to be cleared at this stage, is the fact that a number of terms traditionally associated with private sector management will be used during the scope of the thesis (for example, organisational structures, corporate governance, and so forth) without attempting to clarify it in terms of a solely public sector context. The approach that has been followed during the scope of the thesis, is that some management and/or organisational concepts and terminology are *generic* applicable within the framework of management and organisational sciences. By popular usage, it has gained popular recognition as such and that no practical need exist in explaining there meaning, neither conceptual, nor contextual, in detail.

1.7.2 SCOPE OF THE THESIS

The thesis will not focus on governing and public sector management practices in a specific country. It will rather deal with broad, universal concepts and principles. It will compare international "best practices" in public governing and management, but not in the context of a major theme of the thesis. It will rather be done to support specific arguments presented in pursuing one or more of the main themes of the thesis.

The thesis will be based on "best" practices in terms of governing and management, as it crystallised from recent reforms and initiatives, to promote a total new way of thinking about it – a paradigm shift in the true sense of the word. Within this broad perspective, present best practices, wherever in the world it is practised, can at best be useful in formulating scenarios in an attempt to determine and predict the way in which the future will be governed and management from a public sector perspective. Ultimately, the thesis will attempt to use these concepts, practices and principles as a method to re-formulate an appropriate model for government and public management in the 21st century.

1.7.3 STRUCTURE OF THE THESIS

The thesis will commence at a macro "level", with an analysis of future scenarios, which will eventually constitute the management environment of 21st century government organisations. The perspective and analysis will then step-by-step move towards a micro level. Form the environmental considerations, which will ultimate determine the scope and nature of public management in the 21st century, the study and recommendation will move into those *institutional* requirements for a 21st century management model to be able to meet the challenges and demands posed by the environment. That will be followed by an exposition of the *organisational*

management requirements to ensure successful realisation of the institutional demands placed on a 21st century government sector. This structure will be preceded by the introduction and a conceptualisation of the paradigm divide presented for the purposes of this thesis. The thesis will be concluded with presenting an integrated perspective on 21st century public management (based on the recommendations contained in the thesis), and with a final chapter, containing the conclusion and recommendations.

The thesis will be divided into twelve (12) Chapters, which could be prescribed as follows:

Chapter 1: Introduction.

Chapter 2: The Chapter will orientates the reader regarding the rationale for re-inventing government, and will also reflects on major initiatives in this regard worldwide.

Chapter 3: This Chapter will present some scenarios of anticipated 21st century environmental trends. These trends will determine the opportunities for, and threats to realising the aim of promoting the general welfare in the 21st century. It will also, ultimately, determine the ability of public sector agencies to performance satisfactory in terms of the implementation of government policies.

Chapter 4: This Chapter will attempt to recommend a practical, value-creating methodology of managing public service rendering in a 21st century idiom, motivated by the quest to "re-legitimise" government in the 21st century by effectively mobilising public service rendering.

Chapter 5: This Chapter will attempt to present a quantifiable notion of "the general welfare", by promoting a viewpoint that the performance of the 21st century government sector could be measured and managed in terms of its ability to continuously create and/or add value.

Chapter 6: This Chapter will present a new orientation towards the ultimate aim of 21st century government organisations, which will be to manage for all-encompassing value creation.

Chapter 7 will deal with the reasons for, and practicalities associated with a transition away from bureaucratic, towards project-based organisations.

Chapter 8: This Chapter will explore the knowledge-base (foundation) of 21st century government organisations, and the measurement of its value in terms of its intellectual capital (assets).

Chapter 9: This Chapter will recommend comprehensive performance management as an appropriate response to the management of public sector organisational performance in the 21st century.

Chapter 10: This Chapter will attempt to expose some of the core characteristics of successful corporate leaders in 21st century government organisations.

Chapter 11: This Chapter will contain final conclusions, recommendations and a final assessment. It will also present an integrated model of 21st century government sector management and organising.

In exposing the aims of the thesis, it is important to state that this thesis will not attempt to go into detail in respect of any of the management solutions to be presented during the scope thereof. The thesis will attempt to conceptualise a paradigm shift, a basic orientation, towards public sector management, and not to describe any of the suggested management solutions in any great detail. The detail that will be provided will be an attempt to explain and conceptualise specific key concepts, and to motivate these as appropriate 21st century management solutions, rather than to try and authoritatively exposing the specific concept.

1.8 CONCLUSION

The concept and principle of promoting the general welfare has been a long-standing norm to benchmark the success or failure of government. No reason at all exists to believe that this will change in the foreseeable future, because the concept goes to the heart of what government is all about – and that is to continuously improve the lives of all of its citizens. However, it was, and still is, a very normative concept, difficult to measure against tangible results. An attempt will be made in this thesis to express the terms as a quantifiable management measurable by linking it to wealth creation, development and (of especial importance in terms of quantifying it) in terms of value added or created.

This Chapter (1) attempted to expose the basic aims of, and approach to the thesis. The aims have been identified as:

- Managing the future: Exposing the challenges posed to public management in the 21st century in adhering to the ultimate vision of government; which is to promote the general welfare.
- A general analysis: Promoting the general welfare in a 21st century environment in search of a re-defined Public Management paradigm.
- Designing a Public Management model capable of optimally promoting the general welfare in the 21st century.

The general welfare can be promoted in only one way, and that is by means of a needs-oriented service rendering. This thesis will therefore approach the issue of

public management as a process consisting of inputs that must be processed by the management systems and processes into outputs. The impact of these outputs will give measurable value in terms of management outcomes. However, to put this approach in motion it will be necessary to follow a structures approach. Such an approach will be put in place by means of the three identified sub-aims.

The next Chapter (2) will explore the essence of the international response to the realisation of government's weakened strategic position, and its declining legitimacy by pursuing the following objectives:

- to analyse the meaning and scope of the said paradigmatic shifts, or, for the purposes of this thesis – the paradigmatic divide,
- to analyse the movement to re-invent government (especially lively in the United States, New Zealand, and the Commonwealth); and
- to present the themes dominating the global debate regarding the transition of management thought (as presented by some of the best known scholars in the modern organisation sciences).



CHAPTER 2 THE PARADIGM DIVIDE

2.1 INTRODUCTION AND CHAPTER OBJECTIVES

In Chapter 1 the main aim (and sub-aims) of this thesis have been comprehensively exposed. It has also been determined that the underlying theme thereof will be to promote a paradigmatic shift among all participants involved in organising, structuring and managing the government sector - not only in actual management systems and processes, but more importantly in the thinking processes of key decision-makers. In response to the views expressed in the previous Chapter, this Chapter will focus on analysing the reasons for promoting such shifts, exploring the main initiatives initiated in this regard, and identifying the initiatives that will provide the cornerstones of such a transition.

Government, as an institution, has suffered a tremendous decline in popularity and legitimacy worldwide in recent times. One of the main reasons for this has been the fact that government insists on maintaining highly bureaucratised organisational and governing habits that are 20th century based, and irresponsive to the changing realities in the 21st century environment. It is like taking an elephant on a deer hunt – the deer (slick, fast and constantly changing direction) is simply too fast to be caught by the elephant. What one needs to catch a deer, is a cheetah – matching the deer in respect of flexibility and mobility and able to change its direction and approach with ease.

Governments worldwide, having realised the potential devastating results if the alienation of ordinary folk is allowed to continue for too long, have adopted what has been labelled *re-inventing government* initiatives that manifest themselves at a macro (political) as well as at a micro (organisational) level. This phenomenon will subsequently enjoy attention.

In order to achieve the above-mentioned, the aims of this Chapter would be to –

(Chapter objectives):

- analyse the meaning and scope of the said paradigmatic shifts, or, for the purposes of this thesis – the paradigmatic divide,
- analyse the movement to re-invent government (especially lively in the United States, New Zealand and the Commonwealth); and
- presenting the themes dominating the global debate regarding the transition of management thought (as presented by some of the best known scholars in the modern organisation sciences).

2.2 RATIONALE FOR A PARADIGM SHIFT: THE LEGITIMACY CRISIS OF GOVERNMENT

The Hutchinson Educational Encyclopaedia (1999: CD-rom version) defines the term *paradigm* as follows: "All those factors, both scientific and sociological, that influence the research of the scientist. The term, first used by the US historian of science Thomas Kuhn, has subsequently spread to social studies and politics". Webster's World Encyclopaedia (1999: CD-rom version) expands on this definition by defining the term "*paradigm shift*" as "*a fundamental change (in approach, philosophy, etc.)*". That is exactly the topic that will be studied during the scope of this thesis; a new way of looking and thinking about public management – the laying of a transformed scientific foundation that will be able to facilitate meaningful development and optimal service rendering in the 21st century.

The rationale for a comprehensive and all-encompassing shift away from 20th century paradigm for the governance and management of government organisations, towards a 21st century paradigm is obvious from the increasing legitimacy crisis of government throughout the world. Government simply is not able to deliver and meet the demands of 21st century citizens any longer. The only way to overcome this impasse, is to change fundamentally the way things are being done, in favour a model, or models, that would be able to yield the expected value in a 21st century reality.

Osborne and Gaebler (1993:xv) expressed the opinion that cynicism about government runs deep within the American soul. Lang (2001:<http://www.news.cornell.edu>) echoes these sentiments when stating, "*cynicism dominates contemporary discussion of the American political system*". Although the above-mentioned quotations referred to the status in respect of American government, it can be accepted confidently that these sentiments reflect a global wave of

discontent. Ordinary citizens have lost respect for, and trust in government – probably to the extent that it can safely be assumed that government, as an institution of social society, finds itself in a legitimacy crisis. With a few exceptions, such as Japan (where public servants until recently were still held in high esteem) a mood of disenchantment is evident with government throughout the world. Brown (1998: 290) is talking about a widespread crisis in government legitimacy sweeping industrialised democracies, and attributes various factors to be the cause of this, which includes poor economic performance and dislocation, indecisive and illegitimate wars and poor government performance.

This was not always the case. In fact, in the period between 1918 and the 1960s, government was held in high esteem - that generation was "in love" with government (Beatty, 1998:142). What has since changed is that government has increasingly been unable to meet the demands and needs of ordinary citizens. Government, as we know it today and have known it since the closing stages of the 19th century, was perfectly organized, structured and thus suited to respond to its environment. The known reality existing between 1918 and the 1960s-70s was characterised by *certainty and stability*. Its foundation was industrialised in nature, known boundaries of space and time, the readily availability of manageable quantities of information, and the need for a "guardian"-style government. The answer to the *structural* question for government was simple: *bureaucracy*. Bureaucracy was perfectly suited for the environmental realities of the time, and where and when administered effectively, yielded the desired results.

George Washington once said: "*Government is not reason, it is eloquence. It is force. Like fire, it is a dangerous servant and a fearsome master*" (Crane, 1995: <http://www.cato.org/speeches/sp-rg465.html>). Unfortunately, something of the truth of this statement is visible in the world of today. In the year 2000, 1,3 billion people worldwide were living on less than one (1) US\$ per day - that is, in extreme poverty. Two-fifths of the world's population lacks adequate health services and electricity. Some 800 million people do not receive adequate food, almost 500 million suffer from chronic malnutrition, and 17 million people die each year from curable infections and diseases such as diarrhoea, malaria and tuberculosis (Kliksberg, 2000: 241). Fact is that billions of people throughout the world are living in sub-human conditions. Another fact is that it is ultimately the responsibility of *government* to do something about the situation and improve the living conditions of these people.

At the moment they are not succeeding. According to the United Nations Development Programme (UNDP), a marked increase in the number of poor people whose income has actually decreased has been noted. Between 1965 and 1980, this

situation affected 200 million poor people, and between 1980 and 1993 one billion people.

In light of the above-mentioned facts, what does government do wrong? Government's ultimate goal is to improve continuously the quality of life of all citizens (promoting the general welfare). In so-doing, governments throughout the world cling to a certain ideological foundation. For most of the latter half of the 20th century, a struggle has existed between capitalism, socialism and communism as conflicting economic ideologies to provide the basis for governments' efforts to improve the general welfare in their respective countries.

At first the world experienced a drive towards large government, with government providing all that society needs – whether it was in terms of the communist contract, where government hands out rations, or in the form of Western European welfare states. This did not work, at least not the former option (as was evident from the dramatic collapse of the communist regime worldwide) – with the latter quickly becoming too expensive for most European states to be sustainable much longer.

After the fall of the Berlin Wall, and the collapse of the Union of Socialists' Soviet Republics (USSR), it seems conclusive that capitalism has won the day; for the moment, at least. This era brought Thatcher's privatisation drive and the so-called Reaganomics, characterised by extensive government spending aimed at expanding the national economy that would then be driven by the private sector. The pendulum immediately swung away from big government trying to do everything for everyone towards the idea that the state's functions should be limited to an absolute minimum and that development should be left to the market and the "invisible hand" of natural market forces. In several instances, efforts focused on the issue of size, and many of the state's traditional functions were abolished. In several cases, attempts were made to privatise and eliminate functions as quickly as possible (Kliksberg, 2000: 246). A reality, opposing the above-mentioned approach was that, while some national governments were getting smaller, they were not necessarily becoming less powerful (The Visions Project, 2001; <http://www.ksg.harvard.edu/visions/>).

In contrast to these two extremes, a different option is currently emerging that holds the view that the societies that have made the most consistent progress in recent decades have moved beyond the state-versus-market dichotomy. This viewpoint proposed building a state that could meet new demands, work in harmony with the forces of private enterprise to achieve optimum results and promote and facilitate the development of an increasingly close-knit, strong and active civil society (Kliksberg, 2000: 247). Kliksberg (2000:250–255) suggested a number of key themes for the new approach, *vide*:

- An improvement in intergovernmental coordination in the social sphere.
- Coordination between economic and social policy.
- The decentralisation of service rendering responsibilities and obligations.
- Increase the potential for participation.
- Renewal of organisational structures.

The perspective that will be proposed in this thesis will take into account a number of the above-mentioned perspectives, but will focus more on a separation of the governing function and the function of public management. It will promote the idea of strategic partnerships between government and a wide variety of social actors, but will not necessarily reflect the belief that strong public sector machinery, acting as an extension of government's power machinery, is required for effective service rendering.

2.3 GOVERNMENT IN THE 21ST CENTURY

The predominant themes of 20th century reform in the government sector were rooted in the so-called Progressive Era (1890 – 1910). This progressive approach sought to cleanse democracy of machine politics, making government more businesslike, and to stamp out administrative discretion. This approach to public management assumes that "one best way" exists to handle every situation and that this way can be captured in a rulebook. By contrast, the most admired companies today are generally distinguished by their capacity to learn, adapt and innovate in the midst of constantly evolving conditions, knowledge and technology, and the fact that citizens have learnt to demand services tailored to their specific needs (Altshuler & Parent, 2002: <http://www.innovations.harvard.edu/4themes21st.htm>).

Ayeni (1994: 207) describes the state of Public Administration in a post-World War Two, Cold War Era as follows: "... (T)he essential features were identical in most places. These include, in particular, the widespread use of the bureaucratic form of organisation together with its emphasis on a top-down management strategy, the indispensable role of the professional, and elitist disposition, tall and pyramidal structures, as well as the idea of bigness and economics of scale". This model has proven over and over unable to provide the desired results in a fast-changing world characterised by a transition from a 20th century to a 21st century reality. In his classic book *Modern Times*, Paul Johnson wrote, "The state was the great gainer of the twentieth century; and the central failure. Whereas, at the time of the Versailles Treaty, most intelligent people believed that an enlarged state could increase the

sum total of human happiness, by the 1980's that view was held by no one outside a small, diminishing and dispirited band of zealots. The experiment had been tried innumerable ways, and it had failed in nearly all of them. The state had proven itself an inestimable spender, and unrivalled waster" (Crane, 1995: <http://www.cato.org>).

Around the world, governments are nowadays transforming themselves to meet rising public and business demands for more accessible and responsive services at an affordable cost. This trend has moved beyond reviewing programmes to make them more effective and efficient, to a fundamental rethinking of the role of government in society and how this role is to be played (Ontario, 1998: <http://www.gov.on.ca>).

In a Diagram obtained from the web-site <http://www.nsf.gov>, the following were identified as challenges for 21st Century Government (Web-Diagram, 1999):

- Demonstrate accountability (outcome-based approaches must be adopted).
- Improve flexibility and agility (management processes must be streamlined, and public service rendering agencies must invest in workforce training).
- Cultivate and catalyse innovation.

The *Visions of Governance in the 21st Century Project* initiated by the Harvard University College in the United States focused its attention on the following areas where innovative solutions to the "problem" of modern-day management could be found (The Visions Project, 2001: <http://www.ksg.harvard.edu/visions/>):

- *New paradigms for national security.* The Universities Thesis Group on Grand Terrorism investigated a comprehensive programme of responses by the United States government to the danger of large-scale, catastrophic terrorism.
- *How governments can manage and measure their performance to improve service rendering to their citizens.* This thesis would have focused on the role of political decision-makers in a management movement that offers the possibility of new kinds of democratic accountability.
- *How information technologies are changing the realities and expectations of governments.* This aspect is directly related to the concept of e-government that will enjoy comprehensive attention later in this thesis.

The Scottish Executive's 21st Century Government Unit has produced a comprehensive document exposing four main objectives of 21st century government. These are as follows (Scottish Government: <http://www.scotland.gov.uk>):

- Objective A: 21st Century Government should work in partnerships.
- Objective B: 21st Century Government should be open and accountable.
- Objective C: 21st Century Government should be inclusive.

- Objective D: 21st Century Government should attain and honour its commitments.
- Objective E: To achieve this, reform of the civil service in the Scottish Administration should take place.

The Organisation for Economic Co-operation and Development (OECD, 2001: <http://www.oecd.org>) presented three reasons for reforming public management as the world enters the 21st century. These are as follows:

- *Government needs to keep up with society.* The purpose of reform is to make government more responsive to the needs of society. Government must do more and cost less. Much of current public reform is an effort to meet society's needs by providing better, faster and more services.
- *Re-establish trust in government.* Government must stop trying to do things the old way. In the 21st century it would be expected of government to anticipate the needs of society, and pro-actively respond to it.
- *Government's role is changing under new pressures.* As society changes, so does government's role in it. Government is becoming just one more player among many seeking to represent and serve the public. Government is much more exposed to outside forces, especially in the light of increasing globalisation.

The following example can be quoted:

Finding the balance between participation and action

The Netherlands has been experimenting with forms of interactive governance in which governmental decisions are made not only after consultation with those concerned and interested, but also in co-operation with them. This is especially true at the local level where municipalities are closest to the public. But national forms of interactive decision-making are also being sought, even if it is only to find enough support for far-reaching government action. (OECD, 2001: <http://www.oecd.org>).

The OECD identified the following lessons learned from efforts aimed at public management reform in their member states (OECD, 2001: <http://www.oecd.org/pdf.pdf>):

- *Conditions conducive to reform must pro-actively be established.* Determining the shape of reform depends on government's ability to anticipate the public's needs. At the moment, most public sector reform efforts are not developed in anticipation of needs, but rather in response to crises that arise when those needs are not met. The challenge for government is to move away from opportunistic reform towards more strategic reform - developing a clear vision, build a constituency,

devise tactics to achieve results and communicate the vision and the anticipated results. In this process consultation is a prerequisite for success. The following example can be quoted as a way of illustrating the above-mentioned perspective:

- *Identifying citizens' needs through consultation*

In order to understand citizens' needs better and to gauge the effectiveness of public management reforms, the Service First Unit in the *United Kingdom's* Cabinet Office commissioned the creation of a People's Panel, consisting of 5,000 members of the public. These members have been randomly selected from across the United Kingdom, designed to be a representative cross-section of the population. Panel members are consulted about how public services should be rendered and how that delivery can be improved from the user's point of view, rather from that of the bureaucracy. The panel provides a database of individuals that can be used for a wide range of research and consultation. This would enable government to track attitudes and opinions over a period of time, determine reasons for change and research the views of both users and bureaucrats (OECD, 2001: <http://www.oecd.org>)

- *Communicate to build constituencies for reform.* Government must communicate the need for reform, including transmitting the values and goals underlying the reform movement, to voters and clients. The key to successful communication is to use simple, everyday language that focuses on the results (expected outcomes) of the reform drive. Consider the following example:

- *Does the public know that reform was successful?*

While public management reform in New Zealand have been experienced as a success by policy elites and foreign commentators alike, these have coincided with a general decline in public confidence in government. Reasons for this may include the following:

- Increased transparency also increased public expectations.
- The speed and scope of the reform process were unpopular with the public.
- The lack of communication meant that the public did not understand the reform efforts.

(OECD, 2001: <http://www.oecd.org>)

- *Create a "change culture" by changing behaviour.* Reform should seek long-term change in government's behaviour by changing the organisational culture. Structural changes should foster leadership, innovation, flexibility and accountability for results. Unless people know the values underlying reform, the

goals they are working towards and their role in this process, they have no incentive to let go of the *status quo*.

Delegates to the 1999 OECD Symposium identified the following key criteria for employee buy-in (OECD, 2001: <http://www.oecd.org>):

- Communicate expectations to employees, concentrating on (1) the common values which underlie the reform, (2) the expected outcomes and timeliness, and (3) their role in these changes.
- Accentuate the positive.
- Build leadership for change.
- Reward positive achievement of change, aims or targets.
- Create opportunities for employees to participate actively in the change process.

The OECD also identified selective proposals on how best to sustain public management reform efforts, which are (OECD, 2001: <http://www.oecd.org>):

- *Work actively to avoid reform fatigue.* In the United States, former Vice-President Gore's National Partnership for Reinventing Government created a "Hammer Award" for teams of federal employees who created an innovative and unique process or programme to make government work better and achieve results. The rewards focused attention on those who showed significant influence on customer service, bottom-line results, streamlining government, saving money and exemplary achievements in government problem-solving.
- *Maintain the path by fostering champions of reform.* Leaders within government are critical to bridging the gap between the development and implementation of reform. Recognising that a co-operative leadership style is the basis for increasing co-operation between staff, the German Federal Academy for Public Administration has developed an in-service training programme that focuses on the development of specific leadership qualities. Courses are offered to introduce modern methods of co-operation and leadership and the use of staff talks as a leadership instrument for increasing effectiveness. All ministries guarantee that the principle of at least one per cent of work hours in each Institution is planned for further training, with a goal for staff to receive a total of about fifteen days further training over a period of three years (OECD, 2001: <http://www.oecd.org>).

2.4 RE-INVENTING GOVERNMENT

One of the best known books dealing with the topic of re-inventing government is David Osborne and Ted Gaebler's *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector*. This book has been a best seller and proved to be influential in the drive led by the former Vice-President of the United States; Mr. Al Gore aimed at transforming the American public sector. It addresses a number of the ideas that will be debated and argued in this thesis, including:

- A move away from bureaucratic towards *entrepreneurial government*.
- Government must let go of the perception that it must *direct and control* all activities of all agencies and actors in the broad society and for that matter in the public sector.
- Government must be *community owned*; that is, government's role is to empower, rather than to serve.
- The time has arrived to introduce *strategic competitiveness* and even competition into service rendering.
- Rule-driven public service rendering organisations must be transformed into *mission-driven* government agencies.
- Government must concentrate on *outcomes* in the funding of public activities and not on inputs. This means that government must be result-orientated.
- Government must be *customer-driven*, meaning that the needs of the customer and not that of the bureaucracy must be satisfied.
- *Enterprising government*: The time has arrived to introduce the "profit motive" in public sector management activities. The fact is that the world cannot afford the super-high taxes required to sustain the comprehensive networks of social welfare programmes, especially in the light of ageing populations in most welfare states. Government must increasingly consider investing in revenue generating service options.
- Government must concentrate on "prevention rather than cure". Government must be *pro-active*.
- *Decentralised government*: The emphasis in public sector management must shift from hierarchies to popular participation and teamwork.
- "Natural", free-market orientated *market forces* must be used as a tool for government service rendering (leveraging change in the market). This is an important idea that will also feature in the unfolding of this thesis. It can be

summarised as follows-(Osborne & Gaebler, 1992: 280): "*Instead of operating as mass suppliers of particular goods or services ... public agencies are functioning more as facilitators, and brokers and seed capitalists in existing or incipient marketplaces. As the past decade has taught many of the leading private corporations, this more entrepreneurial role cannot be performed well by traditional command-style bureaucracies*".

What is also important to note about the above-mentioned book is the principles identified by the authors. These are as follows (Osborne & Gaebler, 1992: xviii – xix):

- *A deep belief in government.* The authors do not look at government as a necessary evil. Government is needed to make communal decisions. They solve collective problems. Government is needed to ensure discipline and structure in society.
- A deep belief that civilised society cannot function *effectively* without effective government – something that is currently all too rare. This aspect will be a major theme in this thesis and will address the concern that industrial-era governments, with their large, centralised bureaucracies and standardised, "one-size-fits-all" services, are not up to the challenge of a rapidly changing information society and knowledge-based economy.
- A belief that the person working for government is not the problem, but rather the *system* in which they are working. This idea will also be echoed in this thesis. Public officials are not under-achievers or bad quality workers. The majority of them are responsible, talented and dedicated people. However, they are trapped in archaic systems that frustrate their creativity and sap their energy.
- A belief that neither traditional *liberalism*, nor traditional *conservatism* has much relevance to the problems government faces at present. Government must be re-invented, not merely be changed. What is necessary is a *paradigm shift*.
- A deep belief in equity – a system based on equality for all participants. This sentiment will also be echoed in this thesis.

2.4.1 CRITIQUE ON OSBORNE AND GAEBLER'S PERSPECTIVES

Edward H. Crane's (1995: <http://www.cato.org>) critique on Osborne and Gaebler's book is worth noting, and expresses some of the key focus-points where the perspectives to be presented in this thesis will also differ from those expressed in the said book.

Crane (1995: <http://www.cato.org>) began by quoting the opinion expressed by the well-known management philosopher Peter Drucker that the drive in the United States under the leadership of the former Vice-president Al Gore actually represents reinventions devised by Peter Grace during the years of the Reagan Administration, but never implemented at the time. In fact, Drucker expressed serious doubts as to whether the changes made as a result of the reinventing government project would actually streamline the federal government by two-tenths of one per cent.

To a large degree the author of this thesis agrees with this sentiment, the reason being that, although the goals set out for reinventing government projects are lofty and worth implementing, it will not make a fundamental difference to the performance of the public sector as long as it is being implemented within the existing, 20th century-based bureaucratic management set-up. These (21st century-orientated) management interventions will only be effective if the paradigm basis of the system in which it is implemented, is conducive to, and actually represents a real and tangible paradigm shift. The scope and contents of such a shift will be presented during the scope of this thesis.

Crane (1995:<http://www.cato.org/speeches/sp-rg465.html>) does not share Osborne and Gaebler's belief in government. In fact, he openly acknowledges that he hardly believes in government at all. Osborne and Gaebler's belief in government implies an increase in the role of government in society. Crane, on the other hand, is of the opinion that the opposite is the desired course of action – to limit the role of government. He believes that civil society has enough impetus to satisfy most of its own needs by means of actors involved in the dynamic interactions characteristic of civil society.

This thesis will propose a mixture of the two viewpoints. On the one hand it will be argued that government is necessary in order to maintain order and discipline in society. Government has an important role to play in order to direct development initiatives. However, in a dynamic, complicated 21st century environment, government cannot be "everything for everyone" anymore. They simply would not have either the logistic, or the resource capacity. Where and whenever possible, communities must be allowed and actively encouraged to develop themselves and use the dynamics inherent to civil society to achieve the aims of government pro-actively.

Crane (1995:<http://www.cato.org>) makes a valid and important point when he expressed doubt as to whether the ideal of entrepreneurial, market-orientated government, proposed by Osborne and Gaebler can ever be realised. His reason for upholding this opinion is that *"the bureaucratic imperative to expand the power of the bureaucracy is second and right behind the sex drive in terms of persistence. Indeed,*

it's my view that the book *Reinventing Government* is itself a sophisticated manifestation of that imperative". The author of this thesis is in total agreement with these sentiments expressed by Crane and this topic will largely provide the key theme of this thesis: 20th Century bureaucracy cannot be reformed to deliver the desired performance-results. The only way to realise the desired results is to replace the 20th century bureaucratic model with a model suitable and able to respond effectively to the challenges of the 21st century environmental realities.

2.4.2 GUY PETERS'S "THE FUTURE OF GOVERNING"

Guy Peters's *The Future of Governing* describes and examines four (4) alternative macro models, based on an analysis of the almost confusing microcosms of reform hypothesis' formulated by scholars, politicians and the popular press in recent times. These are as follows (Ott and Goodman, 1998: 542 – 544):

(1) *The Market Government Model.*

This model has the following basic assumptions:

- Monopoly is the principal source of traditional government. This need to change by exposing government increasingly to natural market forces.
- Structurally, decentralised government is preferable.
- Management can be improved through pay-for-performance and other private sector techniques and incentives.
- Policy-making is accomplished through internal markets and market incentives.
- This model's primary public benefit is less costly, less intrusive government.

(2) *The Participative Government.*

The central assumptions of this model are as follows (Ott and Goodman, 1998: 453):

- The principal source of traditional government's problems is hierarchy.
- Structurally, flatter government organisations are preferable.
- Management can be improved through greater employee involvement, for example TQM and other team-based models.
- Policy-making is accomplished through consultation and negotiation.
- The model's primary public benefit is greater involvement.

(3) *The Flexible Government Model.*

The central assumptions of this model are as follows (Ott and Goodman, 1998: 454):

- Permanence is the principle source of problems with the traditional models of government.
- Structurally, "virtual organisations" and networks are preferable.

- Management is improved by utilising temporary personnel.
- Policy-making is accomplished through experimentation.
- The model's primary public benefit is low cost with coordination.

(4) The Deregulated Government Model.

The central assumptions of this model are as follows (Ott and Goodman, 1998: 454):

- Internal regulation, such as restrictive policies and rules, is the principal source of traditional government's problems.
- No particular structural arrangement is to be preferred.
- Management is improved through greater freedom.
- Policy-making is accomplished through entrepreneurial government.
- The model's primary public benefits are creativity and activism.

(5) The six (6) "old chestnuts" of the public sector.

The six (6) "old chestnuts" are as follows (Ott and Goodman, 1998: 454):

- An apolitical civil service, particularly as civil servants play increasingly central roles in policy development.
- Hierarchy and rules that create predictability, universality, and probity.
- Permanence and stability, the "old chestnut" that has been most responsible for attacks on the traditional system or model and for the proliferation of searches for alternative models.
- An institutionalised civil service.
- Internal regulation through acquiescence and responsiveness to policy directives.
- The greatest possible equality of outcomes.

This thesis will "tap" from the entire above-mentioned model; either the form of reflecting some of the underlying beliefs of a specific model, or by utilising the elements traditionally associated with that model as examples of what not to do. The recommendations of this thesis will, however, not prescribe to a specific one of the models in its entirety.

2.5 EXPERIENCES IN RE-INVENTING GOVERNMENT

The scope and contents of Reinventing Government drive in the United States centred on three phases, *vide*: (Kettle, 1998:<http://www.brook.edu>)

- Phase I: Government must work better, but cost less. The intention is to create an innovative, cost-effective government sector.

- Phase II: What should government do? This aspect is directly related to the question to what extent must government be responsible for service rendering, and here it must start outsourcing.
- Phase III: Search for political relevance. Government operates in a political milieu. It is essentially the vehicle whereby government executes its decisions. Regardless of the nature of the system in place, government must be politically relevant, because its main aim is to execute the decisions of politicians.

On 03 March 1993, President Clinton appointed Vice-president Gore to lead the National Performance Review and the task force designed to reinvent that country's Federal Government. In pursuit of this aim, the Clinton-Gore administration has saved their country's taxpayers \$137 billion by implementing half of the recommendations made by the National Performance Review. More specifically, they have done the following (National Performance Review, USA: <http://www.democrats.org/issues/>).

- Reduced the number of federal employees by 309,000.
- Eliminated 640,000 pages of internal rules and regulations and reduced public regulations by 16,000 pages.
- Rewritten 31,000 pages of public regulations to make them more understandable.
- Created more than 4,000 new customer service standards.

In a Report dealing with the History of the National Partnership for Reinventing Government (National Partnership for Reinventing Government, 1998: <http://govinfo.library.unt.edu/npr/index.htm>) the following categories are given as examples of the accomplishments of the project:

- Ending an era of large government.
- Changing Government to be more result-orientated and performance-directed.
- Implement initiatives aimed at serving people better.
- Changing the way in which government works with business.
- Changing the way in which government work with communities.
- Transforming access to government by means of technology.
- Making the Federal Government a better place to work.

The United States is not the only country that has engaged in a far-reaching programme of reinventing or transforming government and the machineries used to implement the decisions of government decision-makers. The reform movement in the Federal German Government reflects the same kind of themes that are evident from the attempts of the Federal Government of the United States. The German

transformation agenda reflects the following priorities (PUMA Meeting, 2001: <http://www.oecd.org>):

- The German Federal Government has engaged in a programme called *Modern State – Modern Administration*; that created the basis for a comprehensive modernisation of the state and its administration under the guiding model where the state acts as an enabler and catalyst.
- One reform area of this programme encompasses an efficient, cost-effective and transparent administration. With this area the government attempted to achieve an administration that renders better performance at lower cost.
- The modules for *modern government* are:
 - The guiding model, prescribing the way in which renewal must be achieved.
 - Agreements on targets.
 - Accrual accounting.
 - Controlling.
 - Budgeting.
 - Creativity management.

In South Africa, the post-1994 government engaged in a comprehensive reformation of the state's management and administrative apparatus, as part of its all-encompassing transformation policies. The President of the country appointed a committee to investigate management renewal in the public sector, and this committee submitted its recommendations to the former President Mandela on 27 February 1998. The comprehensive recommendations of the report was based on the network analysis approach to service rendering, which is mainly aimed at utilising private markets and other voluntary agencies (civil society) more pragmatically and therefore more effectively (Cloete, 1999: 315). This approach to service rendering necessitates a series of changes in traditional government focus, structure, functioning and organisational culture (Cloete, 1999: 315 - 318):

- A change is needed from attempting to provide as wide a range of services as possible, irrespective of organisational capacity, to explicitly accepting a limited capacity and reducing and redesigning service rendering programmes to match the existing delivery capacity of the public service.
- The second change is from big unwieldy public bureaucracies to smaller, more flexible organisations, as selected policy implementation functions are increasingly taken over by organisations outside the public sector.
- The third change is a transition from an input, resource-focused administration to an output, results-based management system. This approach is based on

performance contracting and promotion, accompanied by a change from rough, superficial, qualitative assessments of the outcomes of service rendering efforts, to more accurate and precise quantitative measurements of policy outputs and/or outcomes where possible and feasible.

- The fourth type of change is one from frequently separate and isolated policy and financial planning and implementation traditions, to integrated and co-ordinated strategic management practices at all organisational levels, as well as a structural separation of strategic policy-making activities from operational implementation activities.
- The fifth change is one from closed bureaucratic dominated working environments, to a more transparent, accountable and participatory public policy process. The characteristic of this process is that directly, vertical, regulatory, bureaucratic control of service rendering is replaced by indirect, horizontal, *ex post facto* quality control by empowered customers and consumers, citizens or the partners in a policy network.
- The sixth and last change was one from simple cash budgeting and accounting methods, and financial planning cycles, to more complex accrual accounting and budgeting, and multi-year financial planning cycles.

The recommendations of the Presidential Review Commission resulted in fundamental, far-reaching changes in the South African public sector. This new management framework was designed to improve service rendering through (RSA, 1999: 6):

- Devolving management powers and functions to executing authorities who may delegate them further.
- Managing for results, rather than the administration of rules.
- Establishing accountability for performance and corruption in state agencies.
- Organising work and employment practices flexibility.
- Developing a more representative and committed workforce.
- Establishing a development orientation through performance management, integrated training and education, and career paths.
- Democratising the workplace through the empowerment and development of employees, and labour relations.

The components identified above provide a useful point of departure for further discussions regarding the topic of reinventing government in order to streamline it in an effort to meet the challenges posed by the unfolding 21st century environment. In light of the close comparison between the above-mentioned topic and development

management, the latter will subsequently enjoy attention, with the emphasis to be placed on the role of government as a development facilitator.

2.6 PUBLIC MANAGEMENT IN AN AGE OF RE-INVENTION

David Boje and Robert Dennehy (2000: <http://cbae.nmsu.edu/>) provide the following informative perspective, based on Fayol's fourteen principles of organising, to demonstrate the expected transformation in organisational thought as the world moves towards postmodern organisational paradigms:

Table 1

Comparison of postmodern and modern organisational principles

POSTMODERN PRINCIPLES	FAYOL'S 14 PRINCIPLES
<p>1. Multiplication of Labour.</p> <p>Increase the number of tasks performed by a worker to as many as possible. This improves efficiency and effectiveness because it allows for complex and flexible production systems.</p>	<p>1. Division of Labour.</p> <p>Classic division of labour to reduce the number of tasks performed by a worker to as few as possible. This improves efficiency and effectiveness because it allows for the simple but rapid repetition of effort.</p>
<p>2. Delegation and Empowerment.</p> <p>Authority is delegated to the person closest to the action. People are empowered to take corrective action to systems and processes that need adjusting and changing.</p>	<p>2. Authority and Responsibility.</p> <p>Authority is the right to give orders and the power to exact obedience. Responsibility accrues to those who have authority. If you have responsibility, you must also have commensurate authority.</p>
<p>3. Self-Discipline.</p> <p>Self-discipline instead of hierarchical and punitive discipline. Sanctions which remove self-discipline are removed. People are selected and trained to be self-starters, self-motivators, and self-discipliners.</p>	<p>3. Discipline.</p> <p>Obedience and respect between a firm and its employees. Discipline is based on respect rather than fear. Poor discipline results from poor leadership. Good discipline results from good leadership. Management and labor must agree. Management</p>

	ensure discipline.
4. Variety of Command. A person should have many managers who supply resources and expertise to remove barriers to performance.	4. Unity of Command. A person should have only one manager and receive orders from only one manager.
5. Variety of Direction. Plans unfold and get modified quickly to allow the organization to adjust to shifting environments. the individual is frequently reassigned from one team to another, as needed.	5. Unity of Direction. The organization, or any subunit thereof that has a single objective or purpose, should be unified by one plan and one leader.
6. Subordination of general interest to individual interests. The interests of the individual are temporary and end when the project ends. Individual is part of a continuously redesigning whole. Allegiances are more sideways than vertical.	6. Subordination of individual interest to the general interest. The interests of the organization as a whole should take priority over the interest of any individual or group of individuals within the organization.
7. Intrinsic Remunerations. People are motivated by the work they get to do and the relationships they get to form. People will work in many organizations during their lifetime.	7. Remuneration of Personnel. Workers should be motivated by proper remuneration. Remuneration levels are the function of many variables, including supply of labor, condition of the economy, and so on.
8. Decentralization. Decentralization means the managers help people make decisions. If there is centralization, it is only temporary.	8. Centralization. Centralization means that the manager makes the decisions. Decentralization means that the subordinates help make the decisions. The degree of centralization or decentralization depends on the organization's circumstances.

9. Cycles not Chains.

There are no sign offs and bottle necks. Each person is expected to take action to remedy a problem and keep the process quality high and the customer happy. Scalar chains slow down response time to adapt the organization to its environment. The silos slow down cycle time and cycle time is the key to competitive success.

9. Scalar Chain.

Managers in hierarchical organizations are part of a chain of superiors ranging from the highest authority to the lowest. Communication flows up and down the chain, but Fayol also allowed for a communication "bridge" between persons onto various dimensions of the scalar chain. The "bridge" would allow subordinates in different divisions to communicate with each other---although formally they were supposed to communicate through their bosses and through the chain of command.

10. Diversity.

Man-in-a-slot is outmoded bureaucratic tradition. The slots change too fast and reconfigure too often to become orderly. The variety of people do not classify into stable categories.

10. Order.

There is a place for everything, and everything must be in its place--- people, materials, cleanliness. All factors of production must be in an appropriate structure.

11. System Integrity.

Quality results from continuously confronting a system to improve service and quality performance. Integrity is a system delivering what it says it will deliver when it says it will.

11. Equity.

Equity results from kindness and justice and is a principle to guide employee relations.

12. Transient Personnel.

Organizations are increasingly temporary networks of associates who work on a few aspects of a project for several organizations.

12. Stability of tenure for Personnel.

Retaining personnel, orderly personnel planning, and timely recruitment and selection are critical to success.

13. Entrepreneur.

The real problem is

13. Initiative.

Individuals should display zeal and

rapid change.	Management should encourage initiative.
14. Rebellion. Harmony can be forced cooperation which suppresses conflict. Conflict is the other side of the harmony coin.	14. Esprit de Corps. Build harmony and unity within the firm. This harmony or high morale will be more productive than discord, which would weaken it.

(Source: Boje & Dennehy, 2000: <http://cbae.nmsu.edu/>)

A useful source of reference in respect of post-contemporary management paradigms, is Burnes' Diagram (a culture-excellence approach that is focused on the writings of Tom Peters, Robert Waterman, Rosabeth Moss Kanter and Charles Handy), who present some very useful perspectives on the direction in which organisational renewal (and will it, organisational change) is moving.

2.6.1 TOM PETERS AND ROBERT WATERMAN'S EIGHT ATTRIBUTES OF EXCELLENT ORGANISATIONS

Peters and Waterman have identified eight attributes of organisational excellence that are (Burnes, 1996: 76 – 81):

- *A bias for action.* One of the main attributes of excellent organisations is their bias for action. Even though they may be analytical in approach, they also favour methods that encourage rapid and appropriate response.
- *Close to the customer.* Excellent organisations really do get close to their customers, whereas others only talk about it.
- *Autonomy and entrepreneurship.* One of the most important features of excellent organisations is the fact that they act small, even if they are big. They pro-actively encourage entrepreneurship, and push autonomy markedly down the hierarchical scale.
- *Productivity by people.* A cherished principle of excellent organisations is that they treat their employees with respect and dignity – they refer to them as partners.
- *Hands-on, value-driven.* Excellent companies are value-driven; they are clear about what they stand for and take the process of value-shaping serious.
- *Stick to the knitting.* Excellent companies stick to what they know best.

- *Simultaneous loose-tight properties.* This refers to the "firm and free" principle. On the one hand it allows tight control, but encourage individual innovation, autonomy and entrepreneurship simultaneously.
- *Simple form, lean staff.* A guiding principle in excellent organisations is to keep things simple and small. They structure in such a way that only a small, lean staff is required at the corporate and middle management levels.

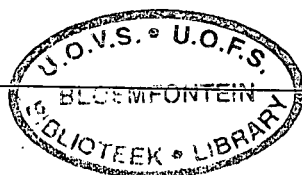
2.6.2 ROSABETH MOSS KANTER'S POST-ENTREPRENEURIAL MODEL

Kanter writes about the so-called "post-entrepreneurial" organisation and characteristics of such organisations along the lines of them pursuing the following main strategies (Burnes, 1996: 82 – 84):

- *Restructuring to find synergies.* Synergy occurs when the whole adds up to more than the sum of its constituent parts. In an age where resources are scarce, one of the priorities of organisations will be to make every part of the business add value to the whole.
- *Opening boundaries to form strategic alliances.* With the slimming-down of the organisation and the contracting-out of some of its functions, the need arises to pool resources with other organisations and to band together in the pursuance of common goals. Such alliances can take three possible forms, viz.:
 - *Service alliances*, in which instance two or more organisations form a cross-organisational consortium to undertake a special project with a limited life span.
 - *Opportunistic alliances*, which comprises a special agreement to take advantage of a special, once-off opportunity that has presented itself.
 - *A stakeholder alliance* that is a continuous, almost permanent partnership between an organisation and its key stakeholders.
- *Creating new ventures from within: encourage innovation and entrepreneurship.* Organisations must focus on creating a sense of intrapreneurship, and establishing internal markets. As both these aspects have been discussed and presented during the scope of this thesis, it will not enjoy further attention at this stage.

2.6.3 CHARLE HANDY'S EMERGING FUTURE ORGANISATIONS

Handy's most important contribution to the debate regarding a paradigm shift in thought about organisational management is to be found in his suggestions regarding



the form and structure of future organisations. In this regard he identified three possible kinds of organisations (Burnes, 1996: 89 – 95):

- *The Shamrock organisation.* This form of organisation, three different groups of workers who are treated differently and have different expectations, viz.:
 - *Core workers*, who are the main distinguishing feature of the Shamrock organisation. They are a group of specialists, professional workers that form the brain, the hub or what we might call the "nerve centre" of the organisation.
 - *Contractual fringe* is the second leaf of the Shamrock. A central feature of such organisations is their smallness in relation to their productive capacity. This is achieved by two methods: the use of machines to replace people and the contracting-out to individuals and other organisations of services and tasks previously done in-house.
 - *The flexible labour force.* This is the third and fastest-growing leaf of the Shamrock. It comprises a pool of part-time workers for use by organisations. These are people with relevant skills who are not in need of, or cannot obtain, full-time employment, but who are prepared to work on a part-time basis.
- *The Federal organisation.* This type of organisation can be defined as a variety of individual groups of organisations that allied together under a common flag with some shaped identity. Federations arise due to two reasons: (1) as Shamrock organisations grow bigger, the core workers begin to find the volume of information available to them to make decisions increasingly difficult to handle. (2) Federations constitute a response to the constantly changing and dynamic environment of the organisational world.
- *The triple I organisation.* This model comprises a set of principles rather than a structural model. The key principle is that core workers will have to use their *intelligence* to analyse the available information to generate ideas that must then stimulate continuous progress and organisational development. (Triple I = Intelligence, Information, Ideas). The ultimate aim is to optimise organisational value.

Organisations of the future will increasingly have to –

- invest in smart technology to attain and maintain strategic advantage,
- recruit skilled and smart people to control this technology, and
- ensure that this group of skilled people is rewarded equitably.
- Triple I organisations must keep the skills, knowledge and abilities of its staff up to date to remain effective and efficient.

2.6.4 THE JAPANESE APPROACH TO MANAGEMENT

At some stage Japanese management practices were praised as a model for Western organisations. Their approach to management is essentially based on the following principles (Burnes, 1996:99–104):

- *Personnel issues:*
 - The Japanese believe in *lifetime employment*.
 - Most positions are filled from inside the organisation (*internal labour markets*).
 - Promotion and reward systems are largely based on seniority.
 - Although Japanese employees are made to feel part of the organisation and see it as some sort of extended family, they are first and foremost a member of a particular workgroup or team.
 - Unlike the West, Japanese organisations tend only to allow one union to represent the interest of the workforce.
 - Extensive training and continuous training and education form an integral part of Japanese personnel policies.
 - Many Japanese organisations provide a wide range of welfare benefits for their employees.
 - Personnel practices and policies strive to instil in employees:
 - loyalty and gratitude to the organisation and a commitment to its objectives;
 - a sense of security;
 - a strong commitment to hard work and performance improvement;
 - an atmosphere of co-operation and not conflict; and
 - a belief in self-development and improvement.
- *Business practices and work systems.*
 - Japanese organisations concentrate on long-term planning.
 - The Japanese have an ability to develop products and services and bring it to the customers faster than any other nation and/or organisational cultures.
 - The Japanese place a high emphasis on *quality*.

Several of the themes presented by Peters and Waterman would be clearly reflected in the discussions and recommendations of this thesis.

2.7 DEVELOPMENT MANAGEMENT

In order for the concept of development management to be recognised as a particular approach towards public management, it is necessary to determine whether enough attention is given to development issues in the systems and

processes of both government and its executive agencies (Swerdlow, 1963:ix). For development management to be successful, long-term capacities must be developed in government and the private realm. As these capacities are unlikely to evolve spontaneously, governments must be prepared to invest in individual and organisational capabilities. At the same time, policies must be carried out, programmes must be operated and services must be rendered with existing managerial resources. Both objectives must be pursued simultaneously, not as trade-offs, but as complementary measures (Esman, 1991:19–20). After a slow start, marred by limited effort and considerable scepticism, the development community – leaders of Third World governments and donor agencies – have come to accept development management as a necessary component of economic and social development (Esman, 1991: 21).

Smith (1992:1–17) identified the following as key components of development management:

- Structural adjustment in public management decision-making and operating agencies.
- Public enterprise: The importance of recognising public service rendering agencies as dynamic participants in the free market set-up.
- Privatisation.
- A project-management approach to public service rendering.
- Decentralisation.
- Institutional development.
- Involvement of non-governmental organisations in public service rendering.
- Popular participation in government decision-making and service rendering.
- Recognising the importance of the role of women in development management.
- Continuous training.

The above themes are similar to those exposed as key objectives of the reinventing government initiatives. It can be stated that development management will be an integral theme in public sector management of the 21st century. The United Nation's Development Programme (UNDP, 1994: <http://magnet,undp.org>) identified five key aspects to sustainable human development, which are:

- *Empowerment* – the expansion of a person's abilities to enable them to be self-sufficient.
- *Co-operation* – reflecting the way in which people work together.
- *Equity* – the expansion of capabilities means more than income – it also means equity, such as educational systems to which everybody has access.

- *Sustainability* – the needs of the present generation must be met without compromising the right of future generations to have a better life.
- *Security* – Particularly the security of livelihood.

The UNDP focuses on four critical elements of sustainable human development, viz.:

- To eliminate poverty.
- To create jobs and sustain livelihoods.
- To protect and regenerate the environment.
- To promote the advancement of women.

A report issued by the UNDP (1995), called *Public Sector Management, Governance, and Sustainable Human Development* gives an informative overview of the general understanding of the contents of development management in the world today and addressed the following aspects (UNDP, 1995: <http://magnet.undp.org>):

- Reforming economic systems,
- eliminating poverty,
- encouraging social interaction,
- providing employment,
- improving agricultural performance,
- protecting the environment,
- slowing down the population growth,
- reform of public sector management,
- privatisation, and
- private enterprise development.

The Report identified the following issues in public sector management that need to be addressed [UNDP, 1995: <http://magnet.undp.org>):

- Inter-organisational issues,
- civil service reform,
- accountability,
- institution building,
- leadership and vision,
- strategic management,
- strategic Human Resource Management,
- training and development,
- Total Quality Management,
- indigenous management,
- decentralisation and
- civil society organisations.

The above paragraphs exposed the major themes that drive initiatives aimed at *reinventing government* to streamline it in order to transform it into a responsive vehicle to meet the demands of a 21st century environmental and corporate reality. It would be useful, however, to focus on concluding the Chapter with a short exposition of the themes that will dominate the transformation of public sector organisations and management as the government sector gradually transform itself to reflect a 21st century corporate reality.

2.8 CONCLUSION AND CHAPTER LINKAGE

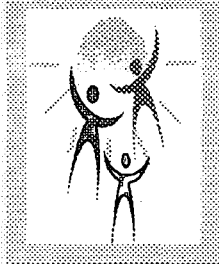
In this Chapter it was attempted to explain the rationale for the recommended all-encompassing paradigm shift that provides the main themes of this thesis. It explains the motivation for such a paradigm shift, which is the quest to move away from models of governance and public management that are clearly not capable of meeting the growing and changing demands of a dynamic 21st century environmental reality. It also exposes the major themes of the *reinventing government* initiatives implemented throughout the world in the recent past. These initiatives would be driven by a move towards entrepreneurial government, acknowledgement of the reality that government organisations and resources are community owned, strategic management-based organisational planning and control practices and pro-active, outcome-based management.

The Chapter also explored the main themes that would drive the transformation of government agencies (organisational public management) in change process towards 21st century public management. These, which will also enjoy attention during the scope of the coming Chapters, include the "flattening" of organisational structures, a re-organisation of line and staff functions, the move towards all-encompassing management and measuring of organisational assets and recognition of the importance of team-structured organisational processes.

The next Chapter will attempt to analyse the management environment, which will characterise the 21st century. The realities of this environment will eventually determine the scope and nature of the demands to be placed on 21st century government organisations. This will be done by attempting to analyse, and reach conclusion regarding the following aims:

- To conceptualise scenario planning as a useful strategic management tool available to public sector organisations functioning in a turbulent 21st century organisational reality.

- To present some selective future trends, which have the potential of becoming characteristics of a 21st century management environment.
- To present selective trends in organisational and management phenomena, which have the potential of becoming characteristics of a 21st century management environment.



CHAPTER 3 SCENARIOS OF A 21ST CENTURY PUBLIC SECTOR MANAGEMENT ENVIRONMENT

3.1 INTRODUCTION AND CHAPTER OBJECTIVES

The management environment (which refers to the total sum of influences influencing an organisation) in which public sector organisations operate will determine what they are expected to do, as well as what their capacity, or ability, is to do what is expected from them. The demands for specific services, as well as the nature of these demands, originate from the management environment – and so do the resources required to satisfy these demands.

A reasonable person will argue that in order to be able to plan strategically, managers must know, or at least have a good idea, of how the future for which they plan will look like. The characteristics of the future management environment will determine what it is that the organisation must do in the future, how it must be done, to whom and where. In a dynamic, facts-changing 21st century reality, it is more or less impossible to be sure about how the future will look. The implication may therefore be that strategic planning in 21st century government organisations will be a futile exercise.

The “solution” to this challenge that is increasingly used as part of the strategic and risk management processes in both private, and public sector organisations, is *scenario planning*. This phenomenon basically involves predicting the future in a scientific manner. In the light of what has been said above, this Chapter will deal with a presentation of scenario planning, as a useful method to incorporate it into organisational management processes with a view of pro-actively managing the strategic process. The bulk of the discussions will focus on identifying what could be regarded as environmental realities (trends), which would continue into the foreseeable future and will therefore provide the characteristics of a future management environment.

Chapter objectives:

- To conceptualise scenario planning as a useful strategic management tool available to public sector organisations functioning in a turbulent 21st century organisational reality.
- To present some selective future trends which have the potential of becoming characteristics of a 21st century management environment.
- To present selective trends in organisational and management phenomena, which have the potential of becoming characteristics of a 21st century management environment.

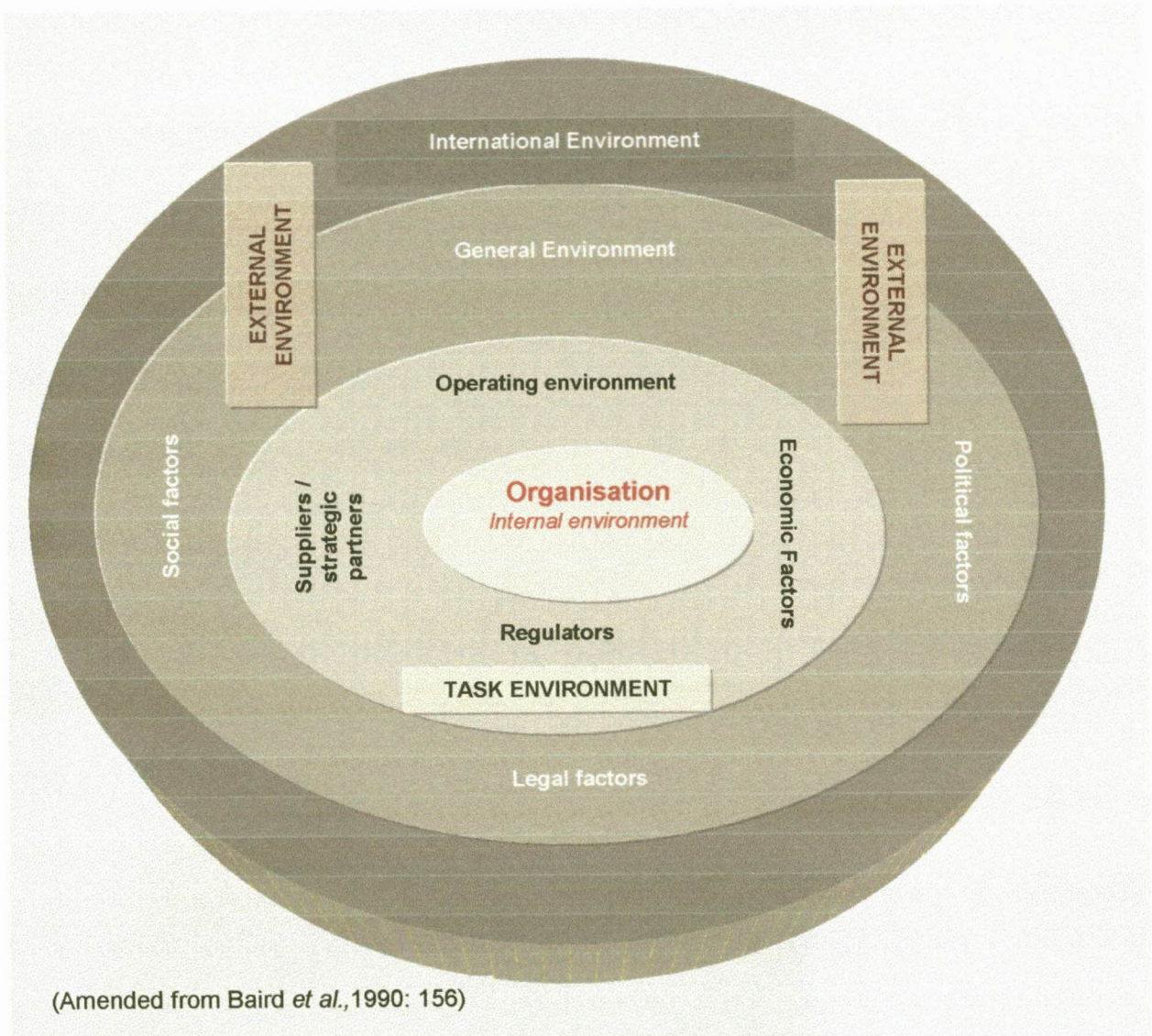
3.2 THE PUBLIC SECTOR MANAGEMENT ENVIRONMENT

The concept *management environment* refers to the total surrounding influences and factors that could potentially have an influence on the ability of management to meet the demands of the customers (the community). The traditional perspective on the management environment is often presented diagrammatically (see next page). (Griffin, 1999: 73, 75, 79 and Baird *et al.*, 1990:7)).

- The *external management environment* consists of factors such as development in internal public sector management theories, the prevailing socio-economic conditions in a country, the legal requirements, which regulate the activities of public managers, and other factors such as the political process and the need to preserve the natural environment.
- The *task management environment* consists of influences such as suppliers to public sector organisations (those persons and institutions that supply public sector organisations with the required material, goods and services required to render services), regulators (political heads of departments) and other persons and interest groups, collectively known as an organisation's stakeholders.
- The *internal management environment* consists of those influences that manifest themselves within a specific public sector organisation. These factors include the corporate culture, management decisions and internal management systems and procedures.

Figure 1

The public sector management environment: A general conceptualisation



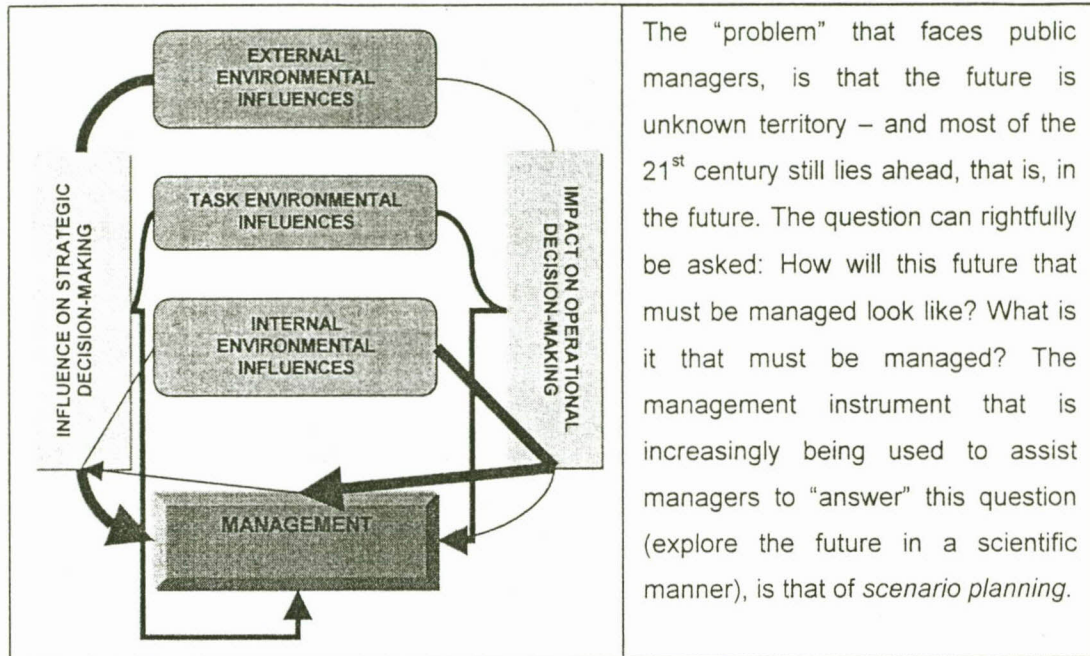
(Amended from Baird *et al.*, 1990: 156)

Not all of the above-mentioned environmental factors exercise the same degree of influence on the management of public sector organisations. A “hierarchy” of influence prevails. The influences of external environmental factors are less direct and therefore more strategic in nature, than is the case with influences from the task and internal environment. External environmental influences will exercise more strategic influence on management and organisational activities and will determine the core functions (mandate) of the organisation. The effect of environment influences present in the task environment is more direct, less strategic, and more tactical than those in the external environment, but more so than those influences present in the internal environment. Internal environment influences impact directly

on the short-term, operational activities of management, and are the least strategic of all. This principle can graphically be presented as follows:

Figure 2

Nature of environmental influences on management decision-making



The “problem” that faces public managers, is that the future is unknown territory – and most of the 21st century still lies ahead, that is, in the future. The question can rightfully be asked: How will this future that must be managed look like? What is it that must be managed? The management instrument that is increasingly being used to assist managers to “answer” this question (explore the future in a scientific manner), is that of *scenario planning*.

3.2.1 THE “OPEN SYSTEM” THEORY

When analysing the impact of organisational structures and systems, the “open system” theory places an important conceptual role. This theory prescribes that organisations are existing in close and constant interaction of its environment. It receives the production factors (resources), which it requires to operate (such as skills [people], money, land, buildings and information), from its environment. Because of the fact that its customers also function in the environment, the demands placed on the organisation is also determined by the environment. In turn, the organisation also influences its environment through the impact that its products or services have on satisfying the needs of customers, the economic role it is playing, creates value in the national economy, and (especially relevant in the case of public sector organisations) its contribution towards improving the living conditions of people finding themselves in this environment. (Concluded from Griffin, 1999: 51 – 52 and Moorhead and Griffin, 1995: 421 – 422).

Table 2

Impact of environmental influences on organisational systems

<i>Typology of Organisational Adaptability and Structure</i>							
Type of organisation	Perceives the environment	Inter-Relationship of Units	Overall Management Units	Basis of decisions	Basis of Assessment	Support Strategies	Extent of Decentralisation
Chain-structured singularly responsive (1)	Static and homogenous. (a)	Uni-directional dependence. (b)	Standardisation. (c)	Computation. (d)	Efficiency. (e)	Automatic inherent in task. (f)	Limited and carefully defined structures. (g)
Meditatively structured. Categorically responsive. (2)	Composed of discrete and well-comprehended entities and processes. (a)	Controlled and limited inter-dependence. (b)	Planning. (c)	Judgement. (d)	Desired state of affairs – generalised subjectivity. (e)	Dependent upon incremental changes in task performance. (f)	Ability to select from predetermined plans – limited voice in forming plans. (g)
Adaptively structured. Comprehensively responsive. (3)	Turbulent, infinite and infinitely complex. (a)	Unlimited interdependence. (b)	Mutual agreement. (c)	Mutual agreement. (d)	Particular subjectivity of selected individuals. (e)	Unstable, high risk, high variation. (f)	Ability to alter methods, goal structure. (g)

(Source: Segal, 1974: 214)

(The impact of the environment on organisational structure will be discussed in paragraph 7.3.2.2).

3.2.2 SCENARIO PLANNING AS A PRO-ACTIVE PUBLIC MANAGEMENT TOOL

Scenario planning is commonly used in strategic management to explore future possibilities (Thompson, 1993:256). Saunders and Harris (1999: <http://www.jimharris.com/scenario.pdf>) made an important point by reasoning that scenario management is important to ensure that leaders from a wide range of backgrounds and interests eventually have a common vision of where they are going. Mosher (1999: <http://www.jimharris.com/scenario.pdf>) puts it as follows: *“Scenario Planning is the fastest way to get multi-functional leaders to see the same forest and the same trees, to align on a common strategic direction, and to identify those critical next steps. That way, everyone owns the plan”*.

Perhaps the best known management philosopher of the 20th century, a person who amazed the world with his accurate analysis of world trends over the past couple of decades, Peter Drucker (1997: <http://www.nsf.gov>) remarked, *“I never predict. I just*

look out the window and see what's visible – but not yet seen". The main purpose of scenarios are not to be predictions, it is merely a careful analysis of trends that are already visible, have gained momentum and will in all likelihood continue into the foreseeable future. A well-known South African futurist, Clem Sunter (1987:11) explains that scenarios eventually present possibilities – not certainties. Fact is that all "new things" have their origins in "existing things" and if observed closely it will be seen. It can be deduced that what come from the existing, will be developed – until an improved state is reached. The line of development, or the trend, will be clearly visible at close inspection. Trend forecasting may be accomplished mathematically (for instance by making use of regression techniques) or judgementally (Morrison & Wilson, 2000: <http://horizon.unc.edu>). The crucial point to be made is that predicting the future, or formulating scenarios, is a futile exercise if they do not result in successful strategic plans. If scenarios are being developed, they must be used to drive strategic plans (Yeo, 1999:16).

Sunter (1992:2) identified four basic purposes of, or for, scenario planning, viz. to formulate stories (possibilities) of the future that are supposed to influence attitudes, and change decisions that are supposed to improve the actual course of events.

From the above-mentioned conclusion it is clear that the concept of scenario planning cannot be separated from the broader strategic management process. This fact is confirmed by Scott (2000: <http://www.zyen.com>) when stating that scenarios are strategic tools that encourage "*thinking out of the box, challenges, stretches*". It improves the ability to handle uncertainty as it should be (Scott, 2000: <http://www.zyen.com>):

- believable, with some suspension of disbelief,
- integrated and consistent, but with minimal quantification, and
- have a past, present and future – and it must be memorable.

The interaction between scenarios and the strategic management process can be presented as follows:

Table 3

Interaction between scenarios and the strategic management process

Strategic direction should	Scenarios should
<ul style="list-style-type: none"> • Be grounded in current strategic thinking. 	<ul style="list-style-type: none"> • Each presents an imaginable future.
<ul style="list-style-type: none"> • Be equally attractive. 	<ul style="list-style-type: none"> • Be structurally distinct.
<ul style="list-style-type: none"> • Have some balance of the radical and conservative. 	<ul style="list-style-type: none"> • Definitely not be confusing as predictions.

• Be different enough to require choice	• Contain variables of interest and potential influence on directions.
• Be coherent and believable	• Refer to pockets of "future in the present"
• Emphasise different competencies	• Be challenging to customary assumptions and frameworks.

(Idon, 2001: <http://www.idongroup.com>)

Scenarios are tools to structure a person's perceptions about alternative future environments in which today's decisions might be played out. It is a powerful planning tool, precisely because the future is unpredictable (Wack, 2000: <http://www.gbn.org>). Increasingly, scenarios are being used to assist organisations changing and innovating in fundamental ways (Wack, 2000: <http://www.gbn.org>):

- Identifying potential grey areas between the old and new economies and old and new industries.
- Engaging and inspiring an organisation's key stakeholders to make the changes necessary for organisational transformation.
- Sparking innovation and new forms of value creation.
- Creating alignment and energy around the vision and purpose of an organisation.
- Engaging diverse, even antagonistic, stakeholders to articulate – and create – the future of a city, region or country.

3.3 SCENARIOS OF A 21ST CENTURY WORLD

This Chapter will not attempt to give a comprehensive exposition or analysis of the environmental influences that will exercise an influence on management in the government sector in the 21st century. Attention will rather be focused on a few momentums that will in all likelihood characterise a 21st century environment. These tendencies will be identified by a trend-identification technique, meaning that contemporary trends in global environmental realities will be identified that clearly has enough impetus to assume that it will continue into the foreseeable future (21st century).

3.3.1 BEYOND THE INFORMATION REVOLUTION

The world is engaged in a battle among the above-mentioned three contrasting and competing civilisations, which can be defined as (Toffler & Toffler, 1994: <http://chiron.valdosta.edu>)--

- Agriculture, labelled the *First Wave* is still symbolised by the cow.

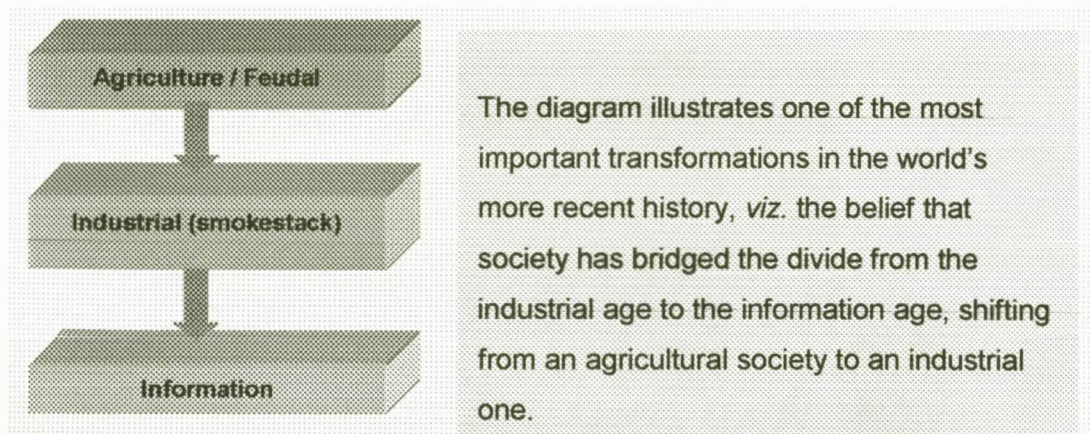
- Industrial, labelled the *Second Wave* is still symbolised by the *assembly line*.
- Information, labelled the *Third Wave* is symbolised by the *computer*.

Toffler (<http://hubcap.clemson.edu>) explains the various *revolutions* as follows:

- The agriculture or feudal system of wealth existed during the time of cottage industries and caste systems. Wealth was not measured by money because very little was available to buy. Instead, it was measured by the number of servants one had or one's place in the system of castes.
- The industrial or "smokestack" system of wealth evolved during the *Industrial Revolution*. The way in which wealth was measured was transformed from one's place in the caste system to how much money one had. This came about partially because it became possible to buy the goods needed for survival. In many parts of the world people still find themselves in this phase.
- The world is gradually evolving into an information-based system of wealth, where wealth is measured not by money, but by the amount of information or bytes that one knows or possesses. Toffler sees this happening because knowledge currently allows one to get ahead by developing more sophisticated machinery, creating a more attractive product and so on. This is still dependent on the monetary system of wealth, but Toffler is of the opinion that information will eventually become independent of money.

Figure 3

Major social revolutions



(Source: Toffler, <http://hubcap.clemson.edu>)

3.3.2 THE "THIRD WAVE ERA"

Alvin Toffler (Swan, 1998: <http://www.abc.net.au>), in his book titled *The Third Wave*, has presented the idea that world-wide change must be understood in terms of

"waves": The first of these waves was the gradual evolution of the *agricultural economy*, during which period just about all economic activities were in some way or the other related to agriculture. Prior to that, nomadic and tribal populations were scattered around the world. The second was the coming about of the *industrial economy*, during which phase industry became the dominant economic activity. The third has been the emergence of *information-based economies*. This latter, the so-called *third wave economy* will be dependent on information-based methods of economic production and organisation, knowledge, data, sophisticated telecommunications, computers and high tech (Swan, 1998: <http://www.abc.net.au>). The *third wave economy* will be dominant for at least the first couple of years of the 21st century, and it will be useful therefore to provide a short overview of the main characteristics thereof.

- *Technology*. The information-based industry (amongst others computer producers and distributors, communication-based companies, and consumer electronics) were capitalised at \$3 trillion in 1998. Twenty years earlier, there were only about 50,000 computers worldwide, while new ones are currently being installed daily. In 1994, 2,2 million people had access to the World Wide Web. One year later, there were 6,6 million. Today, almost 20 million people own cellular phones and/or carry pagers (Tetenbaum, 1998: 23).
- *Knowledge*. One reality that is clear beyond a shadow of a doubt is that the so-called *third wave economy* will largely be based on *knowledge*. Peter Drucker (1999: <http://www.theatlantic.com>) is of the opinion that what is called the Information Revolution is actually a Knowledge Revolution. To illustrate the overwhelming importance of this principle, Drucker makes reference to the fact that it was thought that the computer would revolutionise the work of top management. It has not. The reality is that a computer and other information generating tools are exactly that, and only that – a data processing unit. The real test for efficiency and effectiveness in the 21st century will depend on the knowledge base of the ultimate decision-maker." (Concluded from Drucker, 1998: <http://www.versaggi.net>).
- *Change*. A characteristic of the 21st century way of interaction will undoubtedly be a rapid increase in the rate of accelerated change. Post-modern communication, transportation and related technology have enabled the human being to distribute information, goods and services at an ever-accelerating pace to clients and the community. The one technological advancement builds on the other – at an ever-increasing rate. The one technological breakthrough leads to the other – at an

ever-accelerating pace. In response to this reality of the ever-increasing pace of change, Alvin Toffler (Harris, 1999: <http://www.interlog.com>) expressed the view that today's tremendous changes in technology, society, culture and politics are going to shift the balance between centralised and decentralised organisation, and will profoundly change systems of taxation and revolutionise the economy. All of these are likely to have a direct impact on the future, although these changes are only part of an even larger set of forces converging on the modern world.

- *Speed, inter-connectedness and information.* The third wave is being driven in part by increased speed, the increased inter-connectedness and vast amount of information. Information is increasingly becoming more important than physical goods. Information, the lifeblood of the third wave, does not work by the same rules as 20th century exhaustible outputs; a person can use one piece of information any number of times without depreciating its value. (Toffler & Toffler, 1995: <http://www.worldtrans.org>).
- *Social set-up.* In the third wave era there is no meaningful "majority" to be found. Society is increasingly divided into special interest groups. A large number of minorities rather than one majority is evident – and hardly anybody really likes what the government is doing. The third wave organisation re-empowers the home. The idea of workers driving off to centralised locations to work and to be educated is characteristic of the second wave. The third wave will be more about working and learning where it makes most sense, or where it is most comfortable or productive. More reasons to stay home than to drive off to work will exist (Toffler & Toffler, 1995: <http://www.worldtrans.org>).
- *Complexity and Paradox.* The 21st century reality will be complex and will involve a number of paradoxes. Tetenbaum (1998: 23) expresses the opinion that the management of organisations and society involves the handling of contradictions, and that the choice that individuals and organisations will need to face in the 21st century will be about the kind of contradictions that is to shape the pattern of daily life. Some of these choices, which will face organisations and their leaders in the 21st century, are (Tetenbaum, 1998: 24):

Table 4

Paradoxes for leaders and organisations of the 21st century

<i>Paradoxes for leaders and organisations in the 21st Century</i>	
The need for long-term planning, and (simultaneously) short-term adaptability.	The paradox brought about by the need for innovative intrapreneurs, mixed with the reality of team-based notions of

	organising and work in 21 st century organisations, will results in the paradox of <i>independence</i> versus <i>interdependence</i>
The need for simultaneous planning (to ensure future strategic ability) and experimentation (to foster innovation and maintain a strategic advantage).	People and productivity. The notion of democratic organisations of the 21 st century is apparently a paradox to the need for constant improvement in productivity levels. 21 st Century corporate leaders and managers will have to learn how to manage this paradox.
The need to expand on the availability of services, and (simultaneously) containment costs.	Empowerment and accountability. In an organisational reality characterised by strong knowledge-bases, continuous empowerment of all stakeholders is non-negotiable. Yet, 21 st century organisations will also be largely based on the notions that every participant must account for the way in which he or she performed allocated tasked and utilised scarce resources.
The apparent paradoxes of lowering costs, but simultaneously increase quality.	People skills and technical skills. The knowledge-based reality of the 21 st century organisation will requires strong technical skills from leaders. However, the increasing democratisation of the corporate environment will also requires strong developed people skills.
The need to centralise control and accountability in order to maintain strategic direction, but simultaneously decentralise decision-making power in order to ensure optimal flexibility and responsiveness.	Conflict and consensus. The play-off between conflict and consensus will be a strong feature of 21 st century organisations – especially in the light of the emphasis that will be placed on teamwork.
The need to optimise creativity in a knowledge-based reality, and simultaneously maintain regulatory efficiency.	Compete and cooperate. In a highly competitive working environment, players in the 21 st century corporate game will have to be highly competitive. However they will also be expected to be team-players, because they will function within team context every day of their working lives.
Focus on the management of core competency, but simultaneously cope with the diversification of consumer needs and service options.	Stability and change; Predictability and unpredictability. 21 st Century organisations will be faced with the reality of continuous and rapid change. However, they will also have to devise a mechanism that will allow them to respond pro-active to these changes, without causing the demise of the corporate framework for action.
To cope with the need for specialists in	Simplicity and complexity. The 21 st

<p>an era of intensive competition for knowledge, and yet successfully address the need for generalists (especially at management levels of organisational activity).</p>	<p>century leadership reality will be complex, and yet corporate leaders will have to manage these complexities in a simplified manner. Complication organisations systems and processes would imply, and result in organisation inflexibility.</p>
<p>The need to successfully manage the paradox between the need for entrepreneurs (who tends to focus on individual innovation and creativity), but to simultaneously recognise that the 21st century organisational reality will requires team players.</p>	<p>To lead and follow simultaneously. This age-old paradox will gain new focus with the introduction of the 21st century reality of organisations where organisational authority will be "blurred" by diagonal flows of authority and communication. A natural extension of this paradox is the need for 21st century corporate managers to slot into leadership role with ease.</p>
<p>Take charge and everyone's a leader. In an organisational set-up based on a project-structure, and re-designed notions of organisational structuring, a complex relationship will develop, where a person will sometimes be a project leader (or team-leader), and sometimes just be a team member. They must learn to rely more on expert leadership to make a value-adding contribution, rather than on formal organisational position.</p>	<p>Regularity and irregularity. This paradox relates directly to the 21st century corporate reality of change versus stability.</p>

(Amended from Tetenbaum, 1998: 24)

- The virtual reality of the 21st century corporate environment.* Sijtsema (2001: http://www.uni-hildesheim.de/~chlehn/isko2001/abstracts/bosch_petra.html) defined the terms *virtual organisation* as "an organisation consisting of independent partners, who try to combine their strengths, skills, resources, risks and finances in order to produce ideas or a product. Members of VO (Virtual Organisations) are often geographically dispersed and communicate with help of information technology". The essence of the virtual reality of the future is that perceptions of space and time, especially as a management necessity, as we know it today, will be re-defined. Already the way in which the world, including organisations, is communicating, has fundamentally changed with the introduction of the telephone, fax-machines and lately the Internet and e-mail. Muller (2000: 4) puts it as follows: "Predictions about the 21st century call for new virtual organisations, driven by advanced information and communication technology and populated by employees who bridge barriers in time and space to work together".

3.3.3 TRENDS IN TRANSFORMATION: FROM A 20TH CENTURY TO A 21ST CENTURY WORLD ORDER

A few decisive trends have manifested themselves in the world today, which would probably exercise a direct influence on the world to be governed and managed by public managers in the unfolding 21st century reality. Consider the following as among these:

3.3.3.1 *Towards the "Age of Chaos"*

Future organisations will be based on "chaos," rather than traditional, 20th century "reason". In chaos one cannot do, cannot plan, and cannot reason to conclusion. In chaos you can only be (Taylor & Wacker, 1997:16). Tetenbaum (1998:24) speaks of chaos as "the new paradigm". The new world will be full of unintended consequences and counter-intuitive outcomes. Managers will not be able to know enough to set out a meaningful vision or to plan productively. In fact, engaging in management activities in the belief that managers can predict the future and, to a degree, control it, is probably both illusory and dangerous, in that it allows a false and potentially debilitating sense of security.

If the above-mentioned perspective of chaos as a future organisational reality would simply be accepted, effective management will not be possible. However, the reality is that this perspective is more an expression of the speed and rapidly changing environment of the 21st century. In this sense, chaos is a complex, unpredictable, and orderly disorder in which patterns of behaviour unfold in irregular, but similar forms. From this perspective, strategic and other planning tools will become vital management tools for survival and strategic competitiveness in the 21st century. (Concluded from Tetenbaum, 1998:24). Viewed from this perspective, and expressed in rather philosophical term, Monks (1998:98) expresses the opinion that the edge of chaos is where life has enough stability to sustain itself and enough creativity to deserve recognition, because of the fact that chaos constantly contribute to question the comfortable known, and (in so-doing) contribute towards generating innovation and change.

3.3.3.2 *Demise of the nation-state and rise of the global village.*

The nation-state, in its traditional, purist form, as presently known, is in demise. The reality of increased globalisation has been affecting economic relations among

countries. It is contributing to the creation of many cross-country externalities and international spillovers. *Ad hoc* arrangements or unilateral policy reactions are only partially able to deal with these spillovers. Globalisation has increased the need for international agreements and for a larger role by international organisations. In a globalising world, increased pressure is being applied to induce individual countries to behave according to norms agreed in international forums. In essence, it could be argued that globalisation will increasingly reduce the degree of freedom and even power, of national governments. Strangely enough, these trends will, at the same time, most likely increase the role and power of sub national governments, especially municipalities (Tanzi, 1998: <http://www.imf.org>).

The world of the 21st century will function as a global village. One side effect of this reality is that, over the past few years, a definite move has taken place amongst countries to align themselves economically with their neighbours by the creation of trade blocks. These trade blocks can manifest themselves in a number of ways, including free trade zones, free trade areas, customs unions, common markets, economic unions and political unions (De Lange, 2002: 25 – 26) An example of this, is SADC (the Southern African Development Corporation).

3.3.3.3 *The reality of a unipolar world order*

Little doubt exists that the traditional bi-polar international world order (characterised by a balance of power between Moscow and Washington), has given way to a unipolar system, an international order dominated by a single superpower possessing overwhelming power (Jeffe, 1998:8). The United States of America is at present dominating the modern-day world. The country is similar to an XXL Great Britain of the previous 19th century, only vastly stronger and much less vulnerable. Unlike Britain, that needed allies to bring down Napoleon or the Spanish Habsburgs, the United States can defend itself. It spends five to six times more on defence than its two most likely rivals, China and Russia. It generates more wealth per capita than anybody else. It is the only power that can intervene anywhere at any time (Jeffe, 1998:15), as the Iraqi war has clearly demonstrated.

3.3.3.4 *Trends in ideology*

The better part of the 20th century was characterised by a struggle between two opposing ideologies, both of which have their roots firmly embedded in the soil of economic policy. The one was capitalism, traditionally associated with democracy.

The other was communism, perceived as being associated with oppression. With the fall of the Berlin wall and the demise of the former Union of Socialist Soviet Republics, it seems as though capitalism for a while has won the day. The problem is that a large section of the world's population has an extremely negative perception of capitalism. The great inequalities associated with the system and the fact that it often promotes structural efficiency at the expense of employment caused the system to be perceived as unfair and oppressive (Harvey, 2000:28). However, it seems that this debate, as a global ideological divide, has been considerably reduced in prominence. A more prominent "trend" that has become visible, is the world's apparent acceptance of democracy as a global morality. However, the definition of what democracy actually means differs literally from person to person – with everybody from Robert Mugabe to George Bush believing that they adhere to "democratic" principles. An informative observation is that Huntington's (1993: <http://www.alamut.com>) scenario of a 21st century world order, based on the ideological fibre of civilisations, may eventually be proved to be accurate, with the concept of "civilisation" defined in terms of a cultural, and specific religious, entity. He (Huntington, 1993: <http://www.coloradocollege.edu>) adds an important dimension to the debate regarding a future dominant global world order when he states that it is his hypothesis that the fundamental source of conflict in a new world will not be predominantly ideological or economic, but rather cultural. Although nation-states will remain the most powerful actors in world affairs, the principle conflicts of global politics will occur between nations and groups of different civilisations. The clash of civilisations will be the battle lines of the future. Perhaps the first signs of this scenario manifests itself into reality has appeared with the growing tension (and subsequent ideological rifts) between the historically Christian (nowadays predominantly secular) Western - and the Muslim worlds?

3.3.3.5 An apparent lack of leadership

Today's world goes cripple on leadership, which is possibly the single greatest threat to long-term, sustainable development (world-wide), because true leadership is future-bound and development is an issue for the future. Referring to leadership in the modern era in the leading nations of the world, Philip Stephens (1999:15) believes that there are politicians and then there are politicians who change things. We are living in a world of politicians. He expresses the opinion that the world has seen the end of heroism; the last of the Thatchers, Kohls and Gorbachevs. He then continues to state that modern world-leaders are pre-occupied with their domestic

constituencies. Instead of leaders set on shaping the future the world has leaders who promise to survive the present. These leaders are fire-fighters who can bomb Saddam and bail out Brazil when necessary, but lack strategic vision to grasp the magnitude of international tensions and conflict taking place in the world.

James Walsh (1993:17) shares this pessimism when he concludes that a terrible form of gridlock appears to have seized the most prominent nations, from old democracies like the U.S. to the newest, such as Russia. *"In the history of the world,"* says Jean Lacouture, *"I cannot think of a period where there have been so few great leaders. Are they here and we are not aware of them?"* He doubts it. One of France's foremost historians and a biographer of Charles de Gaulle (among others) Lacouture comments, *"The impotence of politicians today in trying to control the situation is very apparent. It's obvious in our country, in Europe as a whole, in the United States, in Japan. The objective force of things weighs far more than the willpower of men, of parties or political organizations"* (James Walsh, 1993:17).

Chris Karsten (1993:15) regards the end of the Cold War as one of the major reasons for the lack of leadership. The Cold War had strengthened national leaders, it had necessitated discipline and control, and it had enforced solidarity to either right or left of the political spectrum. The end of the Cold War has stemmed these factors non-avoid. The result? *"Die wêreld het sy vertroue in politici verloor. Nêrens in die demokratiese wêreld is daar meer leiers wat die verbeelding aangryp nie. Dis "n klomp liggewigte wat oënskynlik doelloos in "n politieke moeras voortploeter".*¹ (Chris Karsten, 1993: 15). In a recent opinion pole amongst leading American historians, President Bill Clinton was only voted the 21st best President in the history of the U.S.A. (Kettle, 2000: 20). His successor, George W. Bush, does not do much better – in spite of the emotional support he enjoyed as a reaction of the American population in response to the attack on the World Trade Centre and the Pentagon on 11 September 2001.

3.3.3.6 The "New Economy"

The magazine *Business2.0* explains the concept *The New Economy* as follows (Business2.0, 2000: coverage): The new economy is driven by a profound development, characterised by individuals and companies worldwide that are being linked electronically – a process that is gradually developing a new corporate nervous system. This is changing the name of the game beyond recognition. The

¹ *Freely translated:* "The world has lost its confidence in politicians. Nowhere in the democratic world is a leader that grasps the attention. It is light-weighted bunch who are apparently slogging on in a political swamp."

magazine then defines the new rules as follows (Business2.0, 2000: inside coverpage):

- *Matter*. The key to the New Economy is that data is processed dramatically more powerful and cost-effective than in the case where physical products need to be moved. Increasingly, the value of organisations and companies is to be found not in tangible assets, but in the intangible ones: People, ideas, strategic aggregation and information.
- *Space*. Distance has vanished. The world has become the customer and the competitor. Traditional geographic boundaries are increasingly becoming absolute.
- *Time*. Time is collapsing. Instant interactivity is becoming crucial for organisational and service rendering success. Instant response has become non-negotiable.
- *Growth*. Computer networks, such as Intranet and Internet technology, have accelerated the concept of market growth. "Virtual marketing" will become a vital function of 21st century organisations.
- *Value*. Fax machine and computer technology and networks have considerably raised the value-per-unit of finding and satisfying the needs of clients and customers. In a private sector environment the concept can be explained by referring to the habit amongst multi-national companies to offer their products virtually for free to establish market share. Once they have gained the desired market share, they gradually increase prices. Applied in terms of a public sector phenomenon, the concept of increased value per unit can best be explained by stating that the New Economy has opened up new opportunities to reach customers and render services that will reduce expenditure per "customer-units", and will improve cost-effectiveness.
- *Efficiency*. The importance of the "middle man" will be re-emphasised. What is important about this principle for application in the public sector is that the "middle man"-concept, traditionally unknown to the public sector environment, will increasingly become important because of the fact that the public sector will require the vital requirements of "New Economy"-based expertise (such as computer experts) to develop, maintain and even operate organisational operating systems required to function effectively in the 21st century environment.
- *Markets*. Customers are gaining considerably more influence. Traditional distributors and agents are seriously threatened by a networked economy in which customers can deal directly with service providers. The traditional control-

freaked public sector service rendering organisations would not be able to centralise delegations and decision-making authority much longer. Customers are becoming increasingly accustomed with products and services that are accessible and immediately available on demand and will not be willing to continue working through the endless channels of the typical bureaucratic public sector organisation.

- *Transactions.* The information elements of all goods or service are becoming a larger part of its total value. Customers want to know which services are available and how these can be accessed. Service rendering organisation will thus find it increasingly easier to customise services, and customers will demand this kind of tailoring.
- *Impulse.* Every product or service is available everywhere. The gap between desire or needs and purchase opportunities has closed. Customers will increasingly demand that public sector services must keep track with those made available by the private sector. Gradually the public sector will increasingly have to increasingly make available certain goods and services available on the Internet.

3.3.3.7 The changing nature of work and employment

The natures of jobs are changing due to shifts in organisation and management, as is clear from the following table:

Table 5

The changing nature of jobs in organisations

Element	Old system	New system
Workplace organisation	Hierarchical Function/specialised Rigid	Flat Networks of multi/cross- Functional teams Flexibility
Job design	Narrow Do one job Repetitive/simplified/ Standardised	Broad Do many jobs Multiple decisions
Employee skills	Specialised	Multi/cross-skilled
Workforce management	Command/control systems	Self-management
Communications	Top down Need to know	Widely diffused Big picture
Decision-making responsibility	Chain of command	Decentralised
Direction	Standard/fixed operating Procedures	Procedures under constant change

Worker autonomy	Low	High
Employee knowledge of organisation	Narrow	Broad

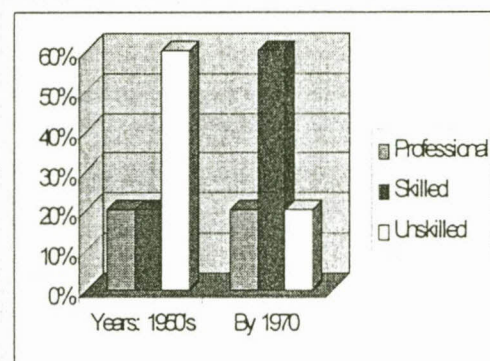
(Source: Trent, 1998: www.igpa.uiuc.edu)

Figures 4(a) and 4(b)

The changing nature of work

The very nature of work and its connotations seem to be undergoing worldwide changes. Traditional societies are characterised by a relatively high degree of integration between living and modes of making a living. Work, leisure and non-work roles are closely linked, but tended to be evermore segregated in 20th century work societies (De Keyser et al., 1988: 31).

Figure 4(a)
 Changing Nature of Work and Employment (a)



Source: Trent, 1998: www.igpa.uiuc.edu

Table 4(b)

The Changing Nature of Work (b)

Unskilled work	—————	Knowledge work
Meaningless repetitive tasks	—————	Innovation and caring
Individual work	—————	Teamwork
Functional-based work	—————	Project-based work
Single-skilled	—————	Multi-skilled
Power of bosses	—————	Power of customers
Co-ordination from above	—————	Co-ordination amongst peers

Source: Pinchot and Pinchot (1993: 30)

In the United States, 9,9% of the workforce is already engaged in so-called *alternative work arrangements*. The age of “just in time” production has given rise to “just in time” workers; employees that a business can hire on a moment’s notice to fill a moment’s need.

Another emerging characteristic of work in the 21st century is the demise of the *place-based limitations* thereof. Workers will increasingly work from home, or will act as “virtual workers” via the internet and other virtual tools. Life-long learning and development will be non-negotiable; which will raise the importance of training facilities and components (Concluded from Business Times, 2000:1). Employment opportunities (jobs) in the 21st century will demand *knowledge* (applied expertise).

It is obvious from the above-mentioned discussions that the world in which public sector organisations must function, and deliver their services, are changing beyond recognition. This has a profound influence on the way in which organisations (including public sector organisations) must be organised and managed in the 21st

century. Some of the most prominent of these changing organisational and management paradigms will subsequently be exposed as 21st century corporate scenarios.

3.4 MANAGEMENT "FUTURISTS" ANALYSED: SCENARIOS OF A 21ST CENTURY ORGANISATIONAL PARADIGM

A proper way to analyse organisational issues and the affect they will have on management, is by making use of the perspectives of some of the best-known futurists, business consultants and authors on the topic of organisational studies of the future as a basis to determine the major strategic themes that will characterise the organisational environment in the 21st century. The rationale for this approach is that it ultimately enables public sector organisations to create value (see Chapter 4).

In his book *Future Shock* Alvin Toffler (1970: 41) remarked, "... (that) (t)he acceleration of change ... radically alters the balance between novel and familiar situations. Rising rates of change ... compel us not merely to cope with a faster flow, but with more and more situations to which previous personal experiences does not apply". Change, continuous and rapid, will clearly be the first and foremost characteristic of a 21st century world. It has become the central theme of the paradigmatic fibre that is driving societal interaction today. The implication is clear: If organisations of the future want to be relevant, they must be able to responsively adapt, and respond to changes in their environment. Bureaucrats cannot live up to this challenge. They are simply not conditioned to function otherwise.

Toffler (Daly, 2000:18) expanded on his perceptions regarding change by stating that change is not just a question of demanding faster reactions. It rather has to do with decision-making, and that a limit exists regarding the human being's ability to cope with the ever-accelerating pace of decision-making. People (read: managers) are expected to make decisions at an accelerating rate without adequate decision support. A dangerous miss-match has developed between the number of decision-making that needs to be done, the information available to facilitate it and the speed required to make it. Toffler then concluded that institutions have become "dumb", because the decision-making process has become obsolete, leading to inappropriate decisions being made.

To link with the above-mentioned perspective, the second characteristic of a 21st century corporate reality will be the need for timely, effective and efficient decision-making. Parallel to this is the need to have appropriate *information* systems in place to ensure that the basis for organisational activity is relevant and of a high quality.

Bernard Burnes (1996:73) made the statement that, when Copernicus suggested that the earth was not at the centre of the universe he was, though he knew it not, a paradigm revolutionary. But it was the minds of men that changed, not the motions of the planets, and the way in which they now viewed that same universe had a profound effect on their beliefs, values and behaviour. The author then revealed what he called a "*new techno-economic rationale*," characterised by –

- a shift towards information-intensive, rather than energy or materials intensive products,
- a change from dedicated mass-production systems towards more flexible systems that can accommodate a wider range of products, smaller batches and more frequent design changes – "economics of scale" are being replaced with "economics of scope", and
- a move towards the greater integration of processes and systems within companies and between suppliers and customers that permits a more rapid response to market and customer requirements.

The third characteristic of a 21st century corporate reality will be a (possibly continuous) shift in the *paradigmatic management concepts and principles* used to develop a workable management model capable of meeting the ultimate challenge of creating and continuously adding value.

In their best-selling book *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector*, Osborne and Gaebler (1992: 181) expresses the opinion that the best way to make public providers respond to the needs of their customers is to put resources in the customers' hands and let them choose. Toffler (2000: 19) is of the opinion that the customer has become a participant in the production (read: service rendering) process. Consumers have become allies and "co-owners" in the service rendering process. In a public sector idiom, this phenomenon is equal to what could be called "participatory service rendering".

A second aspect to this phenomenon can be identified. McGlynn (1996: 139 – 140); quotes Bruno Bich, US vice-president of sales and marketing, Bic Pen Co. in expressing the sentiment that, "*If you're going to put your name on all your products, you should never produce a bad product. If you make a mistake, you'll hurt your whole company.*" The phenomenon under discussion is *excellence* (popularly referred to as *quality*). The 20th century was a time dominated by mass production. Undoubtedly, the 21st century will be characterised by a return to quality and craftsmanship. The means of production will be high-tech (to satisfy the challenge of

mass need) but the emphasis will be on quality (derived from an article in Time Magazine, 2001 [Usher, 2001: 41 – 43 and 44 – 49]).

The fourth characteristic of a 21st century organisational reality will be a strong emphasis on *consumer-orientated, total quality* management systems and practices. In 1985 the well-known management consultant Gifford Pinchot published a book called *Intrapreneuring*. In this book the author has created a new management term to be known as "intrapreneurship." The essence of this concept was that employees already employed in existing organisations could apply the inherent ingredients of entrepreneurship, such as innovation and creativity, to foster continuous renewal and improvement. In a follow-up to this book, Pinchot published a book called *Intrapreneuring in Action*. This book presented the so-called "Rules of Intrapreneuring in Action", which include:

- *Organisations must bet on people, not just ideas.* The principle entails that organisations must put their money down on a team of people who can fix plans quickly when they don't work exactly as expected.
- *Make mistakes faster and cheaper, learn from them and move on.* Create prototypes rapidly, get customers involved early, take the service to the target market, and continuously, rapidly improve it.
- *Do not filter out the truth.* Intrapreneuring is about learning what works and what does not.
- *Value all kinds of innovation.* A better management process may be just as important as improved service rendering. Systems that make the organisation learn faster, think quicker, or care more about customers may change the fate of the organisation.

The fifth characteristic of 21st century management realities is *continuous renewal*, based on the principle that continuous improvement will be an absolute necessity for public sector organisations to continuously enable them to create value. In other words: 21st century public sector service rendering agencies must continuously foster *intrapreneurship*.

As far back as 1970 Alvin Toffler (1970:37) has identified the accelerating pace at which humankind has been storing useful knowledge about itself and the universe as one of the key characteristics of the late 20th century social realities. In 1975, during a symposium on knowledge management, Carroll and Henry (1975:567) expressed the opinion that "*man's ability to manage knowledge is of central importance in contemporary public administration.*" Knowledge has indeed become the "*only*

meaningful economic resource" of the 21st century – the primary and dominant requirement for successful management (Quintas *et al.*, 1997: 385).

From the above, it could be concluded that the *sixth characteristic* of a 21st century organisational reality will be to accept and acknowledge that the foundation for management in this era will be *knowledge-based*. Life-long corporate learning will thus be an essential corporate strategy to enable public sector agencies to create – and continuously add value. It will further also require the existence of reliable information gathering, processing and distributing systems.

Dr. Marc Wallace (2000:4), founding partner of the Centre for Workforce Effectiveness, made the interesting comment that "*(p)redictions about the 21st century call for new virtual organisations, driven by advanced technology and populated by employees who bridge barriers in time and space to work together.*" A survey conducted among 27 South African organisations in October 2000 indicated that 76% of these organisations were of the opinion that, due to the influence of virtual technology, the future workplace will need to be more flexible, knowledge-based, require less face to face interaction, emphasise more leadership by means of technology and make more use of technology to conduct education and training (Wallance, 2000:4). It can thus be concluded that the *seventh characteristic* of a 21st century corporate reality will be the acknowledgement of the *virtual* nature of the corporate set-up. The idea of working virtually has become more commonplace. People talk to strangers, exchange ideas, share thoughts, work on projects together, often across time zones and geographical boundaries (Franke, 1999: 22).

As far back as November 1971 Toffler (1971: 39) remarked, "*(a) strange new society is erupting in our midst. Its conceptions of time, space, work, religion, and sex are all incessantly changing ...*"

If one clear trend is visible to even the most casual observers, it is that successful participants in the corporate world of the 21st century will have to comply with the essence of *democracy*. Expressed in terms of corporate interaction, Gifford and Elizabeth Pinchot (1993: 72), in their book called *The End of Bureaucracy & the Rise of the Intelligent Organisation*, remarked that democracy demands the formulation of intelligent organisations that is fully participative and concentrates on self-management. In his book *The Democratic Corporation: A Radical Prescription for Recreating Corporate America and Rediscovering Success* (as analysed on the website <http://www.oup-usa.org>) Russell Ackoff identified the following aspects as elements of a democratic corporate set-up:

- A democratic hierarchy.

- Free participation by everyone in the organisation in decisions that affect their work.
- An Internal Market Economy.

The *eighth* principle that will dominate the management reality in the 21st century is the coming-about of the *democratic corporation*, which will include acceptance of the free participation of all members of the organisation in decision-making. Koch (1998: 215) explains it as follows: "*It is not enough that everyone in society has capital, knowledge, and, if they want it, a job. It is not enough that consumers have freedom of choice, or that voters can overturn governments. For society to be fully democratic, democracy must be extended to the workplace.*"

The reality of a performance-based approach to management can be identified as the *ninth* management reality of the 21st century. If present trends are anything to go by, little doubt exists that the principles of Performance Management will be a major component of management in the 21st century. In a 21st century management reality, a comprehensive approach to the style of management will be required that will enable every employee to aspire to excellence (Boyett & Conn, 1995:4). According to a *Performance Management and Development Guide* issued by the South African Department of Public Service and Administration (RSA, 1999:11) performance management refers to all those processes and systems designed to manage and develop performance at the level of the public service, specific organisations, components, teams and individuals. In its most narrow definition, it is used to refer to specific systems for managing and developing individual performance, especially performance appraisal systems.

The acknowledgement of the impact of the environment on internal management processes - and systems was one of the most profound paradigmatic shifts in public sector management and administration in recent times. In South Africa, one of the first proponents of such an approach was William Fox, who refers to an "*open system approach*" and defines it as a system that "*allows one to appreciate how the organisation and its management interact with the environment and with other organisations*" (Fox *et al.*, 1991: 10). Du Toit, *et al.* (1998: 56) provided a more comprehensive and descriptive definition of the term. They explain the concept of an "open system" as an effective organisation, characterised by flexibility and an external orientation. Such organisations strive for resource acquisition and growth and they value flexibility, responsiveness, and readiness. In light of the above-mentioned discussion, the requirement to approach public management as an *open system*, which functions in close interaction with its environment, can be identified as the *tenth* reality of management in the 21st century.

Recent subtle changes to the above-explained model have seen the introduction of the principles of *corporate management* in the public sector. Corporate governance can be defined as “the system by which business corporations are directed and controlled”. The corporate governance structures specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By so doing, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance (The Corporate Governance Encyclopaedia, <http://www.ecycogov.com>). The eleventh management reality that will characterise the 21st century is that of *corporate governance* as a basis for providing strategic direction – and control to / over public sector service rendering agencies.

The importance of corporate governance in the public sector will be to appropriately apply the principles underlying the concept to serve the purposes required to improve public sector management. Some of these are:

- To interpret terms closely associated with corporate management in an appropriate way to suit the purposes of the public sector. An example is the terminology of “shareholders” that can be interpreted in terms of “government” in a public sector idiom.
- To place “distance” between the management of public sector service rendering agencies and those authorities controlling it on behalf of the electorate.
- To base the relationship between the controlling political authorities and the management cadre of public institutions on performance contracting, rather than on formal, legislatively defined hierarchical lines of authority. In this way, the politicians will tell the managers what they expect in terms of policy proposals, but leave it to management to implement and execute these policies.

The structure according to which actual service rendering will manifest itself in the 21st century will undergo fundamental changes. Increasingly, the traditional approach that can be described as service rendering on a random basis will increasingly be replaced by a structured project management approach. Project management entails the principle whereby services are broken up into specific identifiable “projects.” Such a project has a specific point when it commences and a point when it ends. Resources are then allocated for the execution of the specific project and time-scales are set for the accomplishment of the goals of the project. Even a financial year can be treated as a “project period.”

Baird *et al.* (1990:702) defined the term "project" as plans that are either smaller in scale than programs or part of a program. This definition supports the useful approach suggested on the web site of the American Centre for Information Systems (CCTA), viz.. that a practical Programme Management approach could be instituted whereby a number of management projects are "aligned" to make up a "service rendering programme," grouping together related service rendering initiatives. This approach, as a everyday management application, is proposed by Pauline Smith (1998: 36), project management co-ordinator of BSW-Data when she explains the BSW approach, "*Project Management has become a way of life for us. BSW operates in a high tech environment which makes project management even more critical as rapid advances in ... (environmental circumstances) bring increased expectations among ... clients.*"

It can be concluded that *project management* may be regarded as a *thirteenth* management reality for the 21st century.

After all has been said and done, but one reality remains that will bear a decisive influence on the ability of public sector service rendering agencies to create and continuously add value in a 21st century organisational environment. This is the (*fourteenth*) reality, *vide.* that *leadership* remains the ultimate changeable, that will determine the success or failure of the management process. Mead (1999:214) made the informative comment that, "*(n)ever doubt that a small group of thoughtful, committed citizens can change the world. Indeed, it is the only thing that ever has.*" Crupi (2000:www.leighbureau.com) worded this reality appropriately to serve the theme of this thesis when stating that, in an industrial economy, or in the military, hierarchy works. Workers or soldiers are units that can be moved around and made to perform elemental tasks. The job of the leader in those kinds of systems was to be taskmaster. The leader was the person who knows what needs to be done and decided who would do what. People were given leadership roles because it was presumed that they knew more than anyone else. In turn, they thought their job was to tell people what to do, how to do it, and why to do it. There was a certain macho style that characterised the image of the effective leader.

However, such a hierarchical world barely exists today. The future demands that workers must be more than mechanical elements in production and leaders must be more than order givers. Today and in the future each worker will bring a set of unique skills, insight, and knowledge to the team - in some cases, much more so than the leader. The task of future leaders is to orchestrate team talents toward competitive ends and not exercise their authoritarian proclivities.

Warren Bennis (1999: <http://www.pfdf.org>), arguably the leading guru on the subject of leadership in the world identified seven criteria upon which emerging, or potential emerging leaders can be evaluated, viz.:

- Technical competency.
- People skills or the capacity to motivate and understand people.
- Conceptual abilities.
- Track record.
- Taste that has nothing to do with buds and everything to do with the ability to choose the right people.
- Judgement.
- Character.

The words of Michigan Governor John Engler (2001: www.nga.org) can be quoted to conclude the above passage. He is of the opinion that the dawning of the new century and the convergence of globalisation, technology, and deregulation has forced government leaders to ask important questions about the best way to govern. They are increasingly discovering the answers. In the 21st century, state leadership will be decisive.

3.5 CONCLUSION AND CHAPTER LINKAGE

The thesis concerns itself with public management in the 21st century. As the world has just entered this century, most of it lies in the future, and is still unknown territory. The contemporary approach towards the management of the future is known as *scenario planning*. Certain scenarios that are basically scientific predictions of the future are identified to create a perception of future conditions that should have to be managed. A method to be used in identifying such scenarios is by looking at trends that will most likely continue into the foreseeable future. Four such trends that could possibly dominate the service rendering environment of the 21st century have been identified, viz.:

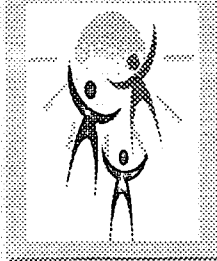
- The demise of the nation-state and the rise of the global village.
- Transformation of the global political structure from a bi-polar, through a uni-polar, towards a multi-polar system.
- A shift in the ideological framework that determines global patterns of human interaction towards a democratic capitalism and a religious inclination.
- The changing nature of the post-modern employment and job markets.

The third wave reality is characterised by smaller teams, flexibility and ability to change; reduction of overheads, and the just-in-time principle. In the third wave, principles such as flexibility, life-long learning, continuous development of abilities, and continuous creation of new opportunities are important. Third wave solutions are decentralised, de-massified, diversified, virtual organisations with distributed decision-making (Toffler & Toffler, 1995: <http://www.worldtrans.org>).

Within the scope of the above-mentioned that reflects various organisational realities of a future century, it can factually be concluded that government organisations of the future, operating in a 21st century environmental reality, would differ from that of the 19th century. Organisations of the 20th century were characterised by hierarchical lines of authority, based on inflexible rules and procedures. Public organisations of the 21st century, on the other hand, will be democratic in nature, where the pyramid nature of decision-making structures would increasingly be replaced by circular natured organisational structures. It is not a question of whether or not this will happen – it simply must happen. Bureaucratic organisations will otherwise not be able to achieve the expected results of the 21st century. It is simply too inflexible and control-driven to respond responsively to an environment characterised by sudden fluctuations.

The next Chapter will concentrate on conceptualising the requirements emanating from the demands posed by the 21st century management environment. The Chapter (4) will therefore attempt to explain the importance for government to legitimise its existence and policies by mobilising its management apparatus to optimise performance in terms of a 21st century service rendering paradigm.

- To conceptualise the terms mobility and legitimacy as prerequisites for the continuous existence of government in the 21st century.
- To conceptualise an approach to service rendering in terms of which the principles of private sector marketing management are used as tools for public service rendering in the 21st century.
- To benchmark the public service rendering process to measure service performance of public sector organisations.
- To present selective recent innovative public service rendering initiatives.



CHAPTER 4 MOBILISE PUBLIC SERVICE RENDERING TO LEGITIMISE 21ST CENTURY GOVERNMENT

4.1 INTRODUCTION AND CHAPTER OBJECTIVES

It has been argued, by way of introduction to this thesis, that the modern public sector experiences a deepening legitimacy crisis, due to its inability to meet the expectations and demands of a sophisticated, 21st century constituency. While the government sector is still trapped in outdated, archaic modes of organising and service rendering, the environment (see Chapter 2) that is supposed to determine the goalposts for public service rendering, has transformed beyond recognition. The result has been an inability of government to successfully *mobilise* its organisational infrastructure and resources, and (as a result) suffers from a widening legitimacy crisis. Within the broad context of the preceding argument, this Chapter will attempt to explain the importance for effective *mobilisation* of government service rendering in order to improve its *legitimacy*.

Following a conceptualisation of the terms mobility and *legitimacy* as inter-related prerequisites for the continuous existence of government, the first theme to be discussed, will be an analysis of the application of the principles of *marketing management*, as applied in the public sector, as a suitable method for the pro-active management of service rendering by public organisations in the 21st century.

The Chapter will attempt to suggest benchmarking the service rendering process to gain a strategic advantage in a turbulent 21st century service rendering environment. A few requirements that could be regarded as characteristic of good performance in terms of 21st century demands (if successfully met), will be identified as appropriate "benchmarks" for service rendering. In the final instance, the Chapter will present some recent service rendering initiatives throughout the world that suggest a

paradigm shift in terms of the way in which services are made available to the customers of public sector organisations – viz. the community.

Chapter objectives:

- *To conceptualise the terms mobility and legitimacy as prerequisites for the continuous existence of government in the 21st century.*
- *To conceptualise an approach to service rendering in terms of which the principles of private sector marketing management are used as tools for public service rendering in the 21st century.*
- *To benchmark the public service rendering process to measure service performance of public sector organisations.*
- *To present selective recent innovative public service rendering initiatives.*

4.2 MOBILISATION OF PUBLIC SERVICE RENDERING AS A PREREQUISITE FOR THE LEGITIMISING OF GOVERNMENT

Flathman (1993: 527) defines the concept *legitimacy* as a notion that provides governments with the "right to rule", to demand obedience from their citizens or subjects. Ranney (1990: 11) defines the term as "*the general belief of the members of a society that the government's powers to make and enforce rules are proper, lawful and entitled to obedience.*" Mobilization, on the other hand, can be defined as "*the capacity of a state to exercise influence or control over the economic and social sectors of the state to achieve desired goals*" (Verba, 1961). Bernard (1985: 253) expresses an important point when stating that the major preoccupation of newly established states is the struggle for legitimisation and mobilisation. However, this is not only relevant for newly established states. Irresponsive government services of a poor quality result in a decline in government's legitimacy.

The terms of mobilisation and legitimisation are inter-dependant; an inter-dependency which could be formulated as follows: The only way government can achieve legitimacy (the right to make binding decisions, which are generally respected by the population), is to properly fulfil its democratic mandate – which is to promote the general welfare in a sustainable manner. If this does not materialise, if government is unable to deliver quality services to the majority of its citizens, and do so in a sustainable manner, it will lose legitimacy in the eyes of the ultimate beholders of state power in a recognised democratic form of government – that is, the community-cum-voters. In this sense, the concept of *public service rendering* must be understood in its broadest context. Government delivers services to the

community in a variety of ways. One such way is direct service rendering to clients (for instance, when health services are made available to patients by means of hospital or clinical services, or building and paving public roads). Another method of service rendering is the more indirect method whereby government intervene in social activity through the manipulation of the systems and structure whereby public resources are allocated, distributed and/or controlled. One such example is government's role in determining economic policy, and (in so-doing) controlling the means of production in a country, and the distribution of utilities generated by the economic system.

The above-mentioned perspective is echoed by the *Organisation for Economic Co-operation and Development* (1987:38), when explaining that government uses various means, or policy instruments, to move from statements of intent to action. Although most of these will have a legislative basis, legislation itself is only one tool to mobilise government action. Others may include information campaigns, taxation, service provision, or public-private partnerships. Each policy instrument affects administrative relations with clients in a particular way and provides particular opportunities for responsive behaviour. Legitimacy, on the other hand, depends on the community's *perception* of government's efforts to mobilise for public service rendering.

4.3 UTILISING THE PRINCIPLES OF PRIVATE SECTOR MARKETING MANAGEMENT TO LEGITIMISE AND MOBILISE GOVERNMENT SERVICE RENDERING

This section will attempt to suggest the principles traditionally associated with private sector management as appropriate for application in a 21st century public sector service rendering environment. The ultimate aim is to ensure pro-active management of public service rendering.

Lucas (1979:4, 7) defines the marketing concept in terms of a macro and a micro point of view. From a macro perspective, the term means the integrated activities that direct an organisation design and distribution of products and goods to consumers in such a way that optimal satisfaction of the needs of the community can be achieved. This definition is obviously relevant in so far as the concept of "optimal satisfaction of the needs of the community" could be translated into a public sector idiom of "optimally promoting the general welfare".

When services are delivered to the community, public sector organisations create four basic utilities, *vide.* form, place, time and possession utility. Production (the

generation of public services by the execution of line activities) generates form utility. The other three utilities (place, time and possession) are created by means of the marketing function (Lucas, 1979: 6). The important argument about this perspective is the fact that it implies that marketing bridges the "distance" between the organisations and its customers (the community). It therefore *legitimises and mobilises* government in the eyes of the community.

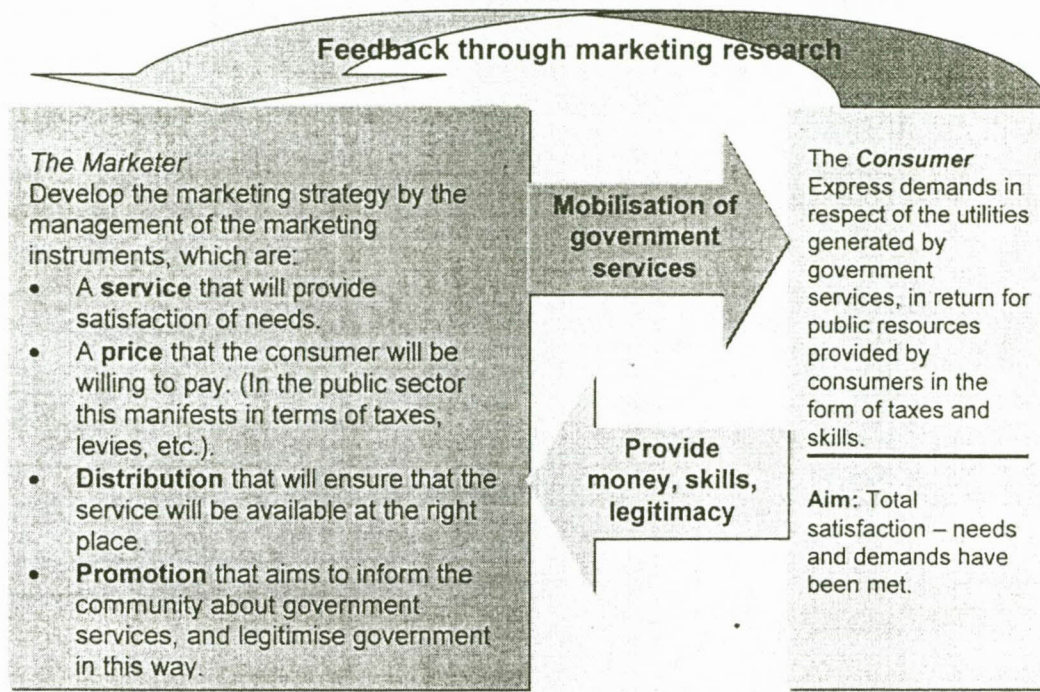
In this regard, the concepts of *legitimation* and *mobilisation* of public service rendering became extremely important. The principles of private sector marketing management, if properly applied, could contribute to the legitimisation and mobilisation of public service rendering and (ultimately) government's policy agenda. From a micro perspective, marketing is those integrated activities, which direct the generation and distribution of public services from public sector service rendering organisations to customers in such a way that the organisation could achieve its ultimate aim (which is to implement and execute its policy mandate cost-effectively [see Chapter 8]) (Derived from Lucas, 1979: 7).

Such a definition is useful in as far as it emphasises the role of the public sector organisation, and its management, in following a customer-directed corporate strategy (or strategies), and to aim its service rendering initiatives at optimising customer satisfaction.

The marketing management process can be presented as follows (Cronje *et al.*, 1989: 135):

Figure 5

The marketing mix expressed in terms of a public sector idiom



(Derived from Cronje *et al.*, 1989: 135 [comprehensively adapted to reflect the public sector perspective]).

4.3.1 ASSESSMENT OF THE APPLICABILITY OF PRIVATE SECTOR MARKETING MANAGEMENT PRINCIPLES IN THE PUBLIC SECTOR

The common problem with recent initiatives by governments around the globe to upgrade its service rendering policy and, ultimately management frameworks is the fact that it tended to add yet another layer to the public bureaucracy. Take, for example, the South African experiment. After publication of the White Paper on Transformation of Public Service rendering that has as its main aim to improve service rendering, and was built around eight principles for a minimum standards of service rendering (consultation, service standards, access, courtesy, information, openness and transparency, redress, value for money [RSA, 1997:18]), a Charter (Code of Conduct) for the public sector was designed, and the White Paper was enthusiastically distributed to departments of state. These agencies were expected to implement the prescriptions of the White Paper and provide regular feedback regarding progress made in this regard.

The result was that very little happens - least of all a noticeable improvement in the quality of service rendering. Yet another layer was added to the bureaucratic processes (in the manifestation of yet another form that supervisors and managers, already caught up in tons upon tons of bureaucratic red-tape, had to complete). They listened patiently to all the enthusiastic rhetoric about duty to serve the public, complete the form hastily (and in such a way to keep their units out of trouble), and hurry back to what they regard as their *real* jobs.

Perhaps a much more productive (and eventually cost-effective) alternative will be to establish a focused marketing unit that could spend its time and energy on service and distribution innovation, without creating yet another layer of bureaucracy. The principles of traditionally associated with private sector marketing management could usefully be applied to optimise public service rendering, improve the mobility of service rendering by public sector organisations and to legitimise government's policy agenda. Private sector marketing management provides a useful integrated approach to getting the services provided by government agencies to clients (in a timely and qualitative manner) and (simultaneously) make customers (the community) aware of such services. This not only promotes accessibility, but it also enhances legitimacy.

The adaptation of the principles of private sector marketing management will focus the attention of management in public sector organisations increasingly on the continuous design and re-design of new service portfolios, on the correct pricing of such services, on its effective distribution and on popularising these services and the attempts to reach the community (clients).

- *Public sector services ("product")*. As it is highly bureaucratized organisational and decision-making systems, public sector organisations are in the habit of clinging to outdated services (and modes of service rendering). The adaptation of a private sector marketing management philosophy could attribute to a fresh focus on the services provided by public sector organisations and the way in which these services are rendered. Public officials working with these outdated services and modes of service rendering are often aware of the existing deficiencies and have innovative solutions in mind. However, they do not regard it worthwhile to attack bureaucracy in an attempt to change things. This situation must change urgently, as it is inherently repressive to innovation. Public sector organisations must consider establishing research and development (R&D) or similar units (like a service assessment committee) to review and re-assess existing service portfolios, and recommend innovative ways of rendering optimal value on a specific public sector service rendering mandate.

- *Price.* It has already been determined that the ultimate expression of organisational performance in a public sector organisation is to optimise the cost-benefit ratio in favour of the latter concept; without neglecting of quality (see Chapter 9). An integrated marketing focus will consolidate the pricing of public services into integrated service rendering strategies. This will create a cost consciousness among organisational decision-makers. The public sector must strive to achieve optimal utility (value) for every unit of services provided.
- *Distribution.* The distribution of public services and products is generally managed very poorly as little consideration is given to it. The situation of public institutions and offices are often decided based on political considerations, rather than economic, market and/or logistical practicalities. Once an institution has been built or set-up, its existence is hardly ever questioned – it is funded year after year, even if the demographic realities in its region might have changed fundamentally. Perhaps the time has come for public sector organisations to plan the distribution of their services (or goods) more carefully and scientifically and within the scope of a broader organisational marketing strategy.
- *Promotion.* The promotion strategies of public sector organisations have, in general, been restricted to the public relations (PR) function. This function must also enjoy more attention within the broader perspective of an overall organisational marketing strategy.

4.4 BENCHMARK THE SERVICE RENDERING PROCESS TO GAIN STRATEGIC ADVANTAGE

Within the contextual framework of this discussion, the following will be regarded as essential *key performance areas* for effective service rendering. In other words, if the public service in a specific country can succeed in scoring high in respect of all, or most of these areas, it can be assumed with relative certainty that it would have a good chance of achieving the policy aims that direct and drive service rendering plans in the 21st century (Snyman, 1996: 15):

- Quality and organisational excellence.
- Accessibility and responsiveness.
- Global competitiveness.
- Sustainability.
- Accountability.

4.4.1 QUALITY AND EXCELLENCE

Quality and excellence are non-negotiable components of every serious attempt to satisfy customers and ensure sustainable addition of value as a outcome or result of the public sector management process. Luyt (1997: editor's note) made the comment that "(t)he most efficient way of getting a second party to satisfy our needs is first to satisfy theirs. This is called the **Quality Philosophy**". This quality philosophy must become part and parcel of the management culture of the public sector. The essence of this approach is that the customer must truly become the centre of management activities in the government sector. That is why it has become vitally important to adapt to the emerging view of quality, by adjusting to the dynamic expectations of customers (Prahalad & Krishnan, 1999:110). In this regard the sentiments of McDowell (1997:42–45) can be echoed, viz. that quality begins and ends with the customer.

With quality goes the concept of *excellence*. The concept essentially entails a dualistic approach of continuous self-assessment in organizational context, accompanying by continuous organisational renewal to meet the challenges of an ever-changing environment (Wildman, 1997: 50 – 51).

The problem remains that these initiatives are designed and implemented in a deeply-rooted bureaucratic framework. This reality implies that not even the renewed interest in the science of Total Quality Management in government organisations can bear the desired fruits. In a paper titled *Excellence in Government Conference – Remarks by Paul A. Volcker* (Volcker, 2002: <http://www.brook.edu>) the author shortly but authoritatively summarised the situation when remarking, "*The standard departmental organisational pyramids, now staffed with more and more political slots, and government-wide career civil service template doesn't fit the facts of the new century*".

The United State's Department of Transportation has included within its strategic plan an *Organisational Excellence Goal*. Attached to this goal are three proposed outcomes, viz. (USA, 2002: <http://stratplan.dot.gov/stratplan/cpntents.html>):

- Improve customer satisfaction.
- Improve employee satisfaction and effectiveness.
- Improve organisational performance and productivity.

The strategies to achieve this excellence are linked to all resources available to the organisation, and refer to management resources such as the following (USA, 2002: <http://stratplan.dot.gov/stratplan/cpntents.html>):

- Leadership development.
- The implementation of a department-wide customer satisfaction system.
- Service-oriented human resources policies.
- Strategies aimed at achieving optimal utilisation of technology, organisational systems and processes and to promote innovation, research and development.

This is exactly what is needed – a total, all-encompassing strategy to achieve excellence and quality in government service rendering. In an ever-increasing globalised world, second-best quality and under-par excellence means that government is losing the battle to gain the competitive advantage, and that value is destroyed – as opposed to be added or created. Customers compare services offered by government not only to those provided by the private sector, but also with those of other governments – and they are quickly dissatisfied with poor quality and “second-bests”.

Perhaps a good idea will be to follow the example of the Texas government and pilot organisational excellence surveys in order to analyse the ability of public organisations to meet the demands of its environment. Such surveys will focus primarily on the following (Texas, 2002: <http://www.utexas.edu>):

Table 6
Organisational excellence survey: Suggested components after the model of the Texas government

Dimension I Work Group	Dimension II Work setting	Dimension III Organisational Features	Dimension IV Communication	Dimension V Personal Demands
<ul style="list-style-type: none"> • Supervisor effectiveness • Fairness • Team effectiveness • Job satisfaction • Diversity 	<ul style="list-style-type: none"> • Fair play • Physical environment • Benefits • Employee Development 	<ul style="list-style-type: none"> • Change Oriented • Goal Orientated • Holographic • Strategic Quality 	<ul style="list-style-type: none"> • Internal / external availability of key communication tools 	<ul style="list-style-type: none"> • Time and stress • Burnout • Empowerment

(Source: Texas, 2002: <http://www.utexas.edu/research/cswr/survey>)

Another idea that might be pursued with more than just a bit of interest is the Australian model of *inter-organisational excellence, supported by a Total Quality Management Approach*. This approach might ideally be suited for the public sector, as it is not exposed to the same levels of competition as the private sector that

substantially limits the risks involved in implementing it. The idea is to promote inter-organisational co-operation in establishing service quality and excellence (Zhao, 2002: <http://cmqr.rmit.edu.au/publications/zinterorg.pdf>).

4.4.2 ACCESSIBILITY AND RESPONSIVENESS

Without ensuring the accessibility of government service provision points equitably to all members of society, government will never pass the test of legitimacy and mobility. The same goes for responsiveness. Government must be responsive in rendering services to the community otherwise its legitimacy will eventually be undermined. Again, the secret is to throw off the burden of bureaucracy and encourage innovative management of government service rendering. Consider the following examples from South Africa:

During the height of apartheid in South Africa, "whites-only" signs were to be found everywhere in government buildings, indicating that access to the neat and properly staffed sections of these buildings, and the services rendered there, were restricted to the white 12% of the country's population. The remaining 88% had to make use of the deteriorated, under-staffed facilities set aside for this purpose. This is a classic example of inaccessibility.

During monthly pension payouts in South Africa, old age pensioners often stand in the blazing sun for up to twelve hours, patiently waiting to receive their monthly old age pensions. From time to time some of the extreme weak and sick are dying in these queues. The Mpuluzi district in the Eastern Highveld consists of a number of villages whose residents used to travel more than 50km to places like Amsterdam and Ermelo to access Government facilities (Sowetan, 2001: 22). This took place in 2002 – eight years after the first democratic elections and these are examples of extreme inaccessibility.

A columnist for a local South African newspaper, the "*Business Day*", wrote an article on 11 January 1999 where he analysed services at a number of government departments he had visited the preceding week. His attention was primarily on the Department of Home Affairs, and his aim to get some kind of licence. His general conclusion was that the staffs were friendly and efficient, but that the number of staff available for service rendering was too few for the quantity demanded. He then continued to evaluate possible reasons for, and solutions to the problem – which basically boils down to a choice between inadequate budget allocations or inefficient management. His suggested solution is the introduction of a system where performance is being rewarded, rather than addressing shortcomings (Friedman, 1999: 7).

The suggested solution undoubtedly has merit and in line with contemporary service rendering transformation implemented by the South Africa government. However, within the broader context of the underlying paradigm shifts to be presented in this study, it is doubtful whether such a solution would be able to solve the problem. As stated in the first two chapters, the solution is not and can never be, to amend or refine bureaucracy, but to get rid of it all together. Except where specific politically clouded policy-aims are involved, such as in the instance of the apartheid system, characterised by statutory-enforced inaccessibility, the problem of inaccessibility at its core is classically bureaucratic in nature. As an example; queuing; and this has only one of two origins; either too few competent staff members are available to handle the number of clients awaiting service, or the red tape involved in "properly executing" the tasks involved in serving a specific unit (one client) is too much and time-consuming. Mostly it will be a combination of these two factors.

As soon as the architects of the systems and processes of service rendering can get themselves to think, and eventually act, outside the boundaries of comfort bureaucratic dogmas, they will realise that the solution is quite simple, although it demands a shift in the power-focused thinking patterns of the past. The solution is to forget about trying out "fancy" and complicated attempts to transform the bureaucratic system artificially in order to "streamline" it in a fatal attempt to force the required responsiveness and efficiency from it. Rather than developing a cumbersome, clumsy process of trying to set endless goals and objectives for every conceivable structure and unit of the department, it will be better to concentrate on the *core functions* and build a simple performance evaluation system around these.

It will *not* be a core function of the Department of Home Affairs to operate licensing offices. It *will* be its responsibility (core function) to see to it that licences are issued, but not to run the service points where these licences are being issued. Within the context of this study, the suggestion will be that the Department of Home Affairs must outsource the function of the issuance of licenses to a company whose core function will be to operate such service points, or use public-private (or public-public) partnerships for this purpose. Performance standards should be built into the contract, which may stipulate, among others, that queuing beyond ten minutes (or any realistic target) by any member of the Department's clientele, would constitute a breach of the contract's specifications. Do not blow up the need for "proper record-keeping" because these records will be needed for future decision-making and for control purposes. Simply make requirements in this regard other key performance criterion in the contract between the department and the service provider.

In a paper titled *Decentralisation and Its Implications For Urban Service rendering* Dillinger (Worldbank, 1994: <http://worldbank.org>), after analysing the problem of responsiveness in service rendering to urban areas in developing countries, came to the conclusion that out of 75 countries with a population of more than five million, all but twelve (12) claim to have embarked on some form of transfer of political power to local units of government. However, the objectives of this action (decentralisation) as it is observed in practice, appear only slightly related to administrative performance. What is required is a carefully designed initiative aimed at decentralising and even devolving authority and service provision responsibility to local units of government, empowering them to respond pro-actively to changes in the local environment.

In a comprehensive report issued by the Controller and Auditor-General of New Zealand, the following *best practices* were identified in respect of a number of key performance areas (indicating the responsiveness of government agencies to their clients) (New Zealand, 1999: <http://www.oag.govt.nz>):

Table 7

Best practices for responsiveness in service rendering to ensure excellence

BEST PRACTICE CRITERIA FOR (A CLIENT-FOCUSED ORGANISATION WILL --)	
<p>1. MAKING CLIENT SERVICE A PRIORITY</p> <ul style="list-style-type: none"> • Make client service a key goal, and display a clear commitment to service in its corporate strategy and accountability documents. • Ensure that planning, structural and resourcing decisions are directed to improving client service. • Ensure that choices about public spending explicitly take account of the impact of services provided to clients. 	<p>2. UNDERSTANDING THE CLIENT</p> <ul style="list-style-type: none"> • Execute market research and foster relationships with interested parties to find out who its existing and prospective clients are and their particular needs and preferences. • Use its market information to design an explicit client service strategy. • Identify local needs so that appropriate services can be provided. • Use client profiles to introduce new services to meet emerging or unmet needs.
<p>3. PROVIDING ACCESS TO SERVICES</p> <ul style="list-style-type: none"> • Have an explicit policy governing access by all potential clients to its services. • Actively seek opportunities to enhance access for groups whose needs may not be well met through existing service rendering methods or who face potential access barriers, using innovative options where appropriate. • Make it easy for clients to do business, offering a choice of service channels and (wherever possible) providing customised service channels. • Consider ways to improve access by taking 	<p>4. DELIVERING THE SERVICE</p> <ul style="list-style-type: none"> • Recognise the importance of reliability to the client – by means of business continuity and contingency plans and careful management of dependency relationships with external parties. • Design public relations and education programmes to make clients aware of their obligations and foster co-operation and voluntary compliance. • Treat client information with respect and ensure its security by having policies and procedures to guide employees in handling information.

<p>advantage of technology such as the Internet and call centres.</p> <ul style="list-style-type: none"> • Promote its services to the public, telling the public about itself and about its services. • Seek opportunities for clients to participate directly in the design of services. • Build partnerships to accomplish shared service goals and as the basis for new services. • Publish information that is understandable and easy to use. • Inform and, where possible consult relevant segments of the client population, or organisations familiar with these clients, about planned changes in the way services will be provided. 	<ul style="list-style-type: none"> • Design service centres with the needs of the client in mind. • Be willing to make special efforts to respond to the need of clients.
<p>5. RESOURCING SERVICE PROVISION</p>	<p>6. JUDGING SERVICE PERFORMANCE</p>
<ul style="list-style-type: none"> • Make quality management the basis for achieving service excellence. • Recognise that skilled and motivated staff and sound business processes are the key to service excellence. • Make client service a key competency for staff, provide the necessary training, and develop incentives to encourage staff to meet client-oriented goals. • Foster a client-focused culture. • Ensure that staff have the necessary guidance and tools to do the job. • Implement the necessary resource planning and management processes to ensure that it can meet its service objectives. • Implement quality control to ensure that processes are followed consistently. 	<ul style="list-style-type: none"> • Have service standards that encompass all aspects of service important to its clients – drawing on consideration of all possible causes of service failure from the viewpoint of the client. • Measure those aspects of service that matter most to the client, using a mix of quantitative and qualitative measures. • Have service standards for business units delivering different types of services to different client groups. • Use a range of client satisfaction tools to test whether expectations are met in practice. • Be aware that resolving problems is a vital aspect of service quality. • Invite clients to comment on, and (where appropriate) complain about, the quality of services they receive, and make it easy for clients to do so.
<p>7. REPORTING SERVICE PERFORMANCE</p>	<p>8. SEEKING CONTINUOUS IMPROVEMENT</p>
<ul style="list-style-type: none"> • Report internally on the achievement of business objectives relevant to the delivery of services. • Report externally on performance against all aspects of service which are important to clients and other external parties. 	<ul style="list-style-type: none"> • Systematically seek opportunities to improve service. • Identify the potential to improve work processes that have an influence on services provided. • Use service “champions” to lead and promote continuous improvement. • Seek opportunities to learn from benchmarking studies of comparable organisations or processes. • Build on-going relationships with external stakeholders as a means of obtaining valuable feedback on service awareness and quality. • Recognise that community groups can

	provide valuable representation for clients, and are a valuable source of information about how its services are being perceived.
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(Source: New Zealand, 1999: <http://www.oag.govt.nz>)

4.4.3 GLOBAL COMPETITIVENESS

"No man's an island", says the English proverb and In the modern communication and transportation reality characterising the 21st century landscape, neither is any country. In a world-order characterized by increased globalisation, one of the key prerequisites for sustainable value creation for a country is to be globally competitive. Nations are increasingly competing for scarce and limited global resources. The resources of the 21st century, such as specialized knowledge, will even be more limited and scarcer than that of the 20th century. According to Porter (1990; as quoted from Thompson, 1993: 222 – 224) four key factors, emphasize the importance of interrelationship and interdependence between the prerequisites for global competitiveness exists, viz.:

- *Factor conditions*, for instance, the availability of skilled labour. Specialized and skilled labour provides an essential resource required for sustained investment. A generally well-educated workforce is not necessarily a source of long-term advantage, but particular specialized skills may well be – therefore the emphasis on specialised expertise.
- *Demand conditions*, especially in the home market. International competitiveness tends to increase the importance of the domestic market. A demanding clientele at home will often force firms to be innovative if they are to be successful – and this provides the basis for sustainable international competitiveness. If the nation's culture and values are also being exported, as has been the case with particular aspects of American culture to Europe, the advantage is re-enforced. In an increasingly competitive and open economic environment, it is government's responsibility to govern demand conditions carefully, with reference to manipulating or regulating the interaction between domestic and foreign markets.
- *Related and supporting industries*, that are in themselves internationally competitive. This ensures immediate access to the raw materials and skills necessary to create advantage by either low costs or differentiation. The close proximity of related industries can ensure a quicker response to market trends and changes, and facilitate rapid innovation. At the same time suppliers should

not be locked in exclusivity to service providers and producers should be free to resource abroad if necessary or appropriate.

Government organisations are increasingly finding themselves "in competition" with private sector industries to obtain scarce knowledge and related resources that enable it to gain and maintain a competitive advantage. In order for the government sector to have any hope of fulfilling its comprehensive and exhausting mandate in a knowledge-driven age, it is not only necessary, but indeed unavoidable for this sector to obtain the required quantity and quality of resources that will enable it strategically to be competitive. The sad reality is that the government sector will never achieve this as long as it clings to the outdated power-centred bureaucratic organisational model currently characterising the sector.

- *Firm strategy, structure and rivalry in the domestic market.* No single universal management style that guarantees competitive success exists. However, it is useful for a country to develop its own, unique "trade-mark" and concentrate on this to obtain a competitive advantage on the global stage. Examples may be the perception of America to be "bigger and better", "German excellence", and Japanese "cost-efficiency".

In light of the above-mentioned, the question can be asked how a country, especially a developing country, could gear itself to become internally competitive. The Institute for Management Development, a Swiss-based institute that compiles the annual World Competitiveness Yearbook, provides the following guidelines (Van Eeden, 2001: 39):

- The existence of a stable and predictable legislative environment.
- A flexible and elastic economic structure.
- Investment in traditional and technological infrastructure.
- Encouragement of a savings – oriented internal investment culture.
- Aggressiveness on international markets and an attractive investment destination for foreign investors.
- Quality, speed and transparency in the government and the administration.
- Maintenance of a healthy ratio between salary levels, productivity and taxation.
- Maintenance of a social structure by reducing salary discrepancies between salary earnings and by strengthening the middle class.
- Serious investment in education, especially on secondary level and in the life-long training of the labour market.

- Maintenance of a balance between wealth creation, social interaction and value systems.

Maybe a lesson can also be learned from the "best practices for global competitiveness" identified for multi-national companies. These are as follows (ASME, 1996 – 2001: <http://www.asme.org>):

- Innovation: formal and informal processes for discovering and applying new business ideas from traditional and non-traditional avenues.
- Alliances: Develop and maintain collaborative business efforts that have risks and benefit all participating parties.
- Stakeholder Symbiosis: An emerging concept that recognises that all stakeholders are dependent upon each other for their success and economic well-being.

4.4.4 SUSTAINABILITY

The process of continuously creating or adding value must be sustainable. From a public policy or development-oriented approach, the concept of sustainability can be summarized as follows:

Development policies are public policies that have as its main objective to improve the quality of life of all citizens. The term does not only include the availability of sufficient finances to provide the services needed, but also the overall capacity of an organisation to deliver the required services and adapt to changing circumstances over an extended period of time (Cloete, 1999:313–314). Sustainability is multi-faceted, composing of the following main characteristics (Cloete, 1999: 314):

- *Political sustainability*, that refers to durable, effective political commitment and support founded on legitimate, democratic processes.
- *Institutional sustainability*, that refers to the establishment of durable, effective and efficient institutions which have a good record of achieving strategic policy objectives and of learning from past failures and successes.
- *Managerial sustainability*, that refers to a strong and committed leadership, clear and unambiguous strategic policy objectives, a broad-based consensus about these objectives, effective strategic and operational policy implementation, which entail co-ordination, monitoring, assessment, review and redesign processes.

In conference material developed for a Conference dealing with the implications of the King II Report on Corporate Governance, held on 10 September 2002 in Pretoria (IPFA, 2002), the statement is made that "(i)n a corporate context, 'sustainability'

means that each enterprise must balance the need for long-term viability and prosperity – of the enterprise itself and the societies and environment upon which it relies for its ability to generate economic value – with the requirement for short-term competitiveness and financial gain”.

The sentiments expressed in a press release issued as part of the Johannesburg Conference on Sustainable Development held in South Africa in August 2002 provides a good indication of the contents and complexity of sustainable development as a focused government policy: *“Far from being a burden, sustainable development is an exceptional opportunity – economically, to build markets and create jobs; socially, to bring people in from the margins; and politically, to reduce tensions over resources that could lead to violence and to give every man and woman a voice, and a choice, in deciding their own future”* (United Nations, 2002: [http: www.un.org](http://www.un.org)).

Without meaningful, sustained development (adding or creating value to society) service rendering will be a fruitless yet expensive exercise.

4.4.5 ACCOUNTABILITY

Accountability – the requirement placed upon government agencies to give account to voters and their representatives regarding the way in which services have been delivered, and the affect of these efforts on the lives of ordinary citizens, will enjoy attention in Chapter 5, and will not be discussed in more detail at this stage. Please refer to paragraph 5.4.

4.5 CONTEMPORARY RESPONSES TO THE CHALLENGES OF SERVICE RENDERING RENEWAL

It will be useful to familiarise the reader with some of the most visible contemporary attempts to improve service rendering. Before doing so, it must be emphasised that the critique that can be brought against these initiatives is that it is implemented within a bureaucratic framework.

4.5.1 INTERNATIONAL EXPERIENCES IN SERVICE PROVISION INNOVATION

Reform of the government sector, and the way in which it reaches its clients has become an international phenomenon in the recent past. A number of tangible service rendering initiatives have emerged from these efforts that were all aimed at

ensuring greater access and a general improvement in the responsiveness of government agencies. Some of the most noticeable of these initiatives will be discussed.

4.5.1.1 The "One Stop" Initiative

The concept of one-stop service centres is built around the idea of identifying specific service centres where a variety of government services are rendered in one facility. These could include *inter alia* the issuing of identification documents, health care and registration of births and death, and so forth.

The state of Texas in the United States of America has embarked on an ambitious plan to fully integrate more than 20 distinct workforce development programmes under one administrative roof, the Texas Workforce Commission. This reorganization has entailed massive state-level organisational change and has contributed to the rapid pace of programme integration at local one-stop "Career Centres." Fundamental to state-wide efforts has been a strategic vision for a stateside system of Career Centres in which customers can conveniently access information and services tailored to their specific needs (USA, Texas, 1996: <http://www.icesa.org>).

The state's *one-stop* mission is to place Texans in jobs and equip workers with the skills that foster economic growth. Stated system-level goals include the development of (USA, Texas, 1996: <http://www.icesa.org>):

- State-wide system of local workforce development centres where all clients and employers can conveniently access a network of information and services responsive to their individual needs, and
- State and local strategic planning, evaluation, and accountability system for the state's workforce development programmes and activities.

The concept of one-stop service centres that provides a range of public services integrated in one centre has since also spread to other countries.

4.4.1.2 Service provision reform in California

Recent service rendering reform in California, U.S.A. was the result of the activities of a comprehensive review of the community-based service rendering system conducted by the state's Department of Developmental Services. This review commenced in 1998. The committee driving this project took the following into account (USA, California, 2001: 1 – 4):

- Firstly identified the need for a common agreement on the underlying values and principles that would focus the reform efforts,
- Next, the committee identified the consumer and family outcomes that the community service provision should support.
- Using the *values and principles* and *personal outcomes* as a foundation, the Committee developed recommended strategies to support achieving consumer and family outcomes.
- To address the questions of how they are doing, what works and how they can continue to do better, a *Quality Enhancement* proposal has been identified.
- To measure progress with the implementation of the quality enhancement proposal; *performance measurement* tools were developed. These tools identify data types/sources and data collection methodologies to measure the effectiveness of the service rendering system in achieving the personal outcomes for the community and families.
- Finally, the committee recommended a *personnel model* to enhance the skills, knowledge and abilities of officials responsible for service rendering in order to optimise the outcomes of service provision initiatives.

4.4.1.3 Service rendering initiatives of the Ontario Government

The following examples of innovative service rendering solutions in the Ontario government can be quoted (Ontario, 1998: <http://www.gov.on.ca>):

- *Service Ontario*: a strategy to provide routine government information and services to the public in a convenient and user-friendly way. The ultimate goal is to have driver and vehicle licences, outdoor cards, health cards and general enquiry responses provided by multiple channels including kiosks, telephone, the Internet, mail and over-the-counter.
- *Ontario Business Connects*: a strategy for delivering business services – such as unincorporated business names and implementation of the Employer Health Tax, Retail Sales Tax and Workplace Safety and Insurance Board applications – through multiple channels, including self-help workstations in locations like public libraries and land registry offices.
- *Regional Restructuring*: an initiative to consolidate offices of various ministries at the regional level to provide provincial government information and specialised services to Ontario communities. This vision can only be achieved by using

information technology to link information resources between many ministries and communities across the province.

- *Land Information Ontario*: a project to provide accessible, affordable and integrated land information based on standardised provincial, municipal, federal and industry data by means of walk-in centres, the Internet, telephone and mail.
- *Smart System for Health*: an integrated system of computers, databases and telecommunications networks to provide access to an organised set of patient information and link consumers, health care professionals, hospitals and other stakeholders.
- *Automating Social Assistance*: a strategy to provide tools for social assistance to case workers to access information while interacting with clients in the field, based on an automated network linking all municipal and provincial social assistance officers.
- *Integrated Justice*: a project to link electronically all components of the justice system, including the bench, the bar, police, crown attorneys, probation and parolee staff. This greatly reduced paperwork for the participants and facilitated communication across the sector. Instant access to, and sharing of, up-to-date information will allow the justice system to operate more effectively.
- *Mobile Communications*: a project to consolidate mobile communications for various ministries and create a common, province-wide mobile digital communications system for the OPS and its key broader public sector partners.

The above-mentioned are but also a few examples of service-rendering that are worth studying with a view to the implementation in various countries in order to ensure greater accessibility to government services, improved quality and generally to comply better with the key performance areas of effective service rendering.

4.5.2 AFRICAN INITIATIVES

If there is one Continent that desperately needs to get its act together, stop its destructive appetite for power-centred government systems and implement management systems in their (usually loaded) government sectors that would truly be able to respond pro-actively to enormously turbulent environments, it is the African continent. The dominant initiatives on the African continent in recent times that have dominated the broad policy agenda for sustainable development were the African Union and the New Partnership for Africa's Development (NEPAD).

The birth of the African Union (AU) goes hand-in-hand with the launch of NEPAD and the implementation of the Conference on Security, Stability, Development and Co-operation in Africa (CSSDCA) initiative. The African Union replaced the Organisation for African Unity (OAU) (RSA, 2002: <http://www.au2002.goc.za>).

NEPAD originates from the philosophical brain-child of the South African President, Mr Thabo Mbeki, referred to as the *African Renaissance*. It was preceded by the so-called *New African Initiative*, a merger between two of the most ambitious development plans to emerge from Africa in the recent past; the Millennium Partnership for the African Recovery Programme and the Omega Plan (RSA, 2002: 11). The underlying philosophical pillars of the African Renaissance were a combination of forces: the vigour of African society, an increased democratic African policy, and the goodwill and urgently needed financial support of Africa's supporters in the world community (Roodt, 2000: 54).

The NEPAD initiatives are, among others (NEPAD, 2002: <http://www.nepad.org>):

- A vision and programme of action for the redevelopment of the African continent.
- A comprehensive integrated development plan that addresses key social, economic and political priorities in a coherent and balanced manner.
- A commitment made by African leaders to African people and the international community to place Africa on a path of sustainable growth.
- A framework for new partnerships with the rest of the world.

In the Preamble to the initiative's *Declaration on Democracy, Political, Economic and Corporate Governance*, the leaders of the African continent committed themselves to the shared desire to eradicate poverty and to place African countries, individually and collectively, on a path of sustainable growth and development (NEPAD, 2002: http://uneca.org/eca_resources). Priority sectors within the NEPAD initiative are (NEPAD, 2002: <http://www.nepad.org/>):

- Peace, security, democracy and political governance.
- Economic and corporate governance.
- Infrastructure development.
- Central banks, an African Development Bank and financial structure.
- Market access and agriculture.
- Debt reduction and direct foreign investment.

4.4.2.1 The South African response: Batho Pele (White Paper on Transforming Public Service rendering)

The White Paper on Transforming Public Service rendering in South Africa (RSA, 1997: 9) is one of a long list of policy statements issued since 1994 to guide the transformation of the South African public service and society in general, in line with the new government's vision. The document states from the outset that "a transformed South Africa public service will be judged by one criterion above all: its effectiveness in delivering services which meet the basic needs of all South African citizens".

Although the document states that its aim is to provide a policy framework and a practical implementation strategy for the transformation of public service rendering (RSA, DPSA, 1997:9) very little of it is visible in terms of a rise in the quality of service rendering, which (according to the author of this thesis) emphasizes *the* single greatest liability for the post-1994 South African government, viz. the fact that it is strong on planning and policy-making, but its state apparatus is poor on implementation and provision.

The White Paper on Transforming Public Service rendering is based on eight principles, viz. (RSA, 1997:18):

- *Consultation.* Citizens should be consulted about the level and quality of the public services they receive and, wherever possible, should be given a choice about the services they are offered.
- *Service standards.* Citizens should be told what level and quality of public services they would receive so that they are aware of what to expect.
- *Access.* All citizens should have equal access to the services to which they are entitled.
- *Courtesy.* Citizens should be treated with courtesy and consideration.
- *Information.* Citizens should be given full, accurate information about the public service they are entitled to receive.
- *Openness and transparency.* Citizens should be told how national and provincial departments are run, how much they cost and who is in charge.
- *Redress.* If the promised standard of service is not rendered, citizens should be offered an apology, a full explanation and a speedy and effective remedy; and when complaints are made, citizens should receive a sympathetic, positive response.
- *Value for money.* Public services should be provided economically and efficiently in order to give citizens the best possible value for money.

4.5.3 GOVERNMENT SERVICES AT THE TOUCH OF A BUTTON

E-government is about providing services to a country's citizens online. The phenomenon represents a trend that is growing throughout the world. Most governments have Internet web sites available where a wide range of information regarding that specific government's main services can be obtained. In some instances services are also provided in this manner (Gordon, 2002:42–43).

At present, most interaction with government services is in the format of face-to-face contact with government officials. However, with the introduction of e-governance, the motto will be electronic access to services and documents around the clock, anytime, everywhere. With the implementation of e-government, a self-help situation occurs. When a person wishes to apply for a passport, he or she goes on the Internet and instead of standing in a long queue during official office hours, without the process going through a long red-tape procedure. Imagine, for instance, a situation where municipal bills are being delivered electronically and paid in a similar fashion (Gordon, 2002:42). E-government initiatives will eventually offer citizens and businesses the opportunity to interact and conduct business with government in a seamless and integrated way by using the electronic media such as telephones, touch-pads, faxes and smart cards for data interaction (Gordon, 2002:43).

By 1999 the Dutch public sector was already in a position to utilise information technology in a variety of electronic-based service rendering initiatives (Bekkers & Zouridis, 1999: 187 – 188):

- Electronic handling of student scholarships.
- A system called RINIS has been developed, which is a network with standardised data definitions and procedures that enable an agency to retrieve information from other agencies. It functions as a broker or a go-between. If one organisation that functions in the area of social security needs information on a specific client, it retrieves this information through the RINIS system.
- The EZ shop (<http://info.minex.nl>) was a project of the Dutch Department of Economic Affairs that entails a hypertext application that can be accessed via the Internet. By means of this technology, the Department is able to inform the public and to distribute its information among its target groups. The shop offers summaries of policy documents that are disclosed through a system of key words.
- Digital discussions on the Internet, offered by the Department of the Interior. Information and policy documents are made available via this facility, but clients

of the department are also encouraged to communicate to officials by Internet services.

- A variety of Dutch municipalities have linked their data-bases, containing particulars of citizens who qualify for financial assistance because they found themselves in a socially and economically deprived position. This has substantially increased the ability of these agencies to improve their tracking and record-keeping systems, and upgrade the quality of services offered to the community.

One definite foreseen advantage of the move towards e-governance is that it will move the world in the direction of a more meaningful and direct democracy, where people will theoretically be able to vote on whatever hot-button issue they see on the news, or is of concern to their community (Von Hoffman, 1999:5–6).

An interesting example illustrating the influence of e-government on service provision can be cited by referring to the example of the city of Indianapolis. The introduction of competition into city services has revitalised the city, produce savings that resulted in a major property tax cuts and a \$1,1 billion renewal of infrastructure. The competitive system requires government to focus on results instead of processes, allowing innovations and more efficient provision arrangements. E-government, the use of technology to provide public services, is a logic extension of the output-oriented model. Technology will improve service and reduce operating cost in the 21st century government (Frontier, 2001: <http://www.infocornow.com>).

4.5.4 ALTERNATIVE METHODS OF SERVICE RENDERING

The post-modern service rendering environment, and the requirements set by the demands put on government agencies to satisfy the ever-growing needs of the population, has put the 20th century ideal of service provision solely by public organisation beyond the reach (ability) of the public service. Sticking to this old-fashioned way of meeting the basic needs of citizens only results in the establishment of a massive, uncontrollable bureaucratic system. It is this reality that has forced governments all over the world to consider alternative ways of service provision that normally involves some kind of partnership with the private sector. In this regard various alternatives have been identified, among others:

- *Privatisation*. In simple terms the concept "privatisation" refers to the transfer of public property and service rendering responsibilities to the private sector. Margaret Thatcher has proven to the world that it could work. The privatisation movement represents a counterforce to the long-run tendency to expand the

scope of social goods. Based on free-market economic theory, privatisation supports transferring many government assets or programmes to the private sector and contracting with private companies to manage many public services, whether the collection of garbage or the operation of prisons (Anderson, 1994: 18). However, privatisation is also an extremely controversial policy issue, especially in countries where the governing party's ideology has strong roots in the socialist ideology. Jan Steyn (1990: 49) puts it as follows: " ... (T)he process of moving from public to private ownership is often misunderstood and is fraught with potential conflict."

- *Public-Private Partnerships (PPPs) and Service Partnerships.* According to a manual on PPPs, issued by the South African Treasury, "(a) PPP is a contractual arrangement whereby a private party performs part of a department's service rendering or administrative functions and assumes the associated risks. In return, the private party receives a fee according to predefined performance criteria, which may be (1) entirely from service tariffs or user charges, (2) entirely from a departmental or other budget, or (3) a combination of the above" (RSA, National Treasury, 2000:1).

A direct extension of the idea of public-private partnerships is found in the White Paper on Municipal Services Partnerships, where municipal authorities in South Africa would make use of strategic partnerships with the private sector to render certain selective services on their behalf (RSA, Department of Provincial and Local Government, 2000:3).

- *Outsourcing.* Outsourcing refers to the contracting-out of certain government functions to be performed by private sector organisations. The privatisation trend in the U.S.A. in the late 1980s was eventually replaced with less rigorous forms of privatisation – such as outsourcing (De Looff, 1996: <http://www.acs.org.au>). The outsourcing of government activities is justified primarily on grounds of likely or expected cost savings (Johnstone, 1998: <http://www.bham.ac.uk>).

Without going into too much detail, the following table provide a broad overview of the range of service-delivery options that may be considered as alternatives to the known bureaucratic service rendering practices:

Table 8

Towards efficiency (business options available to rescue public sector authorities from their service rendering nightmares)

TOWARDS EFFICIENCY
Business options available to rescue public sector authorities from their

service rendering nightmares
Full privatisation A public service rendering agency sells off a service asset (for example garbage disposal) to a private firm.
Concession: A private firm runs a "public" service, financing investments and work capital. The assets revert to the government on expiration of the contract.
Build-own-operate-transfer (boot): A form of concession. A private firm constructs and runs new, stand-alone facilities that revert to the government on expiry of the contract.
Lease (affirmage): A private firm rents service facilities from government and is responsible for operation, maintenance and work capital. Fixed assets remain the responsibility of government.
Delegated management: A private firm rents service facilities from government and is responsible for operation, maintenance and working capital. Fixed assets remain the responsibility of government.
Service contract: Government pays a private firm to execute specific operational activities, such as meter reading, billing and collection.
Corporatisation: Government forms a separate legal corporation to manage service rendering.
Debt issuance: Government issues bonds to raise capital directly from private investors for capital costs of building or expanding service infrastructure.
Public-Public Partnerships: A specific service rendering agency enters into an agreement with another public service rendering agency.

(Source: Honey, 1998: 36)

4.5 CONCLUSION AND CHAPTER LINKAGE

This Chapter exposed the importance of service rendering in the promotion of the general welfare – to mobilise the public sector with a view of legitimising government. It has been reasoned that the way in which value is created or added is by regarding it as the end-result of the management process, which is as the *outcome* component of the management process. This process must result in *sustainable* improvement in the lives of ordinary citizens, and that this process must be sustainable.

The first issue that enjoyed attention was the recommendation that public sector organisations could learn from considering the principles of private sector marketing management as an appropriate model for the design of an integrated service rendering management strategy. It was also argued that the ultimate test of whether or not service rendering makes a meaningful contribution towards value creation was dependent on the results of a bench-marking approach, with the following that could

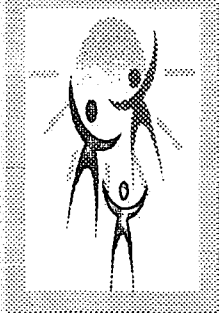
be identified as key performance areas that must be achieved before mention can be made of sustainability in value creation:

- Quality and excellence.
- Accessibility.
- Responsiveness.
- Global competitiveness.
- Sustainability.
- Accountability.

The Chapter was concluded with reference to selective service rendering initiatives aimed at improving the lives of ordinary citizens in various countries of the world.

The next Chapter will attempt to promote and rationalise a paradigm shift in the way in which government power is allocated, utilised and controlled. More specifically, it will contain recommendations on how best government executive agencies, functioning in the 21st century, could be controlled and governed to ensure that they comply with the demands and realities of a knowledge-intensive 21st century environmental, management and organisational reality.

- To conceptualise the "social contract" by referring to government power in its manifestation as a 21st century public sector corporate phenomenon.
- To present the principles of corporate governance as an appropriate model to formalise the relationship between government and its executive agencies in a 21st century context.



CHAPTER 5 STRATEGIC DIRECTION AND CONTROL: GOVERNMENT POWER AND ITS APPLICATION IN A 21ST CENTURY CONTEXT

5.1 INTRODUCTION AND CHAPTER OBJECTIVES

Government must govern on behalf of its citizens. As democracy sweeps the globe, and increasingly becomes a universal requirement for membership of the international community of statehood, this principle is gaining in prominence all the time. If it is true, the natural conclusion is that government exists for the good of its citizens. This implies that government has a *responsibility* to improve the living conditions of its citizens, and do so in a sustainable manner; that is, the process of improving the conditions of *all* citizens must be *sustained* in order for its to manifest in meaningful development. It all boils down to the principle that government's ultimate responsibility (its ultimate *mandate*) is to promote the general welfare; and do so in a sustainable manner.

Government performs then above-mentioned function by using the power of state to its disposal to intervene in the lives of its citizens. This translates into the reality that government constantly intervenes in its environment.

The governance of organisations, both private and public, has enjoyed comprehensive attention in the recent past. The obligations of those bodies that represent the owners of organisations must provide strategic direction to the activities of those organisations, and not only protect the interests of those owners. This phenomenon, regarding the relationship between owners and managers of an organisation, has become known as *corporate governance*.

Regardless of whether an organisation functions in the public or private domain, the underlying principle that rationalises the application of the principles of corporate

manage organisations on their behalf, with the sole intention that these managers must optimise the returns on their investment; that is, to maximise the benefits gained from the resources made available to the managers for value creating activities.

In democratic societies, the "owners" of public organisations are the community-cum-voters. They elect representatives to create value on their behalf through the processes of public policy-making. These policies must then be executed or put into practice by the management agencies of the public sector; in other words public organisation. Political representatives are appointed, or elected, to oversee the activities of public agencies, traditionally; this principle manifested itself in terms of so-called ministerial control.

The argument that will be put forward in this Chapter is that value-creation through public management activities started with the corporate (or political) governance of public organisations. It will furthermore be argued that the present tendency to apply principles traditionally associated with the private sector notion of corporate governance in the public sector is appropriate and commendable and must be encouraged as an suitable way of formalising the relationship between public sector "governors" and public managers. This Chapter will commence with a general re-assessment of the "social contract" theory – the philosophical principle in terms of which government deploys and utilises its overwhelming power to promote the general welfare.

Chapter objectives:

- *To conceptualise the "social contract" by referring to government power in its manifestation as a 21st century public sector corporate phenomenon.*
- *To present the principles of corporate governance as an appropriate model to formalise the relationship between government and its executive agencies in a 21st century context.*

5.2 CONCEPTUALISE THE "SOCIAL CONTRACT": GOVERNMENT POWER AND ITS MANIFESTATION IN A 21ST CENTURY CONTEXT

The concept of "the social contract" is a complex philosophical one that has his origin in the ideas of Jean-Jacques Rousseau, the 18th century French philosopher. The philosophy basically entails the view, "... that morality is founded solely on uniform social agreements that serve the best interests of those who make the agreement" (Internet Encyclopaedia of Philosophy, 2003: <http://www.utm.edu>). As a philosophical

concept, it entails the principle that every person functions as part of a bigger unity, where he or she finds safety and discipline in a republic, or constitutional body (Strauss, 1987: 283). If the concept is "de-philosophised" to serve the purposes of this Chapter, it could be "de-philosophised" by defining it as the arrangements whereby government obtains its "right", or power, to govern from the population (community), who (as "counter-performance") must use this power in such a way that it serves the source from which it originates, which is the community-cum-citizens.

5.2.1 "GOVERNMENT POWER"

Government power originates from its responsibility to render services and goods to its citizens. In order for government to perform its functions, it must exercise power. One undeniable truth exists about government power – it might be undesirable, but it is unavoidable. Undesirable because government power always intervenes in the personal freedom of individuals and/or groups in society; unavoidable, because, without power government is just another social institution and does not have any means of enforcing its will to obtain resources and the means to execute its basic functions.

The most legitimate and valid source to derive a definition of the term *government power* from is the *administrative law*. From this perspective Beukes *et al.* (1992:10) define the concept as the interacted whole of competencies allocated by the state to its organs that enables such organs to enter into legal relationships with other legal subjects, to enforce its decisions, to add or change the contents of an existing legal relationship, or to terminate an existing legal relationship. The authority of state organs to one-sidedly enforce its decisions in an unequal legal relationship is the most prominent expression of state power.

Government power is the ultimate determinant that separates government from other social institutions. The obvious danger associated with the all-encompassing nature of government power has motivated modern democratic countries worldwide to adapt arrangements to limit it. The most common measure for this, was a constitution – either written or unwritten.

5.2.1.1 Constitutionalism

Constitutionalism is the idea, often associated with the political theories of John Locke and the "founders" of the American republic, that government can and should legally be limited in its powers and that its authority depends on it observing these limitations (Waluchow, 2001:<http://plato.stanford.edu>). According to Cooray (2002:<http://www.users.bigpond.com>) four essential underlying factors exist of a Constitutional order. They are:

- A system of elections held reasonably frequently, based on universal adult franchise. Such elections must not be rigged or manipulated by the government of the day.
- Existence of rights of freedom of expression, freedom of person and freedom of property.
- A judiciary separated from the executive and the legislature that has power to control unlawful acts of the legislature and the executive and which in fact exercise this power without fear of retribution.
- Limitations and controls on use of wide discretionary or emergency powers.

Perhaps the most commonly used principle to limit the all-encompassing nature of government power and limit its misuse, is that of *trias politica*; that is one of the cornerstones of modern-day Constitutional states. The principle entails the separation of state powers into legislative, executive and judicial branches (Hattingh, 1986:3).

5.2.1.2 Reclaiming democracy

Ralph Nader (1993:<http://bostonreview.mit.edu>) emphasised the importance of transferring original decision-making power away from bureaucratic institutions to citizens, taxpayers, consumers, workers and other interest groups. The author then suggested that urgent, practical empowerment strategies be implemented that would help to advance the democratic promise by reclaiming democracy and checking organisational power. Although some of these views may be regarded as controversial and against the spirit and arguments to be presented in this thesis, it is nevertheless worthwhile to present it. Fact remains that, as a *principle* issue, efforts to give government power back to the real owners thereof, *vide* the voters-cum-community must be supported as a 21st century necessity. Bureaucracy has distorted power and decision-making relationships in modern societies for too long. In this

regard Ralph Nader (1993:<http://bostonreview.mit.edu>) emphasised the following aspects:

- *Facilitate voter initiatives.* Voters need to be placed at the centre of the democratic process again. They must be given direct authority to express an opinion on legislation and policies, for instance by making better use of the instrument of popular vote, rather than having to act by means of the unreliable election processes.
- *Reform the generally corrupt financial campaign system.* Nader (1993:<http://bostonreview.mit.edu>) proposed public funding of campaigns, to eliminate the undesirable influence exercised by major private sponsors on government policies.
- *Term limits to politicians.* Popularly elected public officials must be subjected to term limits. Presidents and event Ministers, are not supposed to serve more than two terms of five years each and parliamentarians must be subjected to similar appropriate term restrictions. The problem with lengthy political terms can best be expressed by again quoting the proverb of "*power corrupts and absolute power corrupts absolutely*".
- *Expand citizens standing rights.* The options available to the average citizen to approach the court system to protect his interests against the misuse of state power do not always work. In cases where government has used its overweight of state power to force the courts into submission, such as happened in Zimbabwe, the system has proven ineffective. What is needed is a more direct system that would allow citizens to maintain tight control over government's actions to prevent an infringement of their civic rights.
- *Regain control over "taxpayer's assets".* Government is administering a wide range of public assets on behalf of citizens (for instance land, forests and plants). All too often these assets are mismanaged, or used for self-enrichment by corrupt politicians and officials. The time has arrived for citizens to insist on laws safeguarding their control over these assets – for instance by improved transparency and reporting.
- *Reclaim the public airways.* The privatisation of broadcast airways, one of a country's most important taxpayers' assets, has caused serious deformations of many a country's politics and cultures. This phenomenon has eliminated the availability of a forum for public debate to ordinary citizens. It has thus become necessary to regain this forum for public discussion.

- *Check and limit organisational power.* It has become necessary to introduce the principles of corporate governance in the public sector and to create "democratic public organisations".
- *Establish a new model of consumer representation.* Clients of public sector service rendering organisations need to be given a broader forum to make their wishes and needs known and to evaluate the quality of services provided to them.
- *Protect victims' rights.* Individuals and public sector workers must be protected against the misuse of government power, unsafe workplaces, dangerous products and other potential dangers.
- *Ensuring a hospitable environment for whistle blowing.* An environment and culture must be created that discourages fraud and corruption and encourages the reporting of such incidents.

5.2.1.3 The delegation of state power

Government, as a collective *body politica*, only directs state action and then mostly by utilising the public policy-making processes. In order to convert these policies into tangible, value-creating utilities, they entrust the responsibility to execute and implement their policies and decisions to management (or executives) agencies. In order to enable these agencies to perform its duties, some government power is allocated to them, together and entangled with the tasks, or responsibilities. Unfortunately, this is exactly where the "problem" with government power normally lies, because this is mostly the origin of seemingly "untouchable" public bureaucracies.

The purpose of the delegation of power is to enable the division of labour (or activities) within the broad concept of the state administration. The general rule is that, where a discretionary power is being delegated to a specific body or official, based on its specific competencies or knowledge, this power cannot be delegated further without explicit permission or authorisation of the body that originally delegated the power (Beukes *et al.*, 1992:25).

In a modern idiom, the state has enabled government action by creating a comprehensive and extended network of delegated powers. For example, in a Parliamentary democracy, service rendering is enabled when the voters delegate their power to the legislature, which then delegates it to the President, who in turn delegates it to the Minister of Health, who delegates some of it to senior managers,

who delegates some of it to middle managers, who delegates some of it to junior managers, who delegates it to operational personnel responsible for service rendering.

The overriding administrative law principle governing the concept of delegation is that of *delegates delegare non potest*. This rule essentially deals with the limitations on the arbitrary delegation of power originating from an organ of state (Wiechers, 1984: 210). The rule prescribes that a person in a position of power is not allowed to delegate his or her power to another, except if specifically allowed or ordered to do so in terms of a legal decision from the body where the initial power originates. When an organ of state is being authorized to perform a specific activity and the execution of this activity implies discretionary decision-making, the function or activity may not be delegated further down without explicit authorisation (Beukes *et al.*, 1984:24). However, in most cases legislation and/or delegated legislation empower service rendering agencies to exercise all discretionary activities required for effective service rendering.

5.2.2 GOVERNANCE VERSUS MANAGEMENT

The present discussion regarding the interaction between governance and management of public sector organisations will not focus on the commonly used and understood conceptualisation of an inter-personal relationship between politicians and public managers. The emphasis will rather be placed on the macro manifestation of the concept in terms of the policy-making roles of politicians ("governors") as opposed to the executive (managerial) role of public managers. The rationale behind this line of reasoning is to motivate and contextualise the recommendation to accept the principles of corporate governance as a management tool capable of facilitating good governance of public sector organisation in a 21st century macro management context.

The traditional way that the public policy making process has been explained can be quoted as follows (Hanekom, 1987:28): "*(A) useful model ought to include at least five phases: the identification of a goal; authorisation to act by the policy-maker; a public statement of what the policy-maker intends doing; execution of the policy; and evaluation of the policy in conjunction with the feedback regarding policy results*".

The way that these functions are performed is in a direct line of hierarchy down from the legislature, via the political executive, down to the administrative authority's

hierarchy of command and back to the legislature, which is supposed to control the outcomes of the process on behalf of the electorate.

The problem with this model is the fact that all the activities are performed within the same line of hierarchy (authority). The entire process is bureaucratically structured. Fact of the matter is that the *core* function of government (the legislature and the political executive) is to make policy and enforce accountability (that is, to measure results) on behalf of the voters. It is not supposed to interfere with the management process aimed at the execution of these policy aims. True enough, it can be reasoned that the political authority needs to keep a close watch on the activities of administrative and management activities to ensure that policy aims are realised. However, the ultimate issue in this regard is that these two broad elements of the policy making process - that is policy formulation as opposed to management for the execution thereof, must not be handled in the same line of hierarchy. In the 21st century governing environment, government needs to formulate policy aims and then leave it to management enterprises to implement and execute these activities. Control must be in the form of performance targeting – and contracting (Derived from Beatty, 1998:143–146). This is where the concept of *corporate governance* becomes relevant and important.

The rationale for the introduction of the above-mentioned approach can be explained as follows: The 20th century reality - characterised by mass production, industrialisation and strict hierarchical authority in all spheres of societal interaction found an ideal system in the one-line, top-to-bottom bureaucratic system. It worked, because the system perfectly suits the environment and provided the desired results – for most of the 20th century. The ultimate aim was simply to optimise discipline and organisational co-ordination to ensure optimal output.

The world has since changed. Mass production has been replaced by individualised, quality care, and the corresponding mass culture that also finds useful application in the systems of government, was increasingly replaced by structural pluralism. More and more societal judicial, self-action organisms have found a place in the increasingly globalising world order. The “logical”, processmatic-structured bureaucracies of the 20th century have found it increasingly impossible to satisfy the demands of a citizenry living and working in a transforming, increasingly virtual and global reality. (Broadly derived from the arguments of Taylor & Wacker, 1997:16–17, Osborne & Gaebler, 1992:13–16, Beatty, 1998:142–146 and Coyle, 1999:214–238). Unfortunately, precious little evidence of a move towards a meaningful power-relationship is visible anywhere in the world. In some countries, the far-reaching

powers that make decisions regarding operational issues from administrative and/or managerial structures were placed in the hands of political heads of government agencies. Such an arrangement only strengthens the hierarchical line of authority from politicians to managers, and is definitely not the answer. Although this step was hailed as a remarkable contribution towards the introduction of the principles of corporate governance in the public sector, it was nothing more and nothing less than a blatant attempt to strengthen political control over the administrative branches of government. Politics is the ultimate level of power in the traditional nation-state set-up, and in the traditional bureaucratic state, politicians need to control and "over-power" every aspect of societal life – or at least as many as humanly possible.

That is the reason why the principle of pluralism, where semi-independent community institutions are able to take their own decisions free from government interference, is all but dead in most countries. In various countries, the formal excuse for this sorry state of affairs and for a government that cannot even allow sporting bodies to take their own decisions is that, if government allows pluralistic decision-making, the all-inclusive policy agenda of the government could not be executed.

5.3 APPLICATION OF THE PRINCIPLES OF CORPORATE GOVERNANCE IN THE PUBLIC SECTOR

The Organisation for Economic Co-operation and Development (OECD) defines the concept of corporate governance as follows: "*Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for decision-making on corporate affairs. By doing so, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance*" (Corporate Governance Encyclopaedia, 1992: <http://www.ecycogov.com>).

An opinion expressed by the United State's *The Business Roundtable*, quoted in the South African's *King Report on Corporate Governance*, reads as follows: "*(T)he substance of good corporate governance is more important than its form; adoption of a set of rules or principles or of any particular practice or policy is not a substitute for, and does not itself assure, good corporate governance*" (Executive Business Brief, 2001/02: 15). Hutton-Wilson (2001: 8) correctly remarked that "(c)orporate

governance, or the way in which companies and organisations are directed and controlled, is not just about publicly listed companies. It is about all organisations, large or small, public or private – in essence it is about basic values of honesty and integrity of a nation and of all its people in their business dealings”.

John Bungey from the Queensland Treasury (<http://www.treasury.qld.gov.au>) adds to this by stating that good corporate governance:

- Establishes safeguards that ensure agencies provide their outputs and services in a planned, cohesive manner and in accordance with the government's priorities.
- Includes effective systems of risk management and internal control.

Bungey (<http://www.treasury.qld.gov.au>) describes the nature of corporate governance in terms of the following:

- It is important to note that corporate governance is not a “one size fits all” concept, or some new fad.
- It embraces many existing management tools and processes.
- In light of the above-mentioned, a degree of diversity can be expected of agency structures and their operational environments.

Pat Barrett, Auditor-General for Australia (2000: <http://www.anao.gov.au>), expressed the opinion that, although corporate governance has no single accepted definition, it is nevertheless generally understood that the concept encompasses how an organisation is managed, how its corporate and other structures are arranged, its culture, its policies and strategies and the ways in which it deals with its various stakeholders. Although he is of the opinion that management forms part of corporate governance, the approach that will be followed for the purposes of this thesis will rather be that the corporate governing body must *govern* (expressed in terms of all-encompassing policy-making), while the *management* function will be the responsibility of operational managers. The relationship between the two will then be arranged in terms of a properly established accountability network.

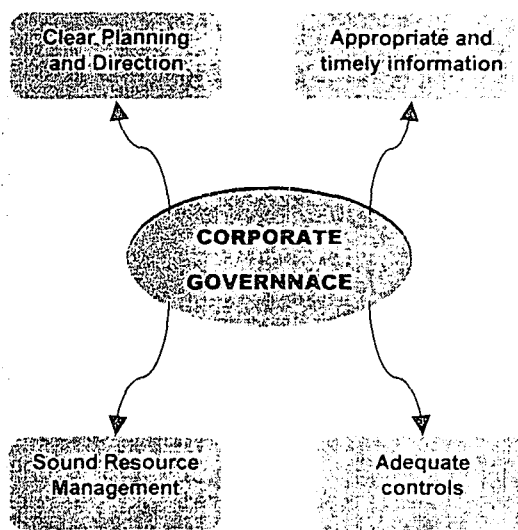
The Government of Western Australia (1999: <http://www.dpc.wa.gov>) identified the components of corporate governance as follows:

Figure 6

Components of corporate governance

The logic of the Figure can be explained as follows:

- The ultimate aim for corporate governance is to optimise the results of the company or organisation (optimise outcomes).
- In order to achieve this, clear and proper planning to provide direction to all organisational activities is a prerequisite, for which appropriate and timely information is required,



(Source: Government of Western Australia, 1999: <http://www.dpc.wa.gov>)

- sound resource management is a requirement to achieve organisational success, and
- the corporate governing body must exercise continuous control to ensure that this process stays on track, and that organisational performance is in line with its expectations.

In summary, the following dimensions of corporate governance, in both the private and public sectors, could be identified (Barrett, 2000: <http://www.anao.gov.au>):

Table 9

Dimensions of corporate governance

Mission governance	requires	Business Planning.
Ownership Governance	requires	Multiple owners and multiple agencies and constituencies.
Structural Governance	requires	Two-tiered boards.
Strategy Governance	requires	Corporate and business plans.
Performance Governance	requires	Including organisational, individual, processes, outcomes and measures.
Conformance Governance	requires	Including compliance, due diligence, financial and legal risk management.
Decision-making Governance	requires	Including internal and external relationship management and communication.
Accountability Governance	requires	Owners and shareholder, as well as stakeholders.
Value-Capital Enhancement	requires	Including long term sustainability of corporate capital, as well as "triple bottom line" emphasis on

		financial, environmental and social capital.
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(Source: Barrett, 2000: <http://www.anao.gov.au>)

5.3.1 APPLICATION OF THE PRINCIPLES OF CORPORATE GOVERNANCE IN THE PUBLIC SECTOR

The introduction of the concept and principles of corporate governance in the public sector is fast becoming an international tendency. This was emphasised when, in July 2000, the International Federation of Accountants released a proposed study for comment where it was intended to improve public sector entities' self-governance, where the concept of corporate governance is recommended as a relevant approach to improve service rendering to communities (Journal of Accountancy, 2000:1).

Something of the usefulness of corporate governance as a holistic concept became clear from the Czech Republic's decision to introduce the principles of corporate governance. In a country where corruption has become a threshold issue for the economy, Transparency International (Czech Republic) has developed and is launching a project to establish a coalition of companies operating in the Czech market that are dedicated to corporate governance with a view of promoting the introduction of these principles throughout the Czech organisational society (Transparency International, <http://www.bus.iastate.edu>).

The following arguments can be raised in defence of the application of corporate governance in a public sector context:

In the first place, Butler's (1999: <http://www.cmc.gld.gov.au>) perspective of corporate governance as a concept that is inextricably linked with *accountability* is correct, and that alone makes its application in the public sector extremely relevant and important. Accountability means holding the management of an organisation responsible for its performance. When talking about corporate governance's application in the public sector, a distinction could be drawn between application in government owned corporations (public entities) and government service rendering organisations. In the case of the former, the situation is less problematic, because such corporations function very much on the same corporate and financial principles as public companies in the private sector -- albeit that government nominates either most, or a substantial portion of the board members.

Nevertheless, even in the case of government agencies (departments), the concept and principles of corporate governance could usefully be applied as a mechanism to structure the relationships between the "owners" of such organisations and the persons responsible to manage them. In this regard, concepts closely associated

with corporate governance (such as the establishment of audit committees, financial reporting and the applications of risk management) can provide a useful framework to ensure and strengthen sound management practices, and ultimately, accountability (Butler, 1999: <http://www.cmc.gld.gov.au>).

The above-mentioned point could be substantiated by referring to the example of Bulgaria. One of the core targets laid down in the economic policy of that country, is to improve enterprise management in the process of restructuring, accountability and control systems. The lack of information and ongoing privatisation, combined with the requirements originating from the demands of far-reaching restructuring in the country, became the driving force behind the Centre for the Study of Democracy's decision to institute a long-term programme aimed at promoting core principles of corporate governance in Bulgaria. The result was the establishment of the Corporate Governance Institute for Bulgaria – a coalition of Bulgarian non-governmental organisations (in 1999), and the adoption of relevant corporate governance standards and procedures that would ensure accountability and transparency in business operations in Bulgaria. During the year 2000, the main objectives of this Initiative were as follows (Bulgaria, 2000: <http://www.csd.bg/cgi>):

- Assist the elaboration and implementation of a set of practical and policy instruments that would ensure accountability, transparency and sound business practice in transition economies.
- Promote public awareness of best corporate governance standards and their practical importance for the economic growth and social progress of a country and international trade and investment development.
- Set up a framework for policy dialogue between private and public sector institutions aiming at introducing modern corporate governance structures and procedures in Central and Eastern Europe.

The *second argument* to be raised in defence of the application of the principles of corporate governance in the public sector, is that it is perfectly suited to promote the key theme of this thesis – which is to see corporate governance as an ideal method to use for the governance of public organisation in an investigated 21st century government management model, where a clear division has been made between government decision-makers and the managers responsible for the implementation and execution of their decisions. In such a scenario, the tools and mechanisms proposed by corporate governance will provide an ideal basis for control over the activities of public organisations.

The distinction between "private" and "public" sector governing bodies and the implications thereof for the functions and responsibilities of corporate governance can be presented as follows (McFarlan, 1999: 74):

Table 10

Comparative corporate governance principles: The profit motivated versus the not-for-profit sectors

Key Performance Area	For-profit Sector	Not-for-profit Sector
Mission	<ul style="list-style-type: none"> • Grow market capitalisation by means of products and services. 	<ul style="list-style-type: none"> • Render services to key constituencies.
Measure	<ul style="list-style-type: none"> • Financial performance. 	<ul style="list-style-type: none"> • Financial performance balanced with other measures. • Efficiency, effectiveness, value-for-money.
Leadership	<ul style="list-style-type: none"> • CEO is sole boss. 	<ul style="list-style-type: none"> • CEO reports to political monitoring body or person (such as a Minister).
Board composition	<ul style="list-style-type: none"> • Small • Executive committee relatively limited in scope. • Nominating committee* is relatively inactive. • No operations committee**. 	<ul style="list-style-type: none"> • Large. • Partly composed by political authority and partly by relevant stakeholders. • Nominating committee* constantly at work. • Operations committee essential**.
Board members	<ul style="list-style-type: none"> • Predictable profiles, often senior business professionals. • Predictable roles. • Predictable hours. • Long service. • Highly paid. 	<ul style="list-style-type: none"> • Diverse profiles often incorporating non-governmental organisations, politicians and competent representatives from professional bodies. • Diverse roles. • High turnover in respect of some members. Some long service. • Highly paid, co-opted members on consultancy basis.

* The concept "nominating committee" refers to the practice in private sector Boards where members of the Board nominate persons (shareholders) to a "pool" from which Board members are then elected. In the public sector the role of the "Board" is very much played by the political executive.

** The term "operating committee" refers to the practice whereby a committee is composed from the members of the Board to oversee operational organisational activities. Again, in the public sector the political executives, supported by senior managers, play this role.

(Adapted from McFarlan, 1999: 74).

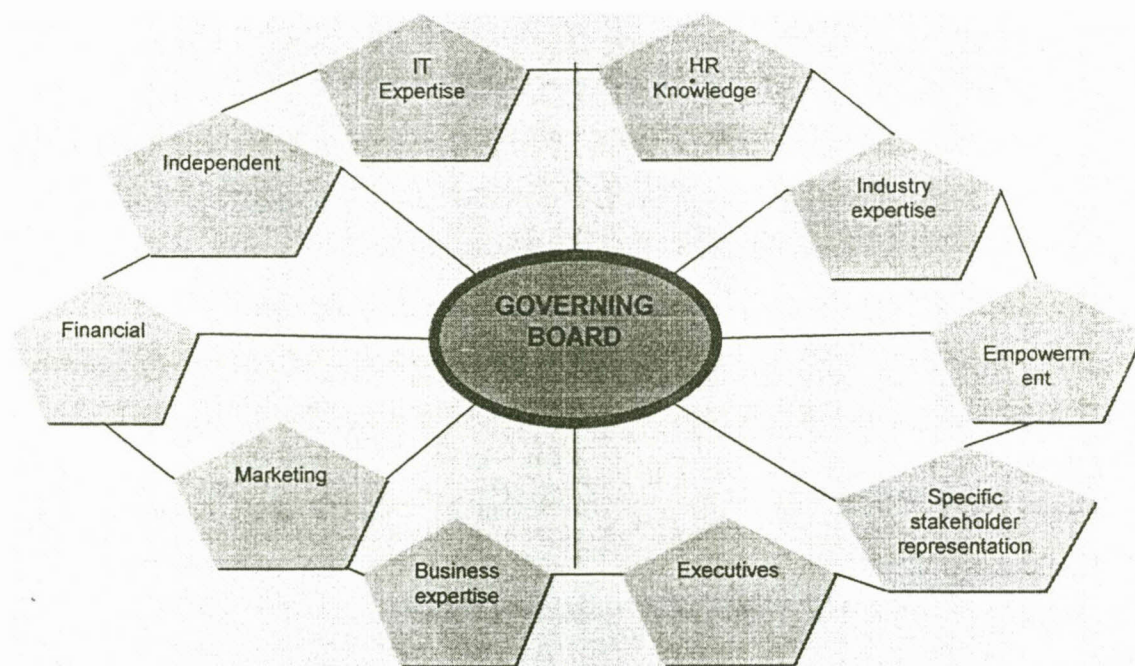
5.3.2 ROLE AND FUNCTIONS OF CORPORATE GOVERNING BODIES

The literature on board performance places a great weight on selecting appropriate directors, especially, a competent CEO. It also advocates choosing board members, who are multi-skilled, experienced in a variety of organisational areas, is prepared to update their knowledge, flexible, possessing analytical skills and are prepared to monitor and assess their individual and collective performance. It is always useful to have a mixture of internal and external directors to complement the skills and perspectives of organisational members and to provide greater independence from management (Barrett, 2000:<http://anao.gov.au>). The membership must preferably reflect on both internal, as well as on external expertise.

Newsome (2002:<http://ipfa.co.za>) recommends the following composition of a governing board:

Figure 7

Composition of a corporate governing body



(Source: Newsome, 2002: <http://ipfa.co.za>)

An important issue to clear at this stage is the actual “composition” of governing bodies in public sector organisations other than public sector entities (parastatal organisations). It seems that the unofficial rule is that such “bodies” are accepted as consisting of the political head of departments and organisations, with senior management providing support (Shuping, 2003: Personal interview). Within the broader guidelines of the reasoning followed throughout this thesis, this cannot be

regarded as acceptable to yield sustainable value added in the 21st century. To regard a Minister as “the corporate governing authority” of a public sector agency is to strengthen the traditional, bureaucratic application of power – namely to concentrate it in the hands of a politicians and then not even one directly elected, or appointed by the legislature.

In a post-modern, 21st century era, organisations should be built on a comprehensive knowledge-basis. It is an unsound principle to place so much power in the hands of a single person and then usually not necessarily one with functional training in, or knowledge of, the mandate he or she is supposed to oversee. Most executive politicians throughout the world are appointed based primarily on their political party links (more specific, loyalties), rather than their functional expertise of the speciality they are supposed to govern. In reality where complete knowledge is required, not even a person *with* functional relevant training and expertise can claim to “know it all”, and must have competent assistance from other functionaries. A much better and more appropriate approach will therefore be to move in the direction of appointing properly composed corporate governing bodies to govern public organisations.

The main functions of the governing board are as follows (Newsome, 2002: <http://ipfa.co.za>):

- Provide strategic direction to the activities of the organisation (to “guide” organisational activities).
- Exercise control over organisational operations and direction.
- Enforce legal and regulatory compliance by all members of the organisation.
- Define delegated authority.
- Take responsibility for the introduction of effective risk and performance management.
- Take responsibility for the introduction of continual going concern assessment.
- Take responsibility for internal and external communication with stakeholders.
- Take charge of the processes required for successful executive succession.
- Promote organisational integrity (tone at the top).
- Know the organisation.
- Devote the time necessary to do the job.
- Act in the best interest of the organisation.
- Ensure that he/she is sufficiently informed to make the required decisions.
- Declare or avoid conflict of interests.
- Respect organisational confidentialities.

- Attend meetings.
- Focus on key corporate objectives.
- Be clear as to his/her rights, duties and obligations.

Barrett (2000: <http://www.anao.gov.au>) presents what he labelled *elements of governance of public sector entities*. These are moderately adapted to be applicable to the broader public sector perspective, and give a good indication of the functions of corporate governing bodies in the public sector, and can be presented as follows:

- *Public governance*. Public organisations must be governed on behalf of the public (communities). Public corporate governing bodies must therefore ensure that the primary mandate of the organisation under their governance is properly executed, with outcomes (optimal benefits) to be optimised within the framework of affordability (value-for-money).
- *Management structure*. The corporate governing body must establish appropriate organisational management structures that would enable coordinated and disciplined execution of a specific policy mandate entrusted to them for implementation or execution.
- *Strategic and business planning*. The corporate governing body must determine strategic direction for the organisation under its guidance. It must also ensure that decided-upon strategies are properly executed.
- *Risk management*. Risk management is one of the single most important functions of the corporate governing body. The risks that are ever-present in a dynamic 21st century organisation must pro-actively be managed to ensure that the organisation is capable of maintaining a strategic advantage in service rendering.
- *Compliance and control*. The corporate governing body must put in place appropriate methods and measures to ensure compliance with policies, rules and procedures, as well as appropriate control structures to review progress with the implementation of the organisation's core functions (mandate) of the organisation.
- *Audit*. The corporate governing body must see to it that appropriate audit structures, both in terms of the internal, as well as in terms of external audit functions are in place to optimise organisational performance appraisal and organisational control.
- *Values and code of ethics*. The corporate governing body must determine the core values that will characterise the formal organisational culture and must

officially reflect these in a code of ethics for the organisation under its governance.

Members of the governing body need to assess and contribute to, the effectiveness of the body. One possible way to measure these contributions is the so-called *corporate governance health check*. Five important criteria are taken into account at which Australian boards and these are regarded as essential for evaluating board performance, viz. (Barrett, 2000: www.anao.gov.au):

- An understanding of the mission and strategic plans for the organisation.
- A comprehension of the organisation's core functions.
- A willingness to challenge management when required.
- A willingness to appraise the CEO.
- The special expertise that members of the governing body has to add value to the organisation and its activities.

Governing bodies must be independent. They must strive to implement and execute all relevant legislation and achieve agreed outcomes. According to Barrett (2000: www.anao.gov.au) the following are required:

- Strong members who are independent of management, provided with appropriate orientation and who bring an appropriately diverse set of experiences, competencies, skills and judgement to the governing body.
- A strong leadership within the board from the "outside" director.
- A CEO who understands the role of the governing body and that is openly supportive of building a salubrious and conducive governance culture.
- Regular meetings of the outside members without management to build relationships of confidence and cohesion among themselves.

5.3.2.1 Role of Audit Committees

The establishment and effective functioning of an audit committee is of crucial importance for the success of corporate governance in the public sector. In a private sector idiom, an audit committee is a sub-committee of a board of directors or governing body. In the public sector, the audit committee would normally report to key policy and decision-makers, but seldom really function as part of the structures of a corporate governing body.

IFAC (2000:<http://www.ifac.org>) is of the opinion that "*governing bodies of public sector entities need to establish an audit committee, comprising non-executive*

members, with the responsibility for independent review of the framework of internal control and of the external audit process”.

To fully be effective, the audit committee is independent of the executive management in the organisation. To achieve this:

- its is established as a high-level sub-committee of the main governing body, members are given written terms of reference, which deal adequately with their membership, authority and duties;
- membership is confined to non-executives, although committee members need not all be members of the governing body. Members of the audit committee are named in the annual report;
- the responsible finance officer or director of finance, the chief internal auditor and the external auditors normally attend meetings of the audit committee and have direct access to this committee at any time - other governing body members also have the right to attend;
- the head of internal audit and the external auditors bring all significant findings arising from audit activities to the attention of the audit committee, and if necessary, the governing body;
- the audit committee schedules discussions with the auditors at least once a year, without the executive governing body members present, to ensure that no unresolved issues of concern are left;
- the committee has explicit authority to investigate any matters within its terms of reference, the necessary resources it needs to do so, and full access to information. The committee is able to obtain outside professional advice and if necessary, invite outsiders with relevant experience to attend meetings (IFAC, 2000: <http://www.ifac.org>).

According to Lubbe (2002: <http://www.pixelshop.co/za/ipfa>) the duties of audit committees include:

- To check reports of internal and external audit.
- To evaluate organisational activities from time to time.
- To create channels for communication with other stakeholders, such as the Auditor-General, management, the corporate governing body and the internal audit component.

The functions of audit committees include the following (IFAC, 2000: <http://www.ifac.org>):

- To provide an oversight function over management’s responsibility for the effectiveness of the internal control system.

- To review with management the adequacy of policies and practices to ensure compliance with relevant statutes, guidelines and policies.
- To review, with management, the latter's ability to monitor compliance with the relevant standards or codes of effective corporate governance.
- To ensure that the internal audit function is properly funded and resourced and has an appropriate standing within the organisation.
- To review the activities of the internal audit component, including its annual work plan, coordination with the schedules and activities of external auditors, the reports of significant investigations and the responses of executive management to specific issues and recommendations raised in these reports.
- To review, where relevant, the scope and results of the audit and its cost-effectiveness, as well as the independence and objectivity of the auditors. Where the auditors supply a substantial volume of non-audit services to the organisation, the committee needs to keep the nature and extent of such services under review – seeking to balance the maintenance of objectivity and value-for-money.
- To manage on behalf of the governing body all aspects of the organisation's relationship with the external auditors. This includes a review of the audit reports and other communication with management, as well as actions taken by management included in previous communications.

The audit committee should review the following: (King Report, 2001: 79):

- The functioning of the internal control system.
- The functioning of the internal audit department.
- The risk areas of the organisation's operations to be covered in the scope of the internal and external audits.
- The reliability and accuracy of the financial information provided to management and other users of financial information and whether the organisation should continue to use the services of the current external and internal auditors.
- Any accounting or auditing concerns identified as a result of the internal or external audits.
- The organisation's compliance with legal and regulatory provisions, its articles of association, code of conduct, by-laws and the rules established by the governing body.

Lubbe (2002: <http://www.pixelshop.co/za/ipfa>) provides an interesting perspective on the division of roles between the audit committee and the legislative committee responsible for the review of public accounts (that can be regarded as an "external

review committee"). This comparison provides an informative overview of the "organisational-specific" nature of the functions of the audit committee.

Table 11

The role of the audit committee in comparison with that of the legislative oversight committee on public accounts

Audit Committee:	Committee on Public Accounts
<ul style="list-style-type: none"> The primary objective is "financial control", via the structures and processes of internal control and reporting. 	<ul style="list-style-type: none"> The primary objective of the Committee is to determine how funds were spent – "financial management/reporting".
<ul style="list-style-type: none"> Function in close cooperation with management and the internal audit component – aimed at improving internal control. 	<ul style="list-style-type: none"> The committee should maintain "distance" from management and the internal audit function.
<ul style="list-style-type: none"> Effective internal auditing is a prerequisite for an effective functioning audit committee. 	<ul style="list-style-type: none"> Effective internal auditing is not a prerequisite for the effectiveness of the committee.
<ul style="list-style-type: none"> The activities of audit committees are much more far-reaching than reports of the Auditor General. 	<ul style="list-style-type: none"> The functions of the committee basically revolve around the reports of the Auditor-general.
<ul style="list-style-type: none"> Audit committees "work in the wings" to establish good control systems. Little contact with the media takes place. 	<ul style="list-style-type: none"> Relationships with the media are important as a mechanism to inform the public (public accountability). These relationships are normally a component of the mandate of the committee.
<ul style="list-style-type: none"> Meetings usually not open to the media –no court-case set-up, and no cross-examination. Information is normally not taken under oath. 	<ul style="list-style-type: none"> Sessions of the committee are often conducted in the spirit, and even format of a "court case".
<ul style="list-style-type: none"> Primary functions of audit committees start at, or before the beginning of the audit. 	<ul style="list-style-type: none"> The primary functions of the committee are complete after a specific audit cycle, and the consideration of the reports originating from such audit.

(Source: Lubbe, 2002: <http://www.pixelshop.co/za/ipfa>)

The Scottish Parliament has decided to establish an audit committee – in the specific instance a concept that derives from the 1993 Cadbury Report on Corporate Governance in the private sector (Scottish Parliament, 2001: <http://www.scottish.parliament.uk>).

- The purpose of the committee will be to advise the Principal Accountable Officer and the SPCB on the adequacy of corporate governance in accordance with its terms of reference.
- The audit board should comprise no more than three members, two of who had to be independent from the Parliamentary administration.

- One of the independent members should chair the board, and at least one of the members should have been a member of the accounting profession.
- The focus-areas for the activities of the board should be:
 - To formulate an opinion regarding the adequacy of the arrangements for ensuring sound internal control – including those for the assessment and management of business risk.
 - To plan the activities of an internal audit component and the assessment of the unit's work.
 - Assist with the planning of the activities of Audit Scotland and the assessment of its activities.
 - Review the major findings of audit reports or Parliamentary committees, in so far as they affect the overall performance of the Scottish Parliament.
 - Review the adequacy of management responses to issues identified by audit activities and/or Parliamentary committees, and the arrangements for monitoring the implementation of agreed recommendations.
 - Review other sources of assurance relating to top corporate governance requirements for the Scottish Parliament – including reports on financial management and related issues by the Parliamentary Directorate of Corporate Services.
- In particular, the board (audit committee) was tasked with the responsibility to review the system of internal control and provide the Accounting Officer with advice on whether the necessary assurances required for the signing of the Statements on Internal Control contained within the annual accounts have been provided.

5.3.3 CORPORATE GOVERNANCE AND CORPORATE ETHICS

Ethical behaviour is one of the principle means by which accountability is maintained in the public sector. Political and managerial accountability depend on the observance of ethical standards and ethical relations between individuals or between institutions (Barrett, 2000: <http://anao.gov.au>).

Integrity is a key principle underpinning good corporate governance – good corporate governance is based on a clear code of ethical behaviour and personal integrity by the governing body, management and staff. These must openly be communicated to all stakeholders (Barrett, 2000: <http://anao.gov.au>).

Ethical structures provide a basis for the CEO to have confidence that there is consistent ethical behaviour was evident at all levels of the organisation and that the organisation and its employees (Barrett, 2000: <http://anao.gov.au>):

- comply with public sector standards, codes of ethics and applicable codes of conduct;
- act with integrity in the performance of official duties and ensure due process in the use of official information, equipment and facilities;
- exercise consideration and sensitivity in their dealings with members of the public and employees; and
- identify and deal with any real or perceived conflict of interest.

All stakeholders with a link to the organisation should feel confident that their dealings with the organisation are undertaken with honesty, openness and fairness. The moral and ethical climate of any organisation should be the primary responsibility of its directors (policy-makers) (Commonwealth Association for Corporate Governance, <http://www.combinet.net>).

A principle emphasised by the present drive towards corporate governance is the introduction of organisation-wide Codes of Practices and Conduct. In South Africa, Chief Financial Officers of government agencies need to report to treasury regarding progress made with the implementation of code of conduct (Botha, 2002: 16). Corporate fraud is a serious concern worldwide. It costs the South African economy approximately R40 billion a year. This reality has led to demands for improved disclosure and policing within companies. Fraud must continuously be assessed as part of an overall risk management system and procedures in the organisation (Dawson, 2001: 14).

5.4 ACCOUNTABILITY

Few other themes in Public Governance and Management enjoy as much attention and discussion as *accountability*. This is probably closely linked to the increasingly intensity of the legitimately crisis in which government finds itself. Voters (and communities in general) are clearly not impressed with the value that they are receiving for the resources made available to government.

Public Accountability is one of the most fundamental cornerstones of the science of Public Administration and Management (Cloete, 1991:62). Hanekom *et al.* (1987: 177, 178) draw a distinction between "public accountability", defined in terms of the obligation of the operational public service to execute the decisions of the popularly

elected representatives of voters and report to them (the Legislature) in this regard. Administrative accountability, on the other hand, is being defined in terms of its close relationship to the control mechanisms in place in public sector organisations to ensure adherence to the rules and regulations of the bureaucracy which it serves.

The accountability principle has its roots in the democratic theory (Schwella, 1990: 35):

- The final control over the governing and administration function in a democratic state is vested in the citizens of that state.
- In order to get control, it is important that citizens must have access to information about government conduct in order to hold governors accountable for their behaviour, and enforce feedback to those who are governed.

In a constitutional democracy, public accountability must be linked to the accompanying rights and responsibilities of citizens. Public accountability demands that the behaviour and acts of government must be scrutinised by allowing public debate by common members of the public and their elected representatives (Schwella, 1990: 38). The ultimate manifestation of public accountability is regular elections, where citizens eligible to vote, have the right and responsibility to evaluate the performance of government by voting members thereof in or out of power. Accountability between elections manifests itself in terms of three measures, viz. (CIPFA, 1996: 3 – 4):

- Parliament, consisting of the elected representatives of the voters, must vote (allocate) public money to be spent on services and by Ministers and audits and monitors to the outcome.
- Ministers must enforce accountability, because they are in charge of the services of state.
- The heads of public agencies are very important role-players in the process of public accountability, because they lead, direct and manage these services.

In 1993 the United States Congress voted into law the so-called *Government Performance and Results Act* (that has obvious positive implications to strengthen public accountability in the United States government. This Act essentially has the following aims (Radin, 1998: 308):

- To improve the confidence of the people in the government by holding agencies accountable for achieving programme results.
- To stimulate reform with a series of pilot projects that could be used as examples for others (benchmarking).
- To promote a focus on results, service quality, and public satisfaction.

- To help managers improve service rendering by requiring them to plan for meeting programme objectives and providing them with information about program results.
- To improve congressional (legislative) decision-making by providing information on achieving statutory objectives and relative effectiveness of various programmes.
- To improve internal management of the federal government.

The South African revised Public Service Regulations and the Public Finance Management Act have also substantially strengthened the country's commitment to accountability. The latter Act (the Public Finance Management Act, 1999) has substantially expanded and clarified the scope of responsibilities of both the executive authority, as well as that of the Accounting Officers (heads of public service rendering agencies).

5.5 CONCLUSION AND CHAPTER LINKAGE

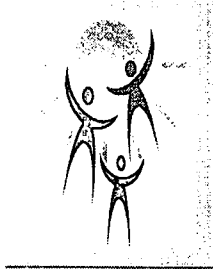
This Chapter has dealt with the management of public sector organisations in the 21st century. In this regard, the principles of corporate governance have been recommended as an appropriate model to formalise the relationship between public governors, elected persons who formulate policy and public managers, persons responsible to implement the decisions of government.

Government power is the root foundation for (and of) government policy-making and the execution of these policies in the public sector. The "problem" with government power is the all-encompassing nature thereof – government can enforce its decisions and policies on other social entities. The modern state attempts to limit the misuse of this all-encompassing power in terms of a constitutional state. Part of this arrangement is the separation of state powers, is the separation of state powers between legislative, judicial and executive branches (power divisions).

The ultimate *crux* of government's success or failure lies with the *implementation* of public policies and projects – and this is the field of the public manager – *under the guidance of the "governors" of the specific executive institutions* (mostly in the person of a Minister). It has been argued during the scope of this Chapter that an appropriate way to ensure strategic guidance to public sector organisations in the 21st century, but yet allow optimal freedom to managers to respond pro-actively to the dynamic knowledge-based reality of the 21st century, is by adopting the principles of *corporate governance*. The ultimate quest in this regard is to move away from the

traditional approach to make one person only responsible for the governance of a public sector department (in the person of a Minister), and rather structure the governance of 21st century public sector organisations around a core governing body, responsible to formulate organisational policies and monitor organisational performance.

The following Chapter will attempt to conceptualise the idea of "promoting the general welfare" in terms of a quantified management phenomenon. The perspective that will be presented is that government organisations must continuously attempt to create and/or add value throughout the management process.



CHAPTER 6 THE 21ST CENTURY MANAGEMENT PARADIGM: MANAGING FOR VALUE

6.1 INTRODUCTION AND CHAPTER OBJECTIVES

In the first three Chapters of this thesis, it has been reasoned that the ultimate aim (or vision) of government is to promote the general welfare. The “problem” with this statement is the fact that it is very normative in nature, and therefore also very difficult to quantify. However, one of the key characteristics of the knowledge-driven manifestation of the *management* phenomenon (from a 21st century perspective), is that the process and, the various elements thereof, need to be *quantified*. In order to apply the methods and principles associated with modern management adequately; it is necessary to benchmark performance against quantifiable standards (or measures).

Increasingly, the trend in modern management theory is to measure the success of the management process in terms of the *value added or created* throughout the management process. The logic of this approach are two-fold – it serves as a tool to “automatically” quantify the inputs, outputs and even the outcomes of the management process. Secondly it measures the contribution of each individual process or phase of the management process to the ultimate success of the entire process, rather than to concentrate on the ultimate outputs only.

In light of the above-mentioned reasoning and motivation, this Chapter will subsequently try to explain the *value* concept in terms of a public sector management phenomenon. The rationale for this will be that it provides a mechanism to quantify “the general welfare” as an “outcome” of the management process. It also creates a tool to measure the contribution of actors and participants in the management process and not only the ultimate outputs generated as those are not always a true indication of the value created, or destroyed, throughout the process.

Chapter objectives:

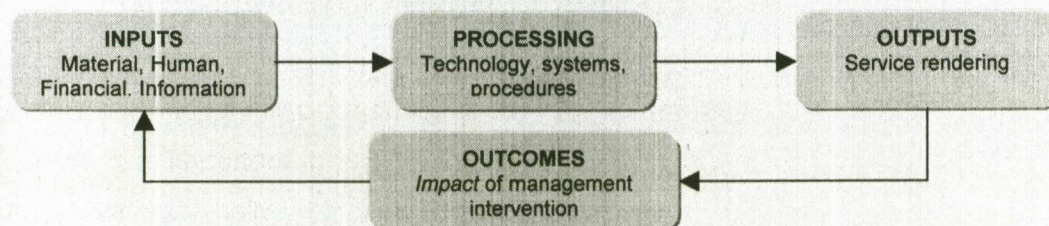
- To present the value concept as a method of quantifying management outcomes.
- To present and explain the concept of “strategic value management in the public sector”.
- The practical manifestation of the value concept: Government as creator of wealth.

6.2 QUANTIFICATION OF “MANAGEMENT OUTCOMES”

In order to conceptualise the contents and logic of the arguments to be raised in this Chapter, it is important to explain the so-called system theory of *management*. This theory can graphically be presented as follows:

Figure 8

System approach to management



(Adapted from Griffin, 1999: 51)

The following are key aspects required for a proper understanding of the above-mentioned model (Griffin, 1999: 51):

- *System*: An interrelated set of elements functioning as a whole. The various elements in the above-mentioned Figure combine to represent a management model. As individual, separate parts, or elements, they represent no real, or tangible value.
- *Open system*: An organisational system that interacts continuously with its environment.
- *Closed system*: An organisational system that does not interact with its environment.

In a dynamic, democratic and demanding 21st century public sector environmental reality, public management systems must function as open systems. They must continuously interact with their environment and integrate the inputs and demands received from the environment into their service rendering management systems.

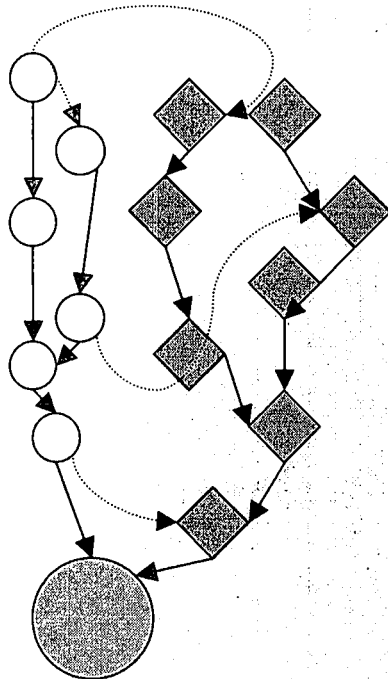
- *Subsystem*: A system within a broader, larger system. A number of sub-systems operate within each management system. For instance, within the bigger, holistic management process of a department, the Human Resource Management component will function as a subsystem – as will the financial systems. In turn, within the Human Resource Management system, the recruitment system will function as a sub-system, and so forth. The concept of subsystems is very important when a value creating approach to public management is promoted. The value generated by each individual subsystem must be measured and not only the value generated by the bigger, more holistic system.

As stated previously, the above-mentioned model reflects the so-called *system approach* to management. The systems theory functions as a continuous, repetitive process, consisting of the following components (Griffin, 1999: 51):

- In order to enable the management process, inputs are obtained from the environment. These inputs consist of the resources required to start the management process, expressed in terms of the four primary production factors (material, people, money and information).
- These inputs (resources) are transformed into needs-satisfying utilities by the organisational processing systems, such as transaction processing systems, decision support systems and operating management procedures.
- The result of the preceding two phases of the management process is known as the outputs of the management process. In a public sector management idiom, this means service rendering to the community (the services that are delivered to the community, are the results of the transformation of resources allocated to public service rendering agencies).
- The outcome of the management process is the ultimate manifestation of the success or failure of the process. If the outputs of the public management process could succeed in continuously adding or creating value in its environment, the policy of government will be successfully implemented, and the entire management process could then be regarded as successful. This will eventually manifest itself in terms of *sustainable development*.

The “problem” with this approach is that the value it generates was traditionally only measured in terms of its ultimate outcomes. However, within the broader management system, a number of subsystems are operating. A more productive approach will be to measure the value created by the various subsystems, as the management process progress throughout its various stages. The approach, that will be adapted for the purposes of this thesis, could therefore be presented as follows:

Figure 9
The Value Net¹



The Figure explains the Value Net concept, in terms of which value is gradually created and added throughout the management process. The individual circles represent value creating subsystems. As the inputs (resources) moves through the various activities (or stages), value is created (or destroyed, if inefficiency is experienced somewhere in the process). (Also note the dotted lines. These represent the interactive nature of the modern management process. Different and often diverse management process are taking place simultaneously, and influence each other).

(Concluded from Parolini, 1999: 81)

An even bigger problem with the traditional application of the system model in the public sector is the fact that no real attempts were made to understand the outputs and outcomes of the management process in terms of the value added or created-philosophy. Politicians' greatest concern was re-election, and the entire management process was geared towards piecemeal service rendering that would satisfy voters, but were seldom designed to support a long-term vision of sustainable value. The value-concept is ideally suited as a method to quantify the value created by a specific management process and the various sub-processes thereof.

6.2.1 CONCEPTUALISE VALUE AS A PUBLIC SECTOR MANAGEMENT PHENOMENON

The value concept has its roots and origins in the economic sciences. It will be worthwhile therefore to explore the concept in its context as a micro-economic

¹ The concept of the Value Net, as presented by Parolini (1999), is highly relevant for the purposes of this thesis, and this Chapter specifically. However, the author found it difficult to find relevant literature on the specific model, in the format and application presented by Parolini, and used for the purposes of this thesis. The majority of the discussions contained in the specific explanation of the Value Net concept are therefore based on Parolini's work.

concept. Authors on the theory of value as a microeconomic phenomenon define the concept along the following lines:

- *Value in exchange* refers to "(p)rice, or value in exchange, ... determined by marginal utility. Scarcity is related to value through utility" (Amacher, 1983:394). Expressed in the layman's language: The value of a commodity is determined by its value to potential users, its scarcity in relation to the demand for it.
- *Value in use*: The concept refers to the usefulness or value in use, of the total utility an item supplies. Water is very valuable in use, but not very valuable in exchange (price), because it has a low marginal utility (Amacher, 1983: 394). Expressed in laypersons' terms: The inherent value of a commodity is determined by the degree of satisfaction it provides to the needs of consumers. Water is very valuable in so far as no one and nothing can survive without it. As it is such a generally available commodity, it is not very valuable in terms of value in exchange (price).

The above-mentioned concepts and theories are also applicable to the public sector economic environment. Take the example of the value of water mentioned above: Local government is responsible for the provision of water to consumers. During dry periods, when water becomes a scarce commodity, water restrictions are being implemented and the value in exchange (price) increases. The same principle is valid in more complex instances; for instance, the demand for medicine to prevent the transfer of the HIV / Aids virus from mothers to their unborn children is very high at the moment (the value in use is high). Due to the complexity of the production process, and thus the high value in exchange (price) of the commodities required to produce the product, the value in exchange (price) thereof is very high. Due to the high demand, compared to the high cost of production of such HIV / Aids medication, it is very expensive for government to purchase it. That makes the treatment of HIV / AIDS an expensive service for government to render.

However, it is important to stay focused on the rationale for the above-mentioned examples, to explain the concept of *value* as it will be applied for the purposes of this thesis. The first point to be made in this regard is that *value* is directly related to and even dependent on the needs of consumers (on the one hand), and the commodities available to satisfy these demands (on the other); that is, value is determined by *supply and demand*.

The second point to be made is that value comes at a cost. The *value in use* will eventually determine the *value in exchange* of public goods and services. In other words: Government must be prepared to pay to improve the general welfare – a cost is attached to the creation of value. The golden challenge is to create and add the

maximum value at the minimum cost (value-for-money), but not at the expense of quality.

An implication of vital importance can be drawn from the above-mentioned analysis, and that is, as soon as government engages in some kind of activity, aimed at satisfying the needs of its consumers, *value* is immediately created. However, this value comes at a cost.

An important side-note to be emphasised at this stage is that, although the majority of the discussion in this thesis will focus on tangible value to be created or added by government, it is important to note that the nature of the public sector's service rendering obligations dictated that, often, value cannot be measured in purely tangible terms. For instance, if the South African government decided to introduce quotas for the national cricket team, to address representivity in national sport teams (say that at least five of the eleven members of the team must consist of "black" players) they are indeed establishing a policy (that is, they "render a service") that implies that they are creating value. The value that they have created is not always easily measurable. The question will be what is the cost of the policy-decision (value creating activity)? On the one hand it will satisfy supporters of sports quotas, which will indeed add value to the interest of that group. But this value is not tangible – or is it? Maybe it is – in the sense that it may increase interest in the sport of cricket – which may eventually manifest in money being put into the sport (for instance in the form of additional gate tickets being sold). In such instance, the policy decision may still generate tangible value. However, the opposite is also possible – in the sense that the majority of present cricket supporters may be dissatisfied with the decision, and may gradually withdraw their support from the sport. In such an event, the sport may lose millions in for instance gate-fees and TV sponsorships. The eventual *tangible* result of the policy decision may then be that government has reduced the value of the sport (cricket). The intangible result, however, will be that the government will alienate a part of the citizenry.

This brings to the fore a vital principle to be formulated for the purposes of this thesis, and that is that it can be concluded from the foregoing discussion that government *creates value* by the policy-decision that they are taking. Nevertheless a catch exists and that is that government can make the best decisions possible, but they will never succeed in realising optimal value if the institutions tasked with the implementation of these decisions kills the value thereof by bad management practices. Value is ultimately created by means of management intervention in the target-market of the public sector (its customers). This represents the first phenomenon that will represent

the central theme of this thesis; an explanation of how the concept of *value creation* will be applied.

The second concept that will be of equal importance and will play a similar role in the realisation of the aims of the thesis is that of *adding value (or value added)*. Before looking into the theory of the concept, the following approach must be presented: For the purposes of this thesis, it will be accepted that *value creation* will represent the first step in a prolonged process of continuously *adding value*, to the value that has been created. If this process can be sustained over a lengthy period, the ideal of *sustainable value* will be achieved. The example of the instalments of taps for the purpose of water provisioning to a local community, quoted earlier, has already practically illustrated this point. If the ultimate aim (purpose) of government is to promote the general welfare, it can be taken as implying that government must continuously intervene in, or, more appropriately, continuously *interact* with its environment with a view of *developing* communities improve the quality of life all citizens.

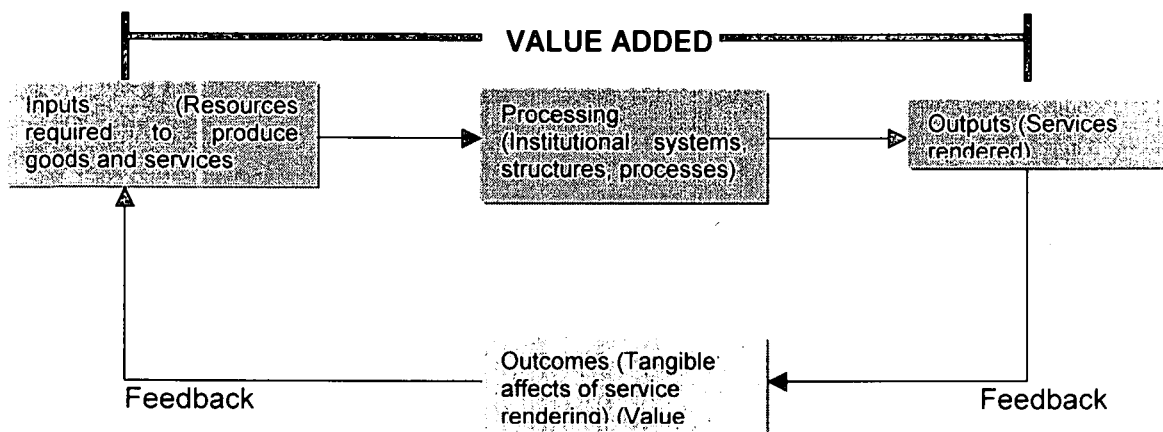
The issue is not whether government must intervene in its environment, but rather *how* to do it. If it is taken as a given that the concept of "promoting the general welfare" is synonymous with "development," and the word "continuously" is to be replaced with "*sustainable*," it can be concluded that the ultimate aim of government is *sustainable development*. As explained earlier, the term "development" can be expressed in terms of creating, and then "continuously" adding value. Expressed in terms of the terminology required to serve the purposes of this thesis, the principle therefore can be formulated by stating that the ultimate aim of government is to strive towards *sustainable value creating / adding*.

With the formulation of the above-mentioned approach, an attempt has been made to explain an economic concept in terms of a manageable one and then specifically one expressed in terms of a public sector idiom. The following quote would therefore be appropriate at this stage: "*The fundamental purpose of management is to add value ... value is created by managing production and cost, and choosing an appropriate architecture*" (Jackson, 2001:19).

6.2.2 "ADDED VALUE"

Figure 10

"Added value"



(Source: Stevenson, 1996: 5)

As an economic phenomenon, the concept of *value added* is fairly technical, and refers to "the value of (a firm's) outputs minus the value of the inputs it purchases from other firms (... which in turn were the outputs of those firms). Production, even the 'production' of services rendered by public sector agencies, occurs in stages: Some institutions produce outputs that are used as inputs by other firms, and these other firms, in turn, produce outputs that are used as inputs by yet other firms" (Lipsey *et al.*, 1990:512–513). (The above Figure illustrates this concept).

This definition is important for the purposes of this thesis in as far as it qualifies the approach identified in the previous paragraph. This approach is based on the theory that once government agencies have managed to create value, they must continuously add value by effectively and efficiently executing government policy in order to ensure or facilitate sustainability. An extremely important concept in this regard is that of *marginal value* – the principle that states value added is only the benefit gained *after* the commodities (resources) used to produce that additional value have been deducted. The implications are clear: A public service rendering organisation only adds value and thus contributes towards sustainable development, if the net value of its management activities exceeds the cost required to produce that value. The gross value created is equal to the "value of the value added" minus the "cost incurred in adding that value." Expressed in terms of economic terminology, this is known as *marginal value*. (Marginal value generated in terms of public service rendering = Benefits gained from public service rendering – (minus) cost to produce and distribute services).

The principle explained above is important for the purpose of this thesis as it emphasises the necessity to keep the cost of management actions in mind – not only

the tangible, mostly financial cost, but also the intangible component thereof. Consider the following example: President Robert Mugabe's confiscation of white-owned farms in Zimbabwe to make land available to landless black Zimbabweans undoubtedly added value in so far as it increased the quality of life of beneficiaries of the policy. It also added intangible value in so far as it satisfied black Zimbabweans who believed that they have been disadvantaged by colonialism. However, in terms of economic output, and the wrath of the international community, little doubt exists that the ultimate cost of the policy and especially the way in which it has been implemented, will eventually far exceed the benefits, and that no value has been added to the Zimbabwean economy or societal life in the process. In fact, existing value has been destroyed. (Marginal value gained = - (negative) x).

That brings back the problem of present-day service rendering structures in the public sector – namely the bureaucracy. This archaic system, developed for an era long passed, irresponsive to modern day virtual and dynamic organisational environmental realities simply consumes too many resources to be able to add much value to society. Expressed in simple terms - it adds too little marginal value, too slowly, both in an institutional, as well as a broader, environmental context. The bureaucracy consumes too much scarce resources, and too little resources are "left over" for actual service rendering). Time, pace and space have simply overtaken the bureaucratic system.

Bureaucracies are simply not able to respond timely to the needs of community and decision-making via the levels of hierarchy is too time consuming – which means that it is destroying potential value in terms of time being wasted, and time is money. Archaic red-tape procedures and proscriptions not only waste time, but it consumes millions in terms of inventory and equipment (modern bureaucracies positively maintain aged and out-dated stationery industries such as paper, pens, and paper-clips).

(Discussions and conclusions regarding the appropriateness of the concept of *marginal value* have been made from an interpretation of Friedman [<http://www.daviddfriedman.com>] and Charnov [1976: <http://www.animalbehavioronline.com/marginal.html>], except for the specifically quoted sources.

6.3 "STRATEGIC VALUE MANAGEMENT" IN THE PUBLIC SECTOR

The concept of Strategic Value Management is usually closely associated with its application in the private sector, and then specifically the financial sector. However, it is also an appropriate term for the purposes of this thesis. In this regard, the perspectives of Cinzia Parolini (1999: 1) will be reflected for the duration of this paragraph. He motivated his approach, the so-called "Value Net" as follows: *"The last few years of the twentieth century have seen a series of technological, economic, political and social changes that have been so profound as to cause structural changes in economic systems, the configuration of enterprises and their relationships with each other and with the environment, our individual private and working lives, and the way in which groups of individuals interact and work together.*

"The developments taking place in the environment are in some cases so radical that they can no longer be adequately interpreted using the models developed in the past. The mass of information arriving through the increasing number of media appears fragmentary and it is often difficult to understand the phenomena they express as a whole".

The essence of what has been said above, is that the rapidly and fundamentally changed and changing, environment requires new paradigms, new ways of approaching the public management process. The traditional way of viewing and expressing the ultimate "outcome" of the public management process in terms of public service rendering does not suffice any more. The traditional approach was that public sector organisations were supposed to render services to the community by establishing and utilising the bureaucratic apparatus of massive administrative agencies. Services were supposed to be rendered in mass to a more or less homogenous mass market.

The approach that will be promoted by this paragraph is that the focus of public sector management must change. The focus must shift away from the concept of service rendering to mass markets via the apparatus of massive public institutions to the creation and continuous addition, of value throughout every step of the public management process and by all role-players involved in this process. The changes taking place in the economic environment are fostering a new enterprise, or organisational model. Universal connectivity is drastically reducing the costs of gathering information, controlling and co-ordinating transactions with other economic operators. This reduction in external transaction costs is accompanied by greater environmental turbulence and a need for flexibility that undermines the capacity of traditional large, integrated and diversified companies to withstand the growing

pressure for maintenance of service quantities and qualities. Traditional large-scale government organisations have simply become too expensive to maintain much longer, and, simultaneously, maintain satisfactory service standards (Parolini, 1999: 41).

The time has come to consider implementing recent private sector tendencies in the public sector as well. This is the disaggregating of large, integrated and diversified companies and the greater co-ordination of the activities of small, independent organisations (Parolini, 1999: 41).

Parolini (1999:42–43) suggests moving away from traditional enterprise (or organisational) systems, to value creating systems, characterised by the following key elements:

- Focus on core competencies.
- The ability to participate simultaneously in more than one value-creating system.
- The ability to ensure organic connections with other economic and service rendering players involved in the value-creating systems in which they participate (PPPs [Public-Private Partnerships], interconnected departments).
- A high degree of internal integration between large departmental structures and specially selected streamlined organisations (for example specially selected and streamlined district offices).
- Internal and external flexibility.

Parolini (1999:62–63) proposed the so-called *Value Net* to manage and assess value created by means of organisational activity. The key components of this value net are:

- A value-creating system can be defined as a set of activities creating value for customers.
- These activities are carried out using sets of human, tangible and intangible resources.
- They are linked by flows of material, information, financial resources and influence relationships.
- Value-creating strategies include consumption activities, in so far as the value that final customers enjoy is also a function of the way they use and consume the potential value received.
- Final clients not only receive and consume the value created, but can also participate in value-creating activities.
- Activities may be governed by the market, a hierarchy or intermediate forms of co-ordination (organisation networks).

- Various economic and sectoral players may participate in a value-creating system by taking responsibility for one or more activities.
- Economic or sectoral players may participate in more than one value-creating system.

6.3.1 THE MEANINGS OF VALUE IN TERMS OF THE VALUE NET PHILOSOPHY

The principle of the value net could best be understood in terms of the value chain concept. A value chain identifies activities, functions and business processes that have to be performed in designing, producing, rendering and supporting a product or service. A value chain consists of two major types of activities, viz. primary activities that create value to customers and related support activities (Irwin, 1995: <http://www.csuchico.edu>).

In essence, the net value created by a value-creating system corresponds to the difference between the value a customer attributes to a product or service and the cost borne by the system in supplying it. For the purposes of strategic analysis, it is useful to distinguish the net value created by the system, the net value received by final customers, and the net value acquired by value-creating players (Parolini, 1999:107–108).

- *Net value created by the system:* This can be defined as the difference between the gross value that a customer assigns to a product or service and the overall costs sustained by the value-creating system in producing it. The value attributed to a product is directly related to the benefits that customers expect from it and inversely related to the costs associated with its use. The total net value created by the system is divided among the final customers and the economic players participating in its creation on the basis of their relative bargaining power.
- *The net value acquired by the value-creating players:* This can be defined as the difference between the value that customers attribute to a product or the service and the price actually paid for it. The total price paid corresponds to the total revenues received by the players involved in value-creating activities.
- *The net value acquired by the value-creating players:* This can be defined as the difference between the total price that the purchasers have paid to the players to carry out value-creating activities and the total costs that the latter have had to bear.

Value-creating systems can also destroy value. This happens when the value that customers attributed to a product or service is less than the costs borne in order to produce it (Parolini, 1999:109).

6.3.1.1 The meaning of value in microeconomics

In microeconomics, the question of customer value is mainly considered by determining the demand curve of a good or service, that is, the quantity of a product or service absorbed by the market in relation to its price. On the basis of the demand curve and the price adopted at any given moment, it is possible to identify the gross benefit received by consumers as well as what is known as the consumer surplus. This latter expression refers to the difference between the utility of a product or service for customers (that is, the gross benefit received as measured by the price they would be prepared to pay for it) and the reduction in the sum that these available to spend on the consumption of other products or services (that is, the price that they have to pay in order to be able to make use of the product). Consumer surplus is a measure of the net benefit received by consumers. (Also see paragraph 5.2.1. in this regard).

6.3.1.2 The meaning of value in strategic management studies

Parolini (1999:113–114) identified a number of informative perspectives regarding the factors that can increase value by utilising the strategic management process. However, most of these elements are linked directly to the profitability concepts that make them irrelevant for the public sector. Adapted for the purposes of this thesis, it could be translated into applicable and valuable perspectives regarding the meaning of value in the public strategic management process. In this, translated, form, the value of a given organisation essentially depends on the following factors:

- The benefits that the organisation manages to create for the customer (advantages).
- The costs that the organisation bears in supplying its services (cost).
- The strategic positioning and competitive bargaining power of the various participants within its own operating and competitive system.

6.3.2 ABSOLUTE NET VALUE RECEIVED BY CUSTOMERS

The absolute net value of a product or service is difficult to measure and may not have a close and direct relationship with its exchange value. Among other things, the latter depends on the scarcity of the product or service, competitive pressures and the price policy of the supplier, whereas the former depends above all on the utility of the product for the customer (Parolini, 1999: 118).

Before analysing and classifying the elements of absolute net value received by customers, it is worth underlying some of the main connotations (Parolini, 1999:118–119):

- Some of them can be quantified in monetary terms (for instance, the cost of purchase), others in non-monetary terms (for instance, the length of validity of the warranty), and still others are very difficult to quantify in any terms (for instance, the quality of the product).
- Not only the initial, but also the life-cycle costs of the products or services are considered.
- The elements of absolute net value and their relative importance depend not only on the type of product or service, but also on the market segment at which it is aimed.

Table 12

The main elements of absolute net value

Benefits	Costs
<ul style="list-style-type: none"> • Quality of the product or service. • Range. • Durability. • Obsolescence. • Availability and quality of complementary products / services. • Availability and quality of accessory products / services. And after service. • Prestige, social acceptance, security. • Method of purchase. • Diffusion. • Compatibility worth other goods or services. 	<ul style="list-style-type: none"> • Purchase costs. • Information costs. • Search and installation costs. • Learning costs. • Switching costs. • Running costs. • Maintenance costs. • Updating. • Impossibility of using complementary goods and services already owned by customers. • Cost of complementary goods and accessories.

(Source: Parolini, 1999:118)

6.3.2.1 The elements of absolute net value

The following elements serve as examples of absolute net value.

- *Tangible elements.* These include elements such as the intrinsic quality of the principal product or service that can be evaluated in terms of the quality of materials used, its durability, functional characteristics, reliability and compatibility with other goods or services, its aesthetic appearance and the possibility of receiving gifts or gadgets of various types.
- *Intangible elements.* These include elements such as the prestige associated with the use of the product or service, the degree of security attributed to it, and whether or not the provider is regarded as legitimate by the recipients.
- *Services.* Services can be divided into basic, complementary and accessory services. Basic services define how the product or service is offered to purchasers (customers). The services are therefore present in all available systems regardless of the level of purchaser satisfaction. They include elements such as the range offered and delivery times.

Complementary services are those required to ensure that the product or service can be used in a continuous manner. Accessory products or services are optional.

- *Economic elements.* Economic elements can be divided into two groups: the purchase price of the product or service and all other economic elements.

6.4 IN PURSUANCE OF SUSTAINABLE VALUE CREATION: GOVERNMENT AS THE CREATOR OF WEALTH

Can government create value? The answer to this question is an unambiguous "yes." If the answer was "no," the entire theme of this thesis would have been worthless and it would have been impossible to attain the aims set for the thesis. As determined, by continuously creating and adding value, government improve the quality of life of citizens, and in so doing, engaging in facilitating development. If sustainable development is realized over any meaningful period of time, the ultimate goal of government is realised – and that is to promote the general welfare. By continuously creating – and adding value to society and improving the quality of life for all, government is in essence creating wealth.

6.4.1 WEALTH EXPRESSED IN TERMS OF AN ECONOMIC PHENOMENON

The first and foremost expression of wealth is *economic wealth*. Perhaps the most authoritative expression of the wealth created by the economic system of a country is the so-called *GNP per capita*. Baumol and Blinder (1985:75) defines the term "GNP" (Gross National Product) as " ... the sum of the money values of all final goods and services produced by the economy during a specific period of time, usually one year." GDP is the sum of all investment, consumption and government spending, plus exports minus imports. It is the value of all the goods and services produced in the country in one year (Biggs, 1997:10).

The GNP can be measured by three methods; namely the income approach, the expenditure approach or the value added approach. Naturally, for the purposes of this thesis, the value added approach is most appropriate, and will therefore be shortly explained. Baumol and Blinder (1985:135-136) explain the concept as follows: "The **value added** by a firm is its revenue from selling a product minus the amount paid for goods and services from other firms". If a holistic perspective is taken in respect of this definition, it can be stated that GNP can be measured as the sum of the values added by all participants in the national economy.

This equation can be presented as follows:

Figure 11

Formula for value added

$$\text{Value added} = \text{Wages} + \text{Interest} + \text{Rents} + \text{Profits}$$

A comparative summary of the GNP of selected countries can be presented as follows:

Table 13

The comparative GNPs of selected countries

Country	GNP (billion)	Average Annual Growth (%)
Switzerland	\$284	1.80
United States	\$7,903	2.50
Japan	\$4,089	-2.70
United Kingdom	\$1,264	2.10
South Africa	\$137	0.50
Nigeria	\$36	1.10
Pakistan	\$62	3.00
Uganda	\$7	5.70

Australia	\$387	5.60
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(Source: William F. Ekstron Library www.louisville.edu/library/ekstron/govpubs.html)

It is important to note that the GNP figures *per se* merely give an indication of the total value of economic activity in a specific country within a certain period of time. It reflects very little of the wealth in that specific country. For instance, on face value, Switzerland would be regarded as relatively poor in comparison to the U.S.A. That is before one realises that Switzerland must care for approximately 6,8 million people with its GNP of \$284 billion, while the U.S.A. must do the same for 275, 5 million citizens with the \$7,903 billion at its disposal. (Comparative population figures obtained from the William F. Ekstron [Library @ www.louisville.edu]).

If the above-mentioned consideration is accounted for, it is clear that a mere consideration of GNP figures is inadequate to measure comparative wealth. In order to solve this "problem," GNP is often expressed in terms of GNP *per capita*. This concept can be defined as "*the dollar value of a country's final output of goods and services in a year, divided by its population. It reflects the average income of a country's citizens. GNP per capita shows what part of a country's GNP each person would have if this GNP were divided equally. Countries with a GNP per capita of \$9,361 (in 1998) or more are described as high-income, between \$761 and \$9,360 as middle income, and less than \$760 as low income*" (GNP Text, 2001: <http://www.worldbank.org>).

Going beyond GNP *per capita* helps reveal other important development issues. For example, GNP *per capita* is expressed in dollars, but a dollar may buy more in one country than another. To compare the actual purchasing power of *per capita* incomes across countries, *purchasing power parity* can be considered (GNP Text, 2001: <http://www.worldbank.org>). Baumol and Blinder (1985:755) define the term as follows: "*The purchasing-power parity theory of exchange rate determination holds that the exchange rate between any two national currencies adjusts to reflect differences in the price levels in the two countries.*"

GNP *per capita* and Purchasing Power Parity (PPP) in respect of the selective comparative countries identified in the initial example of GNP measurement are reflected below.

Table 14

The GNP per capita and Purchasing Power Parity (PPP) of selected countries

Country	GNP per capita	Purchasing Power Parity
Switzerland	\$38,120	\$24,970
United States	\$34,260	\$34,260
Japan	\$34,210	\$26,460
United Kingdom	\$24,500	\$23,550
South Africa	\$3,020	\$9,180
Nigeria	\$260	\$790
Pakistan	\$470	\$1,960
Uganda	\$310	\$1,230
Australia	\$20,530	\$25,370

(Source: World Bank, 2001: www.worldbank.org)

The potential impact of the economic indicators of comparative wealth of a nation in international contextual are reflected in the following statements:

- Of the world's 6 billion people in the world, more than 1,2 billion live on less than 1\$ per day. Two billion people more are only marginally better off.
- About 60% of the people living on less than \$1 a day live in South Asia and Sub-Saharan Africa.
- In high-income countries, farmers – men and women – make up less than 6 per cent of the workforce, while in low – and middle-income countries combined, they represent nearly 60% of all workers.
- Developing countries account for almost \$1 out of every \$4 that industrial countries earn from their exports (GNP Text, 2001: <http://www.worldbank.org>).

A practical expression of the above-mentioned considerations for value creation is to be found in the following example: Tunisia, traditionally an extremely poor, desert-stricken country in the north of Africa, without any substantial natural resources such as oil or minerals, managed to truly create sustainable value. By 1999, the economy has been growing at an average of 5,8%, inflation had been pegged down to 3,1%, the budget deficit had been whittled down to 3%, and the balance of payments deficit had stabilised at around 4%. External debt was no more than 17% of exports. They concentrated on job-creation, implementing infrastructure projects, the liberalisation of a traditionally closed economy, the ingenious use and careful husbanding of whatever resources were available and a highly skilled and enterprising workforce (Tunisia, 1999: <http://tunisiaonline.com>).

6.4.2 WEALTH EXPRESSED IN TERMS OF HOLISTIC HUMAN DEVELOPMENT

Of the thirty poorest countries in the world today, as measured in terms of the human development index, twenty-five (83%) are found in Africa. Many scholars have investigated the causes of this poverty and underdevelopment in Africa and several variables have been identified as major contributors. Among these are political opportunism that includes such behaviours as corruption and rent seeking, excessive population growth, political violence, poorly developed and non-sustainable income infrastructure, high debt levels, military intervention in politics and governance, a global economy that places African producers at a competitive disadvantage, an international financial system that discriminates against African traders and the economic policies of the developed market economies (Mbaku, 2000: <http://web.africa.ufl.edu>). This implies a very important aspect of wealth, and that is, although economic development plays a very prominent role in it (and even a predominant one) the concept nevertheless entails more than mere economic value. In order to motivate this argument, the United Nations Development Programme has developed the so-called *Human Development Index*. This Index measures a country's achievements in three aspects of human development, namely (UNDP, 2001: <http://www.undp.org>):

- Longevity, measured by life expectancy at birth.
- Knowledge, measured by a combination of the adult literacy rate and the combined gross primary, secondary and tertiary enrolment ratio.
- Standard of living, as measured by GNP *per capita* (PPP US\$).

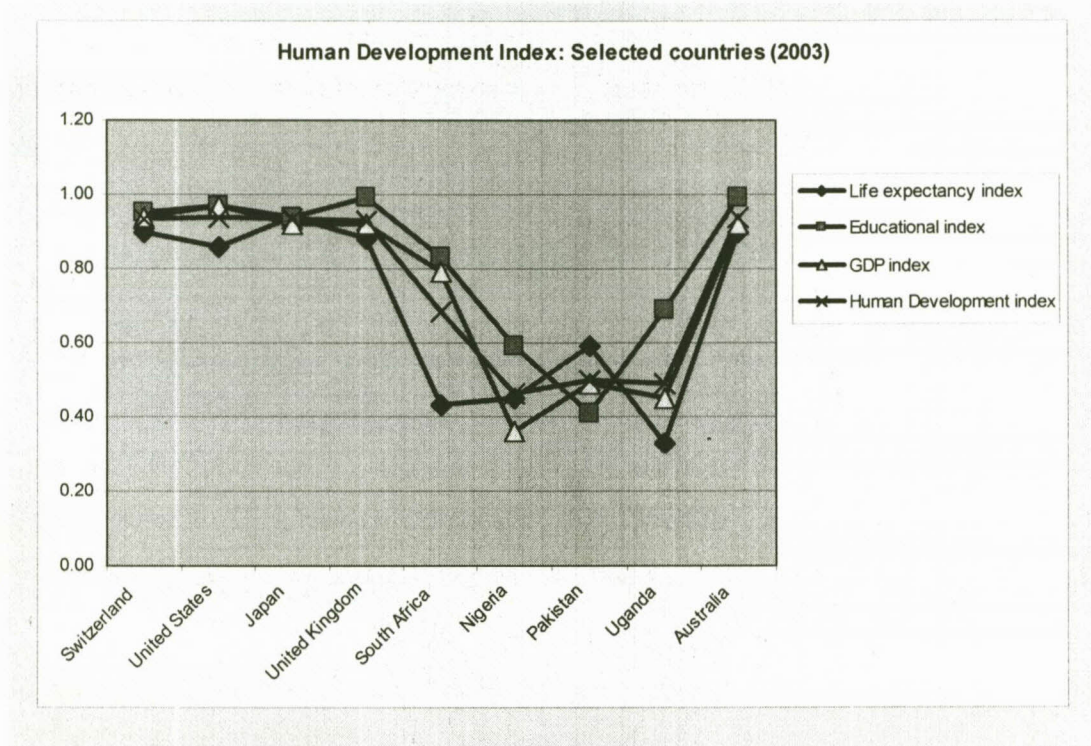
If the countries mentioned by way of comparative example so far are compared, the result in terms of the Human Development Index listing issued by the United Nations, will be as follows (United Nations, 2003: <http://www.undp.org>):

- Switzerland – 10th place
- The U.S.A. – 7th place
- Japan – 9th place
- The U.K. – 13th place
- South Africa – 111th place
- Nigeria – 152nd place
- Pakistan – 144th place
- Uganda – 147th place
- Australia – 4th place

After considering all the relevant variables acting as determinants of *wealth* in a modern (and post-modern?) society, it is clear that the ultimate wealth-spiral, especially when expressed in terms of an individualistic idiom, articulates into the single concept of *sustainable improvement in the quality of life of all citizens*.

Figure 12

More about the Human Development Index



(Source: United Nations, 2003: <http://www/undp/org>)

Frequently Asked Questions on the Human Development Indices

What is the HDI?

The Human Development Index measures a country's achievements in three aspects of human development: longevity, knowledge, and a decent standard of living.

Longevity is measured by life expectancy at birth; knowledge is measured by a combination of the adult literacy rate and the combined gross primary, secondary, and tertiary enrolment ratio; and standard of living, as measured by GDP *per capita* (PPP US\$).

How is the Human Development Index used?

To capture the attention of policy makers, media and NGOs and to draw their attention away from the more usual economic statistics to focus instead on human outcomes, not economic data. The HDI was created to re-emphasize that people and

their lives should be the ultimate criteria for assessing the development of a country, not economic growth or interest rates.

To question national policy choices - asking how two countries with the same level of income per person can end up with such different human development outcomes (HDI levels). For example, Vietnam and Pakistan have similar levels of income per person, but life expectancy and literacy differ greatly between the two countries, with Vietnam having a much higher HDI value than Pakistan. These striking contrasts immediately stimulate debate on government policies on health and education, asking why what is achieved in one country is far from the reach of another.

The HDI can be used as well to highlight wide differences within countries, between provinces or states, across races, language or religious groupings. Highlighting internal disparities along these lines has raised national debate in many countries.

(Source: UNDP, 2001: <http://www.undp.org>)

6.4.3 SUSTAINABLE VALUE CREATION EXPRESSED IN TERMS OF THE TRIPLE BOTTOM LINE

It has been reasoned above that sustainable value can ultimately be expressed in terms of sustainable development; a concept that can be defined as "... *the principle of ensuring that our actions today do not limit the range of economic, social, and environmental options to future generations*" (Elkington, 1997:20). In this regard, the concept of the *triple bottom line* becomes important. Elkington (1997:396) defines this concept as follows: "*Sustainable development involves the simultaneous pursuit of economic prosperity, environmental quality, and social equity. Companies aiming for sustainability need to perform not against a single, financial bottom line but against the triple bottom line*". Rolltronic (1998-2003:<http://www.rolltronic.com>) echoes these elements by defining the triple bottom line concept as "*the return on capital investment when evaluated and measured along financial, social and environmental dimensions*".

The triple bottom line approach focuses attention on not only economic value added, but also on the *environment* and *social value* they add, or destroy. At its narrowest, the term "triple bottom line" is used as a framework for measuring and reporting corporate performance against economic, social and environmental parameters. At its broadest, the term is used to capture the whole set of values, issues and processes that organisations must address in order to minimise any harm resulting from their activities and to create economic, social and environmental value. This involves being clear about the organisation's purpose and taking into account the

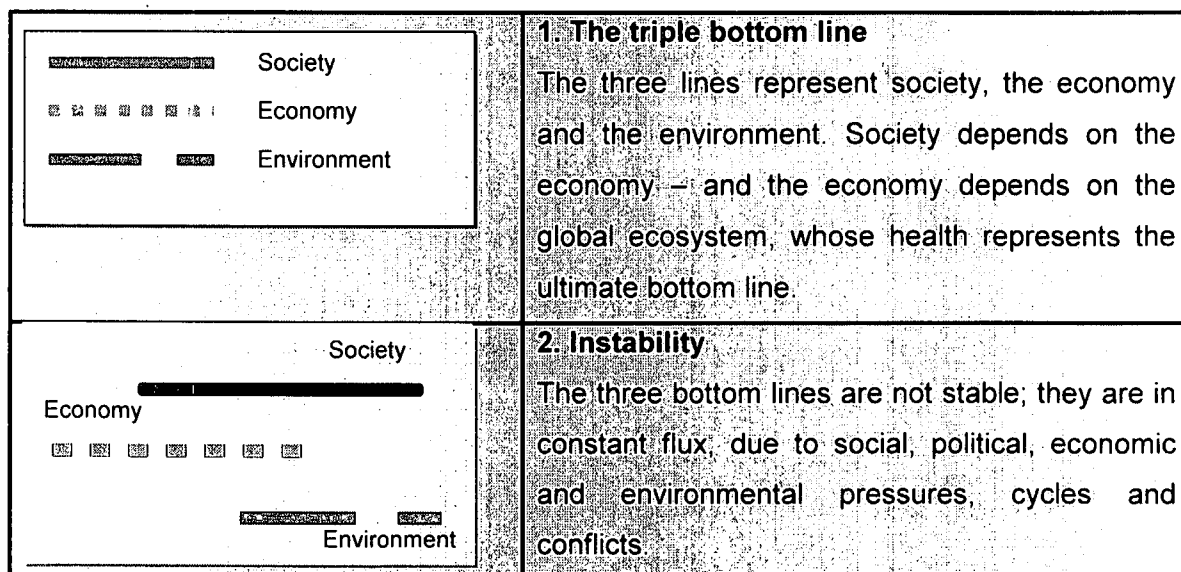
needs of the company's stakeholders – the community, customers, employees, organisational partners and political decision-makers (SustainAbility, 2003: <http://www.sustainability.com>).

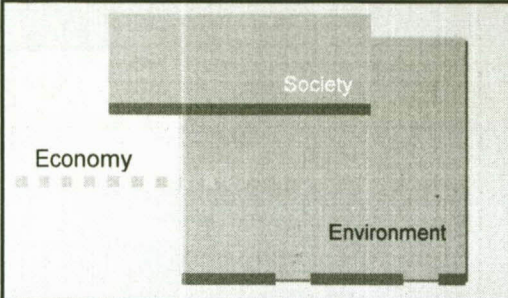
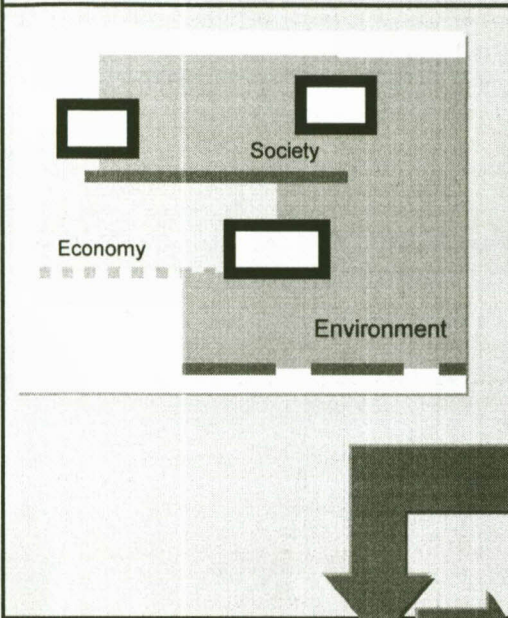
Appropriate methodologies to express organisational responsibilities in terms of a triple bottom line idiom, are (Rolltronics, 1998-2003: <http://www.rolltronics.com>). (Read on the hand of the Figure on the next page):

- *Natural capital.* Natural capital is the one triple bottom resource that most closely resembles the current concept of capital. It refers to all those resources that are provided by the planet in the form of raw material, plants and animals. The world is currently treating these resources as though they are limitless – which they obviously are not. Anyone with even the most limited exposure to organisational dynamics knows that the endless consumption of capital cannot be sustained and will inevitably lead to the demise of the organisation.
- *Social capital.* Another, more subjective manifestation of capital associated with the triple bottom line concept, is social capital. Social capital comes in two forms: (1) Human capital invested by people directly into the organisation, and (2) the investment by social systems that support business processes.
- *Human capital* is the capital that “walks out the door” every night. Long after the initial capital has done its job, the human capital continues to follow into an organisation and sustain it. This human capital is the investment of intelligence, creativity, experience, skills, talents, passion and education by employees and their families, suppliers, partners, advisers and customers.

Figure 13

The triple bottom line in action



	<p>3. Continental plates</p> <p>Think of each bottom line as a continental plate, often moving independently from the others.</p>
	<p>4. Shear zones</p> <p>As the plates move under, over or against each other, "shear zones" emerge where the social, economic or ecological equivalents of tremors and earthquakes occur.</p> <p><i>Economic / environmental</i></p> <p><i>In the economic / environmental shear zone, some organisations already promote eco-efficiency. However, greater challenges have to be addressed – for instance, environmental economics and accounting, shadow pricing and ecological tax reform.</i></p>
<p><i>Social / environmental</i></p> <p><i>In the social/environmental zone, organisations are working on environmental literacy and training issues, but new challenges will be sparked by, amongst others, environmental justice, environmental refugees, and the inter-generational equity agenda.</i></p>	<p><i>Economic/social</i></p> <p><i>In the economic/social shear zone, some companies are looking at the social influences of proposed investment, but bubbling under are issues like business ethics, human and minority rights, community participation and stakeholders interests.</i></p>

(Source: SustainAbility, 2003: <http://www.sustainability.com>)

- **Organisational services, processes and technologies.** To explain the relevance of organisational services, processes and technologies as "capital resources" in the triple bottom line, the example of Rolltronics (1998-2003: <http://www.rolltronics.com>) can be mentioned. The company promised to meet the need of their customers with electronic technologies that are, throughout their life-cycle, substantially less harmful to the environment than existing semiconductor products. They also promised to design products and enabling technologies specifically to meet the needs of 50 – 75% of the world's population not served by the electronics industry at present.

The interaction between the organisation and its primary stakeholders are absolutely vital to ensure the success of efforts aimed at promoting sustainable value by means of the application of the triple bottom line approach. In the case of the New Zealand Ministry for the Environment, these stakeholders were identified as (New Zealand, 2003: <http://www.mfe.govt.nz>):

- Government (the executive): the Minister for the Environment, the Minister of Energy, Cabinet, other public sector agencies and the department's own staff.
- Parliament (the Legislature): the Local Government and Environment Select Committee, Finance and Expenditure Select Committee, the Office of the Auditor-General, and the Parliamentary Commissioner for the Environment.
- Other stakeholders, including the Energy Efficiency and Conservation Authority and the Environmental Risk Management Authority (the two Crown entities for which they have monitoring responsibility), and suppliers and consultants.
- The wider community: local government, industry and business, environmental organisations, professional associations, educational organisations and the general community.

6.4.4 THE ROLE OF GOVERNMENT AS CREATOR OF WEALTH

Who is responsible for wealth-creating activities? The answer is a wide variety of actors operating in society; such as private business and government, as already mentioned. This thesis will concentrate on the role of the public sector institutions. Who, or what are these institutions? Government, in the sense of the legislature, the political executive and its administrative agencies are definitely part thereof. These institutions determine the broad policy-framework (goals) for wealth creation. However, ultimately the responsibility to intervene in society and in so-doing touch the life of ordinary citizens on a daily basis, in order to execute these policies, is the responsibility of public sector administrative-executive institutions.

For these executive institutions to create or add value, and in the process create wealth, resources are required. These resources represent value in itself. Just as private sector companies can, and must be valued to determine the net value they hold for stakeholders who have an interest in their activities, it is important for public sector institutions to be valued in a similar way in order to determine its net value for *its* stakeholders.

In the above-mentioned paragraphs it has been argued that wealth in a society is a multi-faceted concept. Generally speaking, the conclusion can be made that, if

government wants to create value expressed in terms of the determinants of the human development index, it must improve health care with a view of achieving longevity, invest in education in order to improve literacy and the knowledge-base in society, and choose the correct economic policies in order to improve the GNP *per capita*. In order to *create value* and improve the wealth of all citizens, these interventions in the economic and societal environment on the part of government is subject to the prerequisite that the *outcomes* (results) must exceed the *inputs* (costs) optimally, and in a sustainable manner. The wealth created must exceed the cost thereof.

The predominant tool used by government to intervene in civil society with a view of creating and/or optimising wealth, is that of *public policy-making*. Government intervention for the sake of wealth creation pre-supposed a wide variety of *policy-decisions*, of which economic policy certainly exercises the most profound influence on Government's ability to achieve the others, but it is by no means the only one that matters.

The traditional perspective on the function of policy-making in the public sector was that it was part of the process aimed at setting and achieving government goals for civil society. It spelled out what should be done, when and by whom (Cloete, 1988:77). Anderson's (1994:5) definition of the term *policy* basically supports this point of view, and illustrates an important concept attached to it, namely that of the importance of the environment. It is stated that, "*(Policy is) a proposed course of action of a person, group, or government within a given environment providing obstacles and opportunities which the policy was proposed to utilise and overcome in an effort to reach a goal or realize an objective or purpose.*" A major drawback of public policy-making is the fact that it inevitably reflects the political ideology and political values of the government of the day and which it believes will contribute most towards the general welfare (Hanekom, 1987: 11). These political ideologies and values are almost always based on emotions and perceptions, rather than rationality and reality.

At this stage it would be useful to return to the element identified as the single most important determinant in measuring wealth in a country; that of *economic outcomes (growth)*. Gregory and Stuart (1995:43) identified five so-called "performance criteria" that can be applied to assess economic outcomes are as follows (Gregory & Stuart, 1995: 43 – 48):

- *Economic growth* refers to increases in the volume of output that an economy generates over time or to increases in output *per capita*.

- *Economic efficiency* refers to the effectiveness within which a system utilises its available resources (including knowledge) at a particular time (static efficiency), or over time (dynamic efficiency).
- *Income distribution* refers to the way in which an economic system distributes income among households. In various developing countries, the enormous gap between the rich few and the poor masses is one of the single greatest threats to sustainable peace and value creation in the country.
- *Stability* refers to the absence of significant fluctuations in growth rates, the maintenance of acceptable rates of unemployment, and the avoidance of excessive inflation.

What must Government do to achieve the above-mentioned prerequisites for optimal economic outcome, thus creating value – and eventually economic wealth? Two basic mechanisms are available to government to manage and control the economy; fiscal policy and monetary policy. It is not the purpose of this thesis to explore economic policy, but for the sake of explaining a vital way in which *government can potentially create wealth*, it is necessary to address these concepts.

Fiscal policy refers to government's plan for spending and taxation. It is designed to steer aggregate demand in some desired direction (Baumol & Blinder, 1985:195). In theory the usefulness of fiscal policy as a tool to be used for creating value and subsequently wealth is fairly simple to understand. The nature of the tax system used and the general tax-rate must be able to generate adequate resources to enable government to render quality and sufficient quantity services to the community that will increase the GNP *per capita*, improve the quality of life of all, and thus by so doing create and continuously add value. Looking at the expenditure side, fiscal control measures, such as effective budget – and expenditure control must be implemented to ensure that the country does not spend more money than it has.

Worth noting is the point about borrowing. The interest payable as a result of money borrowed to "fill the gap" caused by such a scenario will disadvantage value creation in so far as it will have a negative effect on the input – output ratio because it will require taxpayers to provide inputs (tax money) for expenses (outputs) that do not generate any meaningful outcome (value-creating benefit). Such an argument is only valid in as far so it relates to *operational* expenditure. If loans are used to finance infrastructure-creating capital projects, the result will be the creation of long-term capacity – that will pro-actively enhance sustainability.

The concept of *monetary policy* refers to "(a)ctions that (the Reserve Bank) take to change the equilibrium of the money market; that is, to alter the money supply, move

interest rates, or both" (Baumol & Blinder, 1985: glossary). Monetary policy deals with matters such as (Gildenhuys, 1993:119–120):

- Manipulating the money supply.
- Controlling the interest rate and determining the bank rate.
- Exchange control.
- Control of the international balance of payment.
- Credit control and determining the liquidity requirements of commercial banks and other financial institutions.
- Indirect control over the inflation rate.

How can the manipulation of monetary policy be used by government to add value? Take the example of the South African Reserve Bank, that has set a so-called "inflation target" of 6%, meaning that it wants to make sure that the inflation rate as measured against the Consumer Price Index on a year-to-year basis must not exceed 6% by the year 2003. What value will this create or add? The answer is simple: If the inflation rate can be kept under control, the average South African, whose salary only increases by, say for argument sake 4% per annum, will not experience such a drastic decline in his or her *quality of life*, that is, less value will be destroyed because of a narrowing gap between the available wealth and the cost of living.

However, the matter is not that simple. A country also functions as part of the larger global economy, which means that it is constantly exposed to international economic trends. Consider the following example: Demand for the South African Rand dropped sharply during the last quarter of 2001, and reduced the value of the currency against all major international currencies. The net result (*outcome*) of this reality was that consumer value in that country has been killed at an alarming rate. This posed a serious threat to the ability of the Reserve Bank to achieve its inflation targets, because the falling Rand has made imports more expensive and forced price increases, which in turn resulted in a higher inflation rate.

To counter this reality, the South African Reserve Bank's Monetary Policy Committee decided on 15 January 2002 to increase its repo-rate (the rate at which the Reserve bank lends money to domestic private banks) (Mboweni, 2002: <http://www.resbank.co.za>). The intention is that this step will "protect" existing value from being destroyed by stemming the continuous fall of the Rand against major international currencies. Ironically, the side effect may be a recession (decrease in the country's GNP figures for at least two consecutive terms); that will in any event

destroy value in so far as it will decrease the quality of life for ordinary South Africans.

The importance of a holistic view, where fiscal and monetary policy decisions intertwine become apparent when the elements involved in measuring economic freedom is taken into account. According to an intensive study dealing with this principle (Gwartney *et al.*, 1996: xv) the central themes of economic freedom are personal choice, protection of private property, and freedom of exchange. The functional economic indicators used to measure the results of the study were (Gwartney *et al.*, 1996: 16):

- Money and inflation.
- Government operations and regulations.
- Takings and discriminatory taxation.
- Restrictions and international exchange.

6.5 CONCLUSION AND CHAPTER LINKAGE

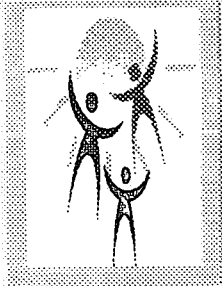
This Chapter has attempted to present the ultimate aim of government that is to promote the general welfare in terms of a quantifiable 21st century idiom by suggesting a value-based approach to public management. In pursuing this ideal, the concept of value has been recommended as a suitable alternative to manage and measure the net worth added throughout the management process; with the *value* concept defined in terms of the net worth ("surplus" value) added to public sector organisations and its environment alike.

In order to optimise the value of the recommendations made and approach followed throughout this Chapter, a strategic approach to the management of value was suggested. This approach was based on the *Value Net* theory, presented by Cinzia Parolini, and was built around the perspective that, in a fast-changing, complex organisational reality, efforts aimed at managing value must take cognisance of the complicated network of actors involved in value-creating activities and that the efforts of these actors must be integrated to optimise the ultimate net value provided to customers (the community).

The Chapter was concluded by explaining the relevance of a value-based approach to public management for achieving sustainable development. Government must be the ultimate creator of wealth, and must use its management capacity to optimise the wealth of its citizens.

The three chapters following this one will focus on conceptualising a model of organising and management in the 21st century; that is, the collective aim of these chapters will be to exposing the key components of 21st century management, that must undergo a fundamental paradigm shift if government hopes to realise its ultimate aim, which is to promote the general welfare. The first of these (Chapter 7) will attempts to explain the paradigm shift from information, to a knowledge bases for the organising and management of government organisations. The explanations and recommendations will take form around the following Chapter aims:

- To motivate the relevance of conceptualising knowledge as the ultimate component of 21st century organisational infrastructure.
- To conceptualise the term Knowledge Management (KM) as a 21st century public management phenomenon.
- To conceptualise the concept of managing and measuring organisational performance in terms of its intellectual capital.
- To conceptualise the creation of a Learning Organisation.



CHAPTER 7 KNOWLEDGE AS THE FOUNDATION OF A 21ST CENTURY MANAGEMENT PARADIGM

7.1 INTRODUCTION AND CHAPTER OBJECTIVES

The soul, the ultimate infrastructure component, of any organisation, is the way in which power and authority is vested, distributed and exercised. This eventually determines the nature and scope of organisational decision-making structures and activities. In the 20th century organisation, this foundation was to be found in information. Information drove the decision-making process. In the 21st century, this role will be transferred to the concept of organisational knowledge.

Management in the 20th century era was dependent on the timely and accurately availability of information. In the 21st century, this role will be taken up by *knowledge* or "applied" information. The ultimate difference between information and knowledge lies in its *utility value*. Knowledge continuously adds value to organisational capacity-building. Information, on the other hand, is merely useful in the underlying *potential* thereof. Knowledge implies the transfer of an invaluable asset that immediately adds value to the organisational value chain. Information can become knowledge if the if correctly transformed and applied. The most important and sustainable sources of strategic advantage have become knowledge and relationships with customers.

The concept *knowledge-based organisation* is a fairly new philosophy in the management sciences, but its usefulness for application in a dynamic, ever-changing and knowledge-founded 21st century reality is beyond doubt. This Chapter will set out to explain and conceptualise the importance and practicality of creating and managing knowledge-based public organisations to meet the service rendering challenges of the 21st century. This will be done by explaining and conceptualising the root (core) foundation of a knowledge-driven organisation in terms of its

intellectual capital (assets) and the need for such organisations to become learning organisations.

Successful organisations no longer rely on traditional factors of production only for their survival. Traditionally the main method of measuring this ability of organisation was financial in nature, mostly expressed in terms of annual financial statements. Financial resources are increasingly being recognised as merely one of the complex array of resources utilised by the organisation to create and add value to its clients and the national (and even global) economy. An innovative new method to manage and assess organisations in respect of all the resources utilised in the processing of inputs (resources) into outputs (services or products), was the formulation of the so-called *intellectual capital* concept.

This Chapter will shortly analyse the concept of intellectual capital and attempt to suggest a suitable application thereof for utilisation in a government sector organisational set-up. It seems to be the approach that would increasingly gain prominence and acceptance as a model according to which the value created or added by government organisations would be measured in the 21st century.

The concept of a learning organisation is based on the notion that knowledge-driven organisations function according to the principle that organisational knowledge must be shared freely and developed continuously.

Chapter objectives

- *To motivate the relevance of conceptualising knowledge generation as the ultimate component of organisational infrastructure.*
- *To conceptualise the term Knowledge Management (KM) as a 21st century public management phenomenon.*
- *To conceptualise the concept of managing and measuring organisational performance in terms of its intellectual capital.*
- *To conceptualise the creation of a learning organisation.*

7.2 TOWARDS KNOWLEDGE-BASED ORGANISATIONS

In organisational context, the term management can be defined as "(t)he process of setting and accomplishing goals through the use and coordination of human, technical, and financial resources within the context of the environment" (Baird et al., 1990: 6). Griffin (1999: 7) defines the term (of management) as a set of activities directed at an organisation's resources (which are human, financial, physical, and

information) with the aim of achieving organisational goals in an efficient and effective manner.

If the above-mentioned definitions are analysed, three (3) aspects could be identified, which are of special importance for the purposes of this thesis. These are as follows:

- Management is about setting and accomplishing goals.
- In order to achieve these goals, certain resources must be available.
- A formal structure is required to integrate the process(es), or "set of activities" required to deploy organisational resources, and integrate activities.

In order to promote the broad aims of this thesis (which are all directed at identifying and describing the paradigm shift[s] required for achieving government's ultimate aim in the 21st century [to promote the general welfare in a sustainable manner]), the next three (3) chapters (7 – 9) will focus on analysing these (the above-mentioned three (3) key areas of organisational activity) in order to identify the paradigm shifts required in respect of each to satisfy the thesis' aims.

Government's mandate must be implemented and executed by its management agencies. These agencies are structured as organisations, and also function as such. It could therefore be argued that an assessment into the nature of 21st century organisations would be an appropriate method to analyse the requirements for government to successfully realise its ultimate aim in the 21st century (which will be to promote sustainable development in a sustainable manner).

When constructing a hypothetic model of the typical organisation, there are a number of key elements, which have to be present in order to constitute a formal organisational structure, capable of engaging in needs-fulfilling activities. These elements also represent the key areas to be targeted for a fundamental paradigm shift from traditional hierarchical bureaucracy towards a vision of 21st century organising and management that would be able to deliver the desired results. These are as follows:

- The life-blood of an organise activity, which enables all further organisational and management activity. Traditionally, this foundation of organised activity was information. In the 21st century, it will become knowledge.
- Establish organisational structure. Organisational structure provides the framework within which organisational activities are taken place. It is quite difficult to find an appropriate definition of organisational structure to suit the purposes of this thesis, because most of the available definitions concentrate on hierarchical notions of organising. The intention of the thesis will be to promote a paradigm

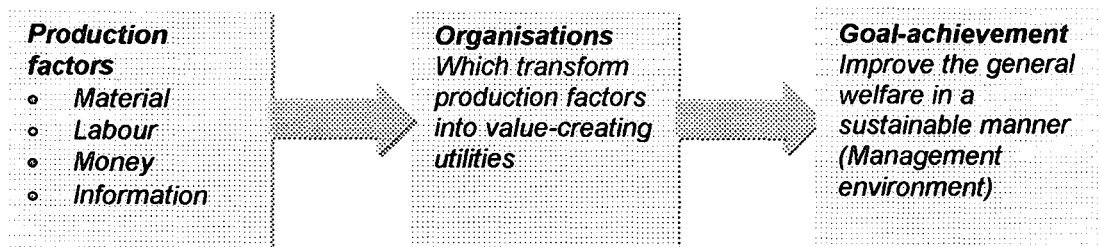
shift from hierarchical, towards project-based notions of organisational structuring.

- Organisations use resources to engage in activities, which enable the implementation and execution of organisational goals and objectives. These resources must be managed according to principles, which would ensure that it is deployed and measured in such a way that optimal value could be gained from the limited resources available. This thesis would suggest that resources must be managed and controlled in terms of comprehensive performance management.

The requirement for any person, or a group of persons, to engage in activities aimed at satisfying a specific goal (or goals), is the presence of certain resources. In a management idiom, these resources are referred to as production factors. Traditionally the production factors required for organisational activities were identified as land and other material resources, labour, capital (Marx and Churr, 1984: 7) and information (Griffin, 1999: 7). The relationship between these production factors, the organisation and the management environment can be presented as follows:

Figure 14

Relationship between production factors, the organisation and the management environment



(Concluded from Marx and Churr, 1984: 7)

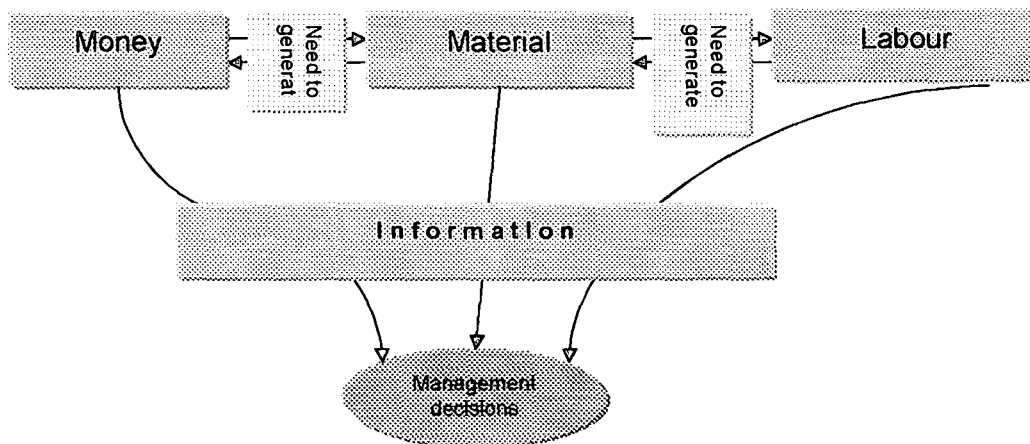
Production factors are required to enable organisational activities. If these organisational activities are conducted successfully, it would result in goal-achievement, which would imply the achievement of sustainable development, which would obviously means that the citizens, which functions in the management environment, would benefit.

In terms of the discussion so-far, it can be concluded that production factors, as prerequisites for organisational activity, provide the foundation for government agencies to enable them to implement and execute government policies. However, there is another dimension to this argument, which is to be found in an analysis of the mutual relationship between the identified production factors.

Material, money and labour are all tangible production factors. In order to engage in any activity with a view of realising a specific goal, a person or organisation will require labour (skills, or human effort), material (land, buildings, equipment, stock, and so forth), and money (to fund the acquisition and utilisation of the above-mentioned two). However, on their own, they can add no meaningful value to an organisation's efforts to realise its goals and objectives. The glue that binds it together is the fourth production factor – information. Information enables decision-making, decisions that will determine where, when, by whom the other production factors will be used. The following presentation reflects this perspective:

Figure 15

Interaction between the four basic production factors



Decision-making is the nerve system of any organisation. Griffin (1999: 264) defines decision-making in organisation context as the act of choosing one alternative from among a set of alternatives. This involves recognising and defining the nature of a decision situation, identifying alternatives, choosing the "best" alternative, and implements it. Organisational decision-making determines what will be done, where, when, by whom, how, and how organisational resources would be deployed in achieving the goals and objectives of the organisation.

Again, information is the key to effective organisational decision-making. In order for managers (organisational decision-makers) to know what could be done, who must do it, where it must be done, and how it must be done, they must have information, "telling" them how much resources are available, what are the quality of these resources, and what are the alternatives in deploying these resources.

This, the combined result of the organisation's production factors, centred on a strong information core, provide the foundation of and for organisations and will be referred to as the integrated organisational infrastructure for the remainder of the chapter. It will also provide the focus for the first recommended paradigm shift to take

chapter. It will also provide the focus for the first recommended paradigm shift to take place towards 21st century management in the government sector. However, that is not the end of the matter.

Organisational decision-making, and the functioning of organisations generally, rests on the way in which organisational power and authority manifest itself. No action or activity is possible without sanction from the appropriate authority or source of power inside the organisation. This reality runs like a golden line through all organisational decision-making functions, and will therefore be subsequently be discussed.

7.2.1 ABOUT ORGANISATIONAL POWER AND AUTHORITY

The way in which government organisations traditionally, under a bureaucratic model, organise internal power relations, was in terms of top-down, hierarchical distribution of organisational power. In exercising organisational power, government organisations have followed the same bureaucratic model as private sector organisations. In this context, power, or for the purposes of this discussion – organisational power can be defined as “(t)he ability to exert influence in an organisation”. The theory of management distinguishes between three broad manifestations of power in organisations, *vide.*:

- *Legitimate power.* Holding a managerial position, with its accompanying authority, provides a manager with a power base. Handy (1993:128) refers to this kind of power as *position power*, which he describes as “... the power that comes as a result of the role or the position in the organisation”.
- *Referent power.* Power is also based on an individual's personality or charisma and how that personality is perceived by others.
- *Expert power.* Expert power is held by persons who have demonstrated their superior skills and knowledge. They know what to do and how to do it.

The concept, and more specifically the application of organisational power, lies at the heart of the way in which organisations function, and therefore also at what will be analysed and, ultimately, recommended in this thesis. In this regard, it must be stated immediately that it is not the intention to question the need for organisational power that is absolutely necessary to ensure organisational and structural discipline, integration of work and activities, and the enforcement of managerial accountability. What will be questioned, will not be organisational power, but rather the way in which it is been applied in modern bureaucratic organisations. Traditional applications of organisational power requires fundamental transformation (paradigm shifts) if

government organisations successfully hope to realise its ultimate aim, to promote the general welfare in the 21st century. The reasons for, and manifestation of, such changes can be exposed as follows:

- *Hierarchical notions of bureaucratic power-relations require domination. It excludes democracy per definition.*

The “problem” with modern manifestation of power in organisations; that is, the bureaucratic, hierarchical application of organisation power, is that it is inherently focused on subordination – it promotes loyalty towards the “boss” and the bureaucratic apparatus, rather than to specific goals or functions. The interests of the individual working and functioning within the bureaucracy, is linked to adherence to the bureaucracies’ rules and regulations and not to achieving specific goals and objectives. Hierarchical-bureaucratic organisations tend to reward blind loyalty to the boss and organisational rules, and punish innovation. Bureaucratic notions and applications of organisational power promote the creation of personal “power-kingdoms”, with loyalty to the “king (or queen)” above all the ultimate manifestation of acceptable behaviour.

- *Bureaucratic red-tape implies slow decision-making and irresponsive service rendering.*

Bureaucracy and rigid prescriptive rules and procedures are inseparable concepts. Procedurally, the typical 20th century bureaucratic organisation was, and is still largely based on the acceptance that, where two or more persons are working together, a specific procedure must be followed to ensure optimal results. Mostly this procedure would be based on “best practices”, and will be prescribed in organisational policy (Cloete, 1988:165). These rules and procedures, regulating almost every aspect of organisational functioning have been perfectly suited for the traditional bureaucratic institution - and was ultimately also the base of the power domination in these organisations. The reality is that most of these procedures are put in place to ensure that junior personnel do not “step out of line”.

However, over the years more and more procedural prescriptions were added, the one upon the other. The result was that the process to actually get something done has got longer and longer and more complicated. The ultimate result is what became known as *red tape*.

Government organisations simply have to re-consider the deep-rooted belief in red tape as an appropriate (or adequate) mechanism to ensure proper record keeping and prevent undesirable side-effects of the management process, such as fraud and corruption. Red tape-solutions are simply too archaic and too time

consuming to play this role in a 21st century organisational set-up. It is simply an outdated concept that would not be able, by any stretch of the imagination, be able to yield the expected and desired results of service regarding in the fast moving, ever-changing 21st century environment. Red tape and rule-bound organising suppresses innovation and initiative. The negative side effects thereof, such as misuse of time, the wastage of resources and the duplication of functions, outweigh the advantages thereof; including preventing potential misuse of resources, fraud and corruption. In this regard the Ontario State Government has taken a positive first step with the establishment of the so-called *Red Tape Commission*. (Ontario Red Tape Commission, 2001: <http://www.redtape.gov.on.ca>).

This Commission defines the concept of red tape as “any government requirement that stands in the way of job creation or wastes taxpayers’ time and money”. The Commission aims to remove barriers to business, investment and job creation (Ontario Red Tape Commission, 2001: <http://www.redtape.gov.on.ca>). The core business of the Commission is (Weeres and Paleczny, 2001: <http://www.redtape.gov.on.ca>):

- *Takes action on special projects.* The Commission works with ministries and the regulated community on special projects to eliminate and prevent red tape and improve Ontario's business climate for investment and job creation.
- *Develops red tape reduction legislation.* The Commission investigates and resolves red tape problems brought to its attention by business, institutions, and members of the public.
- *Intervenes in red tape matters.* The Commission investigates and resolves red tape problems brought to its attention by business, institutions and members of the public.
- *Reviews proposed policies and legislation.* The Commission reviews ministries’ policy, legislative, and regulatory proposals for red tape implications.
- *Reviews red tape reduction plans.* The Commission reviews the red tape reduction plan – part of each ministry’s annual business plan.

On face value, the Commission’s activities bearded valuable fruits, as it claims credit for the following (Weeres and Paleczny, 2001: <http://www.redtape.gov.on.ca>):

- In 2000, Ontario's economy grew faster than the economy of the United States and faster than the economies of the rest of the G-7 industrialised

nations in order to maintain the quality of life the citizens enjoys, the Commission intends to ensure that the province remains competitive as a place to do business.

-- Between September 1995 and February 2001, the Ontario economy created more than 807,000 jobs. The Commission indirectly contributes to job creation, and is dedicated to remove any job-killing barriers.

- *Hierarchical bureaucracy suppresses organisational initiative and innovation.*

Kanter (1983:212) remarks, "*Innovative accomplishments stretch beyond the established definition of a 'job' to bring new learning or capacity to the organisation. They involve **change**, a disruption of existing activities, a redirection of organisational energies that may result in new strategies, (services), ... opportunities, work methods, technical processes, or structures ... To initiate and implement an innovation, people need that extra bit of power to move the system off the course in which it was heading automatically*". The problem with traditional bureaucracy, and hierarchical power-relationships, is that those actors awarded with organisational power, need to protect that power in order to serve their own best interests in corporate context. Innovation from sub-ordinates more often than not threatens such power-positions, and is discouraged. Another problem is the fact that innovative ideas are often in contradiction with organisational red-tape prescriptions and rules.

The question can rightfully be asked: If hierarchical, bureaucratic application of organisation is so bad and removing it all together is not an option (as has indeed been determined above), what then must replace it? The model proposed for the purposes of this thesis will be based on the following principles:

- Organisational power must be allocated and exercised in such a way that the *function* that must be performed enjoys centre-stage and not internal bureaucratic structures, systems and processes. This also implies that power (or organisational authority) must be functional, rather than hierarchical.
- Whereas position-power is the ultimate expression of organisational power in existing "20th century" designed organisations, *expert power* must be awarded this status in a 21st century corporate design of power relations.
- Organisational power must promote innovation, rather than organisational synergy and discipline. (This does not imply that the latter two are unimportant – only that they have "lower" priorities in terms of organisational power designs). A well-known South African author and speaker on the topic of motivation, Dr. Arnold Mol, strongly believes in, and promotes the idea that the only true way of

motivating employees is to allow them to do what they are expected to (without interference, or without undermining their power to perform the functions attached to the job) (Concluded from Mol, 1990: 3 – 5). This approach must be encouraged. Discipline must concentrate on demanding accountability in terms of key performance areas exposed in a formal performance agreement, and not so much on the traditional supervisory power-relations.

7.2.2 CONCEPTUALISE THE PARADIGM SHIFT IN RESPECT OF ORGANISATIONAL INFRASTRUCTURE

When considering the paradigm shift required in respect of the information foundation of organisations, in order to transform it into organic units capable of delivering optimised marginal value in a 21st century management environment, two (2) issues must be addressed. These are the following:

- Will traditional notions of taking decisions regarding production factors (that is, the information bases thereof) need to change, or will the present approach suffice?
- What kind of production factors will be required to enable organisational activities in 21st century government organisations? Will it be the same of that traditionally used, or will it be different?

The first issue to be considered relates to the inherent nature of the information bases of organisations. In light of the fact that this aspect will be discussed in more detail at a later stage during the unfolding of this chapter, it will only be shortly mentioned at this stage, and that is the fact that the information bases to organisational infrastructure will increasingly be replaced with the concept of organisational knowledge. The difference is that, while information needs to be analysed and processed first, before it can be able to add or create organisational value, knowledge is (already) "applied information", which implies that the beholder thereof can use it immediately to add meaningful value to organisational performance.

Consider some of the traditional sources of organisational information for a moment. One of the most important of these was the training and education of organisational managers at educational institutions. Others of importance for this discussion were the information generated by organisational data capturing, record-keeping and transaction processing, and other decision support systems, and (finally) interaction between colleagues.

- For most of the 20th century, traditional notions of management training suffice. Graduated individuals joined existing organisations, or study part-time and then gradually grown as they methodologically progressed through the various layers of organisational hierarchy. Managers were not only allowed, but indeed encouraged to gradually develop a high level of organisational knowledge, because personal career development practices often provided for age (in the sense of period in service) as a criteria for promotion. Experience, progress, and adequate time allowed to apply his or her theoretically acquired information, granted an opportunity to gradually create organisational knowledge (which is applied information).

The pace of change in the management environment, and the explosion of knowledge about management, organisation and other functional areas of expertise, will make such a scenario for the 21st century unlikely. Managers are getting younger and younger. The traditional profile of executives are getting mixed up, as organisations struggle to win the race to obtain and maintain the scarce management and executive skills required to maintain an strategic advantage in the immensely complicated and competitive 21st century organisational reality. Not surprisingly, traditional notions of equipping managers with the skills and knowledge required to manage modern organisations are also changing. In the future, 21st century educational paradigm, management training will be increasingly conducted in terms of a coaching and mentoring perspective, with student-managers provided with mentors, who could coach and support them handle theoretical and/or academic information in such a way that it instant organisational knowledge is produced. (Derived from an interview with Professor J.C.O. Bekker from the University of the Free State, 2003).

- The mid-20th century experienced the introduction of computers as generally used office aids, after which organisational information, processing, data capturing and other decision support systems were gradually computerised. The capacity of these systems usually entailed basic data capturing and storing, the summary, and subsequent summarised reporting of such data in the format of information required for decision-making. The capacity of these systems to analyse data feed to make, and "make sense" of it was limited.

The decision support systems of the 21st century will have to be much smarter in order to be able to produce knowledge-based utility, rather than mere information that must still be processed. The coming about of such systems has already been experienced with the introduction of Internet, executive information systems and

organisational electronic communication networks (derived from Griffin, 1999: 681 – 683).

- The source of information mentioned last above, was interaction between colleagues. This, the most under-utilised method of transferring organisational insights (information / knowledge) in the bureaucratic set-up, is likely to become the most important method in 21st century, post-bureaucratic organisations. The nature of the bureaucracy is to suppress the willing sharing of information – for the simple reason that the “best benefit” of the individual manager is closely attached to, and associated with his or her control over information, the source of organisational knowledge. In a post-bureaucratic organisation, the individual manager will advantage him or herself by willingly and freely “tell stories” (that is, spreading organisational knowledge in the form of applied information, expertise and experiences).

The second paramount paradigm shift required in respect of organisational infrastructure, is the “contents” of this infrastructure. It has already been determined that, traditionally, the so-called production factors provided the bases for organisational activities. However, this approach will be too narrow in scope to properly manage and measure organisational value in the 21st century knowledge-based reality. These would still be required, but will have to be extended to account for the intellectual capital (assets) of the organisation. Organisational performance statements reflected the relative standing of the organisation in terms of its production factors, with an emphasis on the money (financial) aspect – especially in the private sector). In the 21st century, increased attention will have to be paid to the intellectual capital of the organisation, that is aspects such as the intrinsic value of customers to the organisation’s ability to create or add value to its environment, the value captured in organisational structures, and the correct choice and structuring of such structures, and the value inherited to its internal processing methodologies.

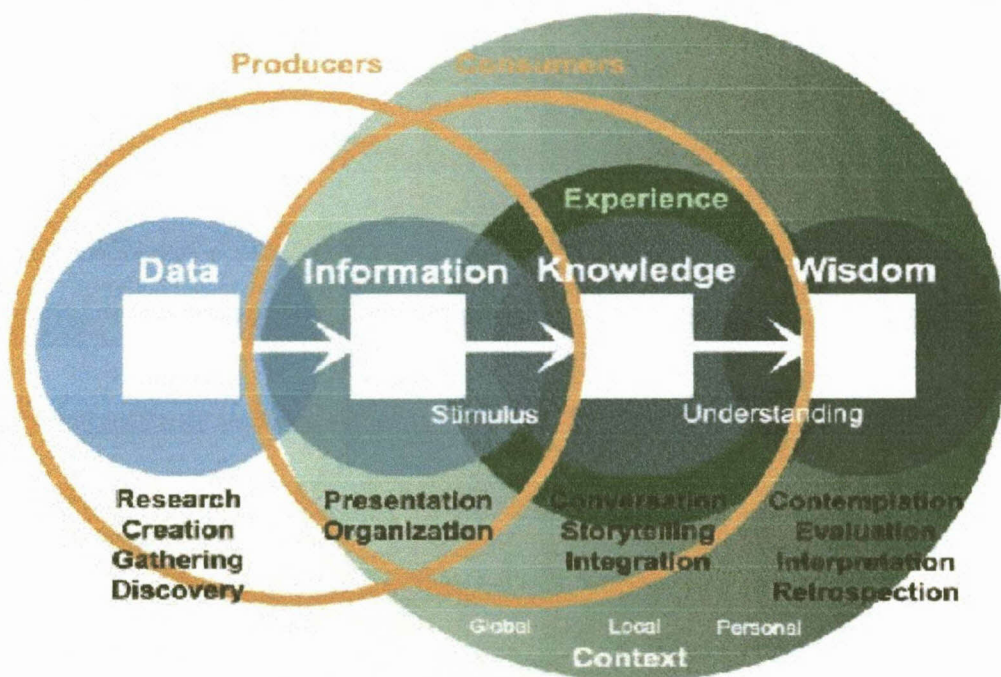
7.3 CONCEPTUALISE KNOWLEDGE MANAGEMENT AS THE CORE MANAGEMENT COMPETENCY OF THE 21ST CENTURY

Dzinkowski (2000:32) makes the following informative remark: “*While there is little consensus as to what knowledge actually is, many do accept that knowledge is a primary competitive factor in business today*”. If, for the sake of this discussion, it is required to define the object of the analysis, the term *knowledge* can best be defined as the fact or condition of knowing something with familiarity gained through experience or association. Knowledge may be recorded in an individual brain or

stored in organisational processes, products, facilities, systems and documents (University of Texas, 1998: <http://www.bus.utexas.edu>). Alavi's (University of Maryland, 1997: <http://www.mbs.edu>) definition expands on this by stating that knowledge can be understood as a justified belief that increases an entity's capacity for effective action. Information is the raw-material for production of knowledge Alavi, 1997: <http://www.mbs.edu>); which, in turn, obtains its structure from data. This process can be graphically presented as follows (Habermann, 2001: <http://globalchange.gov>):

Figure 16

The knowledge development process



(Source: Habermann, 2001: <http://globalchange.gov>)

The above perspective can be explained as follows:

- Data and information are the “results” of the activities of producers. Through research, data-creating activities, the gathering of facts and statistics and the discovery of new sources of data, they produce a valuable source of new knowledge. Data is mostly obtained from external resources such as customers, suppliers and politicians.
- If these data are processed, they produce useful information. Both the producers and users (consumers) of information is involved in the transition process to

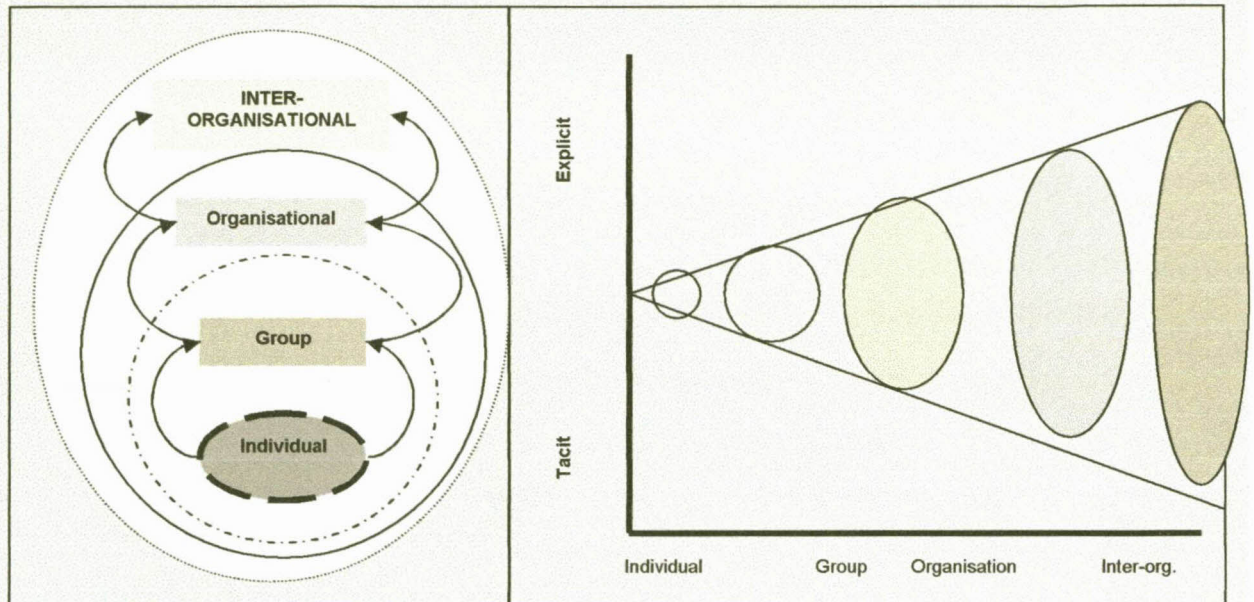
create value in the organisational chain. Information organise data (makes it presentable).

- Information could be transformed into knowledge whenever a specific stimulus occurred. Such a stimulus could be the need to take a decision regarding a specific management problem, or a need for reliable information for planning purposes. Organisational information is primarily obtained from organisational data processing systems. Knowledge, on the other hand, is personal in nature ("in the eye of the beholder"). In a sense, knowledge can be regarded as applied information.
- The primary users of organisational knowledge are consumers (decision-makers). In post-modern organisational context, knowledge is spread throughout the organisation via the communication channels, by conversation, and sharing of experiences ("storytelling").
- Organisational wisdom is the ultimate expression of organisational knowledge. Organisational wisdom implies a proper understanding of the flow of organisational resources and production factors and it can usefully be applied to evaluation, interpretation and organisational control purposes.

Peter Drucker believes that knowledge is the only meaningful economic resource (Quintas, 1997:385) – a strong, yet important statement that captures the essence of the place and purpose of knowledge as an organisational asset in 21st century organisations. Knowledge differs from traditional, 20th century organisational production factors (resources) in the sense that it increases in usage, while the traditional organisational resources reduce in usage. This statement can be explained as follows:

Figure 17

The knowledge creation spiral



Inherent to the nature of knowledge, it “spirals” out as it is shared. It starts from an individual level, when a specific individual transforms information (gathered from raw data) into knowledge (which is the only resources capable of producing innovation and continuously renewal; which, in turn, provides the basis to manage for a strategic advantage). As this knowledge is shared, it becomes useful to the group in which the individual functions, and then to an organisational level, and then to an inter-organisational level.

This process could manifest itself in one of two ways: (1) in a tacit manner; that is, “by way of example”, or “in terms of the dynamic energy generated by an individual, group or organisation’s expertise”. (2) Explicitly, that is, when knowledge is shared verbally, or in writing, or in terms of formal knowledge sharing.

The above Figure illustrates the multiplication nature of organisational knowledge. As knowledge is shared among individuals, groups and organisations, the value impact (results) thereof increases. Traditional organisational resources, such as money, personnel and material, decrease proportionally in usage. (It is gradually “used up”). If a department has R1 million available, and the money is used to remunerate five employees, the value of the R1 million at disposal reduces as the employees are paid. However, if an employee with thorough knowledge of a specific organisational activity is requested to share this knowledge with five other employees, the value of knowledge is multiplied (x) by five.

(Concluded from Alavi, 2001: <http://www.mbs.edu>)

It may sound very technical and theoretical. However, when evaluating the value of the above-mentioned for organisations operating in the 21st century, it is important to keep the context in mind. The 21st Century public sector organisations will differ fundamentally from that known in the 20th century. In a third wave, sophisticated economy and individual consumer choice will replace collective mass-production systems, characteristic of the 20th century corporate environment. The only way in which public sector organisations functioning in a 21st century reality will be able to satisfy the sophisticated, yet enormous demand for government services, will be by optimising organisational performance; productivity – efficiency, effectiveness and economy. The only way this could be achieved, would be by optimising organisational knowledge. In a high-tech, post-bureaucratic organisational reality, processmatic efficiency will not be able to ensure organisational performance any longer.

It can safely be assumed that the performance of 21st century organisations; functioning on a knowledge-basis, will differ fundamentally from that associated with 20th century organisations.

7.3.1 FROM “INFORMATION MANAGEMENT” TO “KNOWLEDGE MANAGEMENT”

In the post-modern organisation idiom, “information management” is fast losing face in favour of what has been labelled “knowledge management”. The former entails exactly what have been exposed in the foregoing paragraph – the storage and distribution of information throughout the organisation. The latter can be regarded as “applied information”, that is, the results generated by *processed* information. In this regard reference can be made to the opinion of Sveiby (1998:18), a knowledge management guru, who emphasised the interaction between intellectual capital and knowledge management. From this perspective, the term “knowledge” refers to information regarding tangible factors that influence the management capacity of the organisation, such as cost and capacity, but also information regarding *intangible* assets such as image, know-how, personal chemistry and individual competence. The rationale for the application of a knowledge management approach is the fact that knowledge must be the focus for organisational analysis, and that organisations must find ways in which to manage the processes whereby knowledge is created and applied (Quintas *et al.*, 1997:386).

The discussions in this Chapter will focus on the fact that knowledge management can be regarded as the key to effective management in 21st century organisations.

Progressive managers consider intellectual capital and knowledge management to be vital for sustained viability. Intellectual capital focuses on renewing and maximising the results of the organisation by optimising the value of intellectual assets. Knowledge management supports intellectual capital by focussing on detailed systematic, explicit processes. Advanced organisations pursue deliberate strategies to exploit knowledge management as a way of maximising intellectual capital and in so-doing maximising the value generated by the organisation. The implication is clear: If 21st century government organisations can manage to maximise its management of knowledge resources, it will optimise its intellectual assets – a reality that will then filter down to all other management processes such as the strategic planning process, and the performance management framework.

Something of the importance of knowledge management for 21st Century organisations is captured by Sveiby (1998:18) when he states that, *"each time we share knowledge, it is doubled. Each time we share money, it is halved"*. The implication is clear and very important to take note of: The effective management of knowledge has the potential of creating and adding value to organisational management processes and practices at a previous unknown rate.

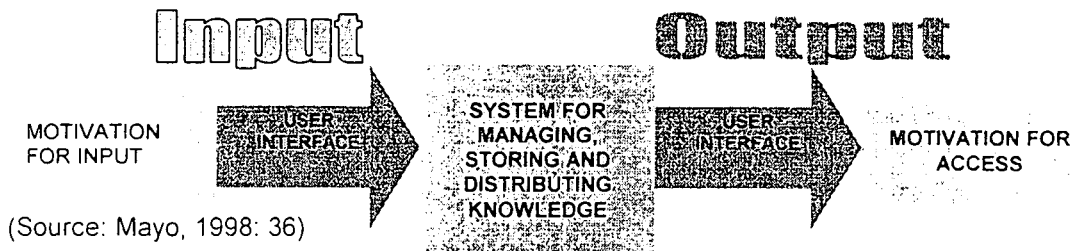
In order to explain the effect of knowledge management on the strategic – and performance management processes appropriately, it is important to explain the essence of the flow of knowledge in an organisation. Sources of knowledge are to be found both outside, and inside the organisation. Factors that influence knowledge flows include (Gupta and Govindarajan, 2000: 477) –

- the comparative "importance" and strengths of outside stakeholders that "provides" the organisation with information – the basis for knowledge,
- motivational disposition to existing knowledge regarding the "outside" stakeholder,
- existence and richness of transmission channels,
- motivational disposition to acquire knowledge, and
- absorptive capacity.

The flow of knowledge in organisational context can be presented as follows:

Figure 18

Knowledge as a socio-technical system



(Source: Mayo, 1998: 36)

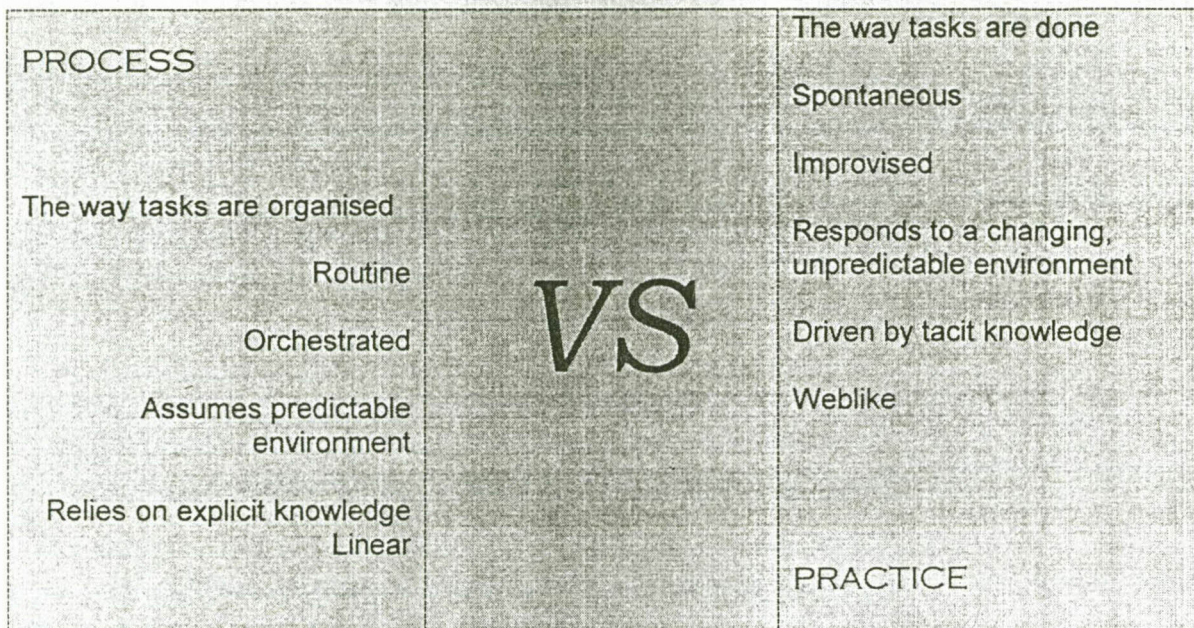
An operational knowledge management system will include the following processes (Mayo, 1998: 36):

- Managing the generation of new knowledge by means of learning.
- Capturing knowledge and experience.
- Sharing, collaboration and communicating.
- Organising information for easy access.
- Using and building on what is known.

One of the major problems in modern-day organisations is the difference between the way things are formally organised in an organisation (its processes) and the way things are actually done (its practices). The difference between the two creates tension that can be very difficult for managers to handle. If management lean too much toward practice, new ideas may bubble up and evaporate for lack of a structure to harness them. Lean too much toward process and no new ideas may be generated at all. The goal therefore, is to tap into the creativity at work in every layer of an organisation with a combination of process and practice (Brown & Duguid, 2000:<http://www.hbsp.harvard.edu>). The essence of *efficient management of knowledge* is to create a situation in an organisation whereby process (the generation of new ideas) and practices (the things that are actually being done) are in harmony – that is a situation where renewal is smoothly and efficiently integrated into the management practices of the organisation. If the organisation can achieve this, it will be able to filter this renewal through to the strategic planning phase – and ultimately to actual service rendering “on the ground”.

Figure 19

Process versus Practice



(Source: Brown & Dugid, 2000: <http://www.hbsp.harvard.edu>)

- *Organisational structures and culture:* These include the development of structures that facilitate the growth of communities of practice. Groups of professionals informally bound together by exposure to a common class of problems, with a common pursuit of solutions, who thereby embody a store of knowledge themselves.
- *People aspects:* Training, development, recruitment, motivation, retention, organisation, job design, cultural change and the encouragement of thinking, participation and creativity and the management of all types of employment contracts.
- *Process aspects:* Process innovation, re-engineering, both for radical and continuous improvement.
- *Technological aspects:* Concept maps, hypermedia and object-orientated databases, artificial intelligence approaches to knowledge acquisition, representation and discovery, decision support, data mining and knowledge dissemination.

Increasingly, progressive managers consider the management of intellectual capital and knowledge management as vital components of sustained organisational value improvement. Intellectual capital focuses on renewing and maximising organisational value. Knowledge management supports the management of intellectual capital by

focussing on detailed systematic, explicit processes that enhance the quality of information required for effective decision-making (Wiig, 1997:399).

In a broader organisational context, a model aimed at maximising knowledge related effectiveness can be diagrammatically presented (see next page). The model (Figure) could be understood by referring to Wiig (1997:402). An organisation can maximise its knowledge-related effectiveness by implementing the following strategies:

- Monitor and facilitate knowledge-related activities.
- Establish and update knowledge infrastructure.
- Create, renew, build and organise knowledge assets.
- Distribute and apply knowledge assets effectively.

Pinchot and Pinchot (1993:xiv; 4) make the valid point that traditional bureaucracies were extremely protective of information, because knowledge means power to managers: The more knowledge they have, the more indispensable they become for the organisation and the faster they progress through the hierarchy. However, in an era where bureaucracy has been disbanded, information will flow freely among the various employees of an organisation, because the focus will be on the performance of the team, rather than the individual and all members of the team will benefit from good performance. (See Figure on next page).

7.4 MANAGE AND MEASURE ORGANISATIONAL VALUE IN TERMS OF ITS INTELLECTUAL CAPITAL

The concept of *intellectual capital* has its roots firmly in the 21st century reality of knowledge becoming more valuable and more powerful than natural resources, big factories or fat bankaccounts. Intellectual capital is the sum of everything everybody in an organisation knows that gives it a competitive advantage or competitive strategic ability (Stewart, 1997:<http://members.aol.com>). The skilled individuals and organisations would need to succeed in the new environment, characterised by the unfolding "knowledge economy" differs from the existing one. The era of intellectual capital still recognises all the tangible things that financial professionals are used to, tracking and measuring, such as raw materials, real estate, machinery and products or services. However, the valuable assets in this era will be human brainpower, employee and customer loyalty, electronic databases, patents and trade secrets, and innovative organisational structures and practices (Madigan, 1999:

<http://www.businessfinancemag.com/archives>). The following aspects could be considered (Stewart, 1997: <http://members.aol.com>):

- Most organisations still do not manage their corporate brainpower (the most important asset they have) and do not realise how many billions of dollars they waste by not doing so.
- Intellectual capital has the ability to free up other capital, such as equipment, cash and inventories, liberating financial resources, increase corporate agility and dramatically increase value for money.
- New principles and concepts of managing people in an information economy will become important. In this way people will really become the most important asset in the organisation.
- Intellectual capital emphasises the reality that knowledge is power and this power flows downstream towards customers, giving them vastly more influence in organisations. Government organisations must learn to re-position themselves to share in this new reality and respond pro-actively to it.
- Intellectual capital is part and parcel of the 21st century reality and will not succeed in 20th century bureaucratic set-ups.

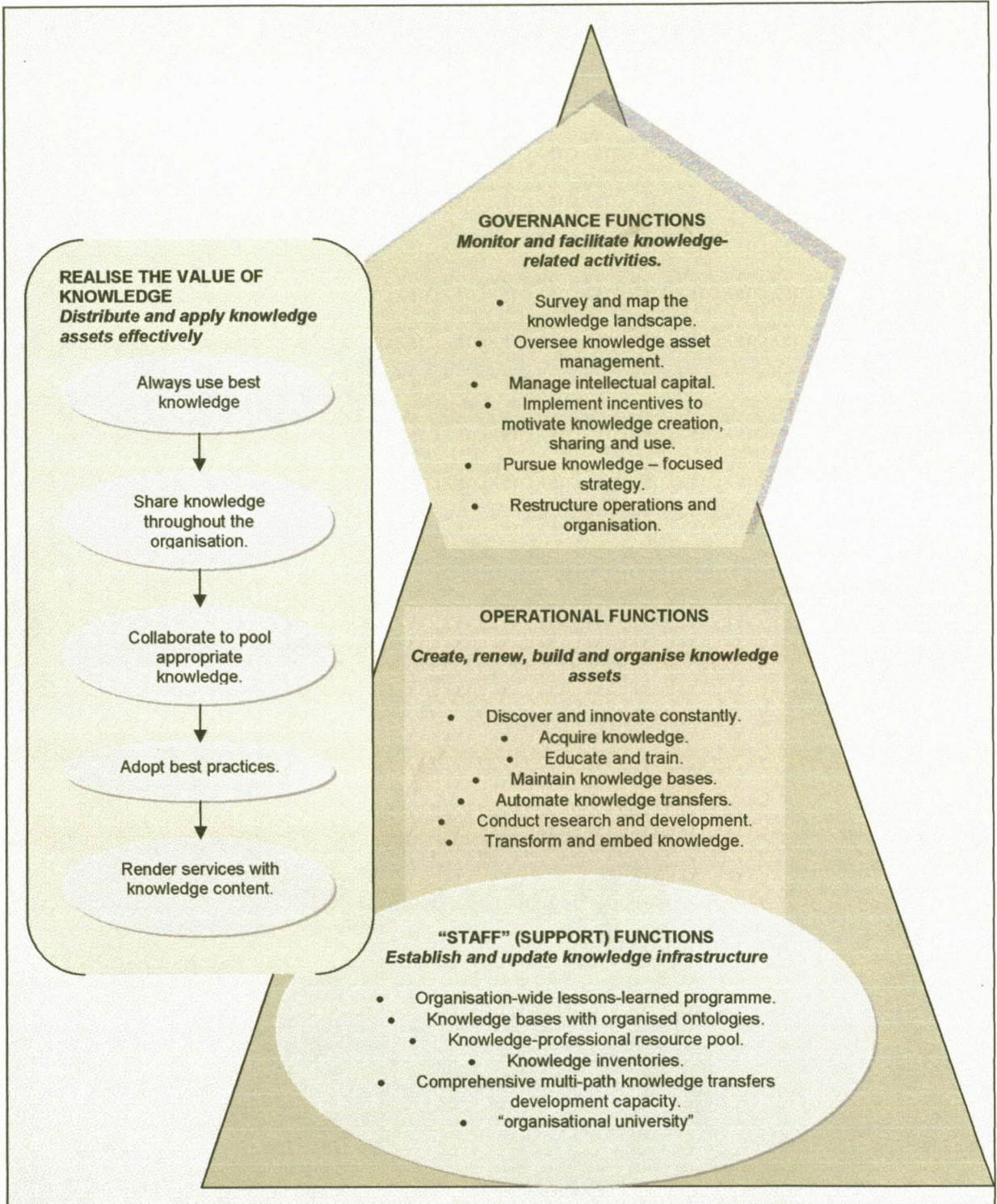
Modern organisations, finding themselves at the threshold of the 21st century, have to start to manage all their assets and flows of resources, and not just the visible ones (Roos *et al.*, 1997:14).

Roos and Roos (1997: 415) expose the concept of intellectual capital as follows:

- Intellectual capital is the sum of the "hidden" assets of the company not fully captured on the balance sheet and thus includes both what is in the heads of organisational members and what is left of the company when they leave.
- Intellectual capital is the most important source for sustainable strategic advantages in organisations.
- An important managerial responsibility is to manage the intellectual capital of an organisation better.
- The growth and decline of intellectual capital can be called "intellectual performance" and can be visualised and measured.
- A systematic approach to visualise and measure intellectual capital is increasingly valuable to organisations regardless of the size, age and geographical dimensions.

Figure 20

Maximising knowledge-related effectiveness



(Adapted from Wiig, 1997: 402)

The core element of intellectual capital is *knowledge*. In analysing the roots of intellectual capital, a distinction can be drawn between the *strategic* and *measurement* roots. Strategic contributions on knowledge focus on two main points; the way it is created, and the way it is leveraged into value (Roos *et al.*, 1997: 16).

Knowledge will be a key component in the creation or adding of institutional value in 21st century government organisations. Its strategic importance can be summarised as follows (Roos *et al.*, 1997:19):

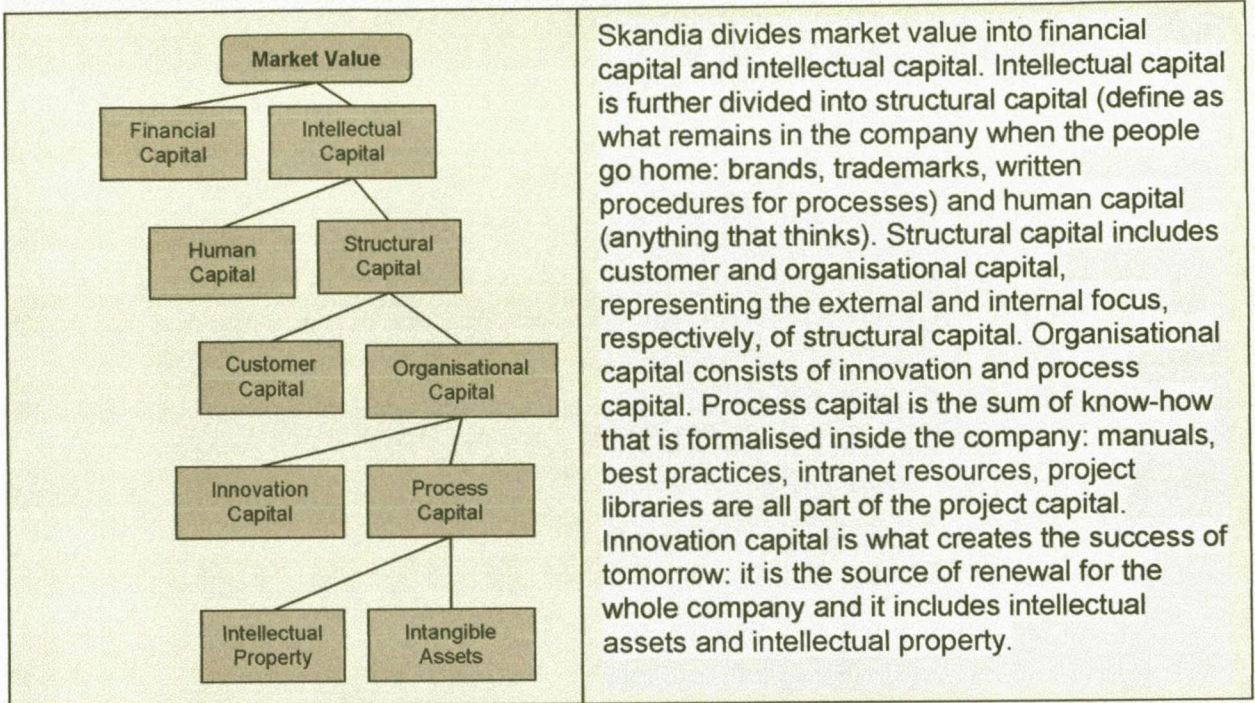
- Knowledge and learning are key strategic requirements in the modern organisational reality.
- While information technology, organisational structure and design can contribute, organisations should aim for a behavioural change.
- The development and leveraging of knowledge cannot be separate activities.
- Widespread application of knowledge is a goal in itself and a means to develop new knowledge.

An organisation can develop knowledge in two different ways: Through purchase or internal development. Purchase implies the acquisition of a key person or idea that could add value to the organisation. Internal development of knowledge takes place through research, development and training. Leveraging knowledge in organisations refers to the necessity to transfer newly gained expertise into applicable knowledge and to ensure that all officials are able to apply this knowledge in such a way that institutional value is continuously created and/or added.

7.4.1 MEASURING ORGANISATIONAL VALUE IN TERMS OF THE INTELLECTUAL CAPITAL APPROACH

The traditional way in which organisations in the private sector were valued, was in terms of the *market value* of the firm, with the market value being $V = S + B$ (the total value of the firm will be equal to the claims of both stockholders and bondholders on the firm) (Pinches, 1996:8). Roos *et al.* (1997:29) fits this ultimate value formula into the broader concept of intellectual capital as a basis for considering the real value of a private sector company by utilising the so-called *Skandia Model* that can be presented as follows:

Figure 21
The “Skandia Model” of intellectual capital

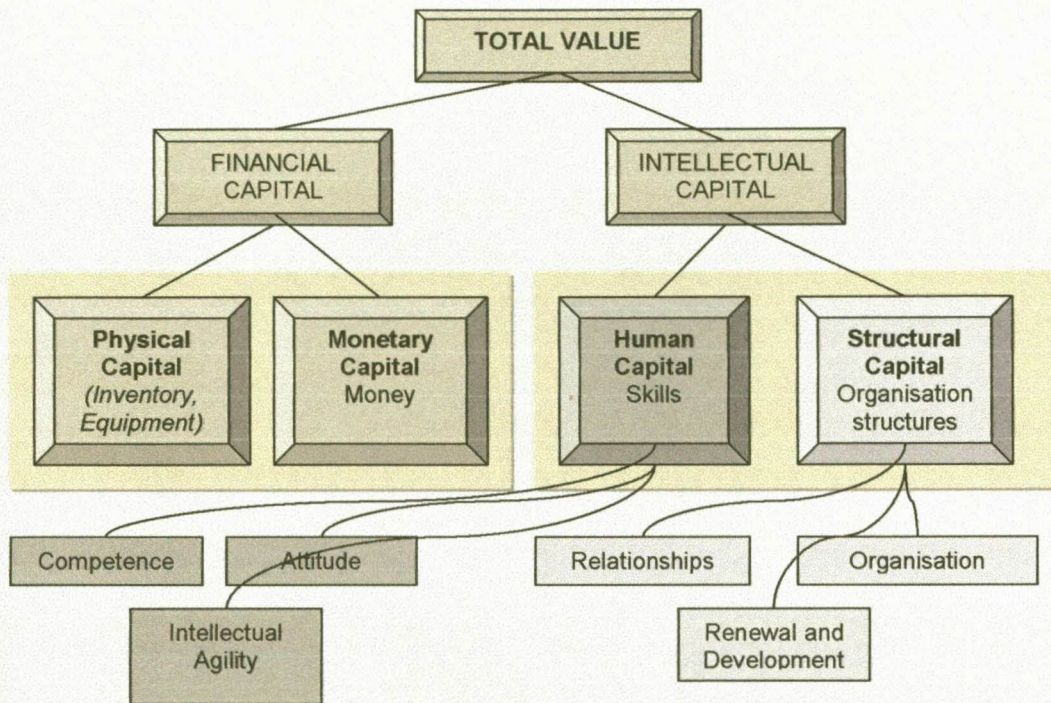


(Source: Roos *et al.*, 1997: 29)

The above Figure could be applied to government organisations if the concept of *market value* is simply replaced by that of *total value*. Such a scenario can then be presented as follows:

Figure 22

Components of the total value of organisations



The above-mentioned model can be explained as follows: The intellectual capital approach to organisational value prescribes that the value of an organisation can be measured in terms of:

- financial capital (including physical and monetary capital), and
- human and structural capital (which can be divided into competence, attitude, intellectual ability [on the one hand], and relationships, organisation and renewal / development [on the other]).

The value from financial capital can come from either the physical or the monetary assets of the organisation. This value is comprehensive expressed in the *financial statements* of the organisation, although Roos *et al.* (1997: 30) prefers to consider the replacement value of the organisation's assets, to make the value determinant less dependent on accounting practices, which vary from country to country.

(Source: Roos *et al.*, 1997: 29)

Intellectual capital can be divided between "thinking" and "non-thinking" capital. The former is referred to as human capital and the latter as structural capital. People

generate capital for the organisation by their competence, their attitude and their intellectual agility. Competence includes skills and education, while attitudes cover the behavioural component of the employees' work. Structural capital comes from relationships and organisational value, reflecting the external and internal focus of the organisation, plus renewal and development value or potential for the future (Roos *et al.*, 1997:31–32).

The above-mentioned division is in line with the approach of most intellectual capital models, which focused on a three-way distinction between (Roos *et al.*, 1997: 32):

- external structure,
- internal structure and
- employees (competence).

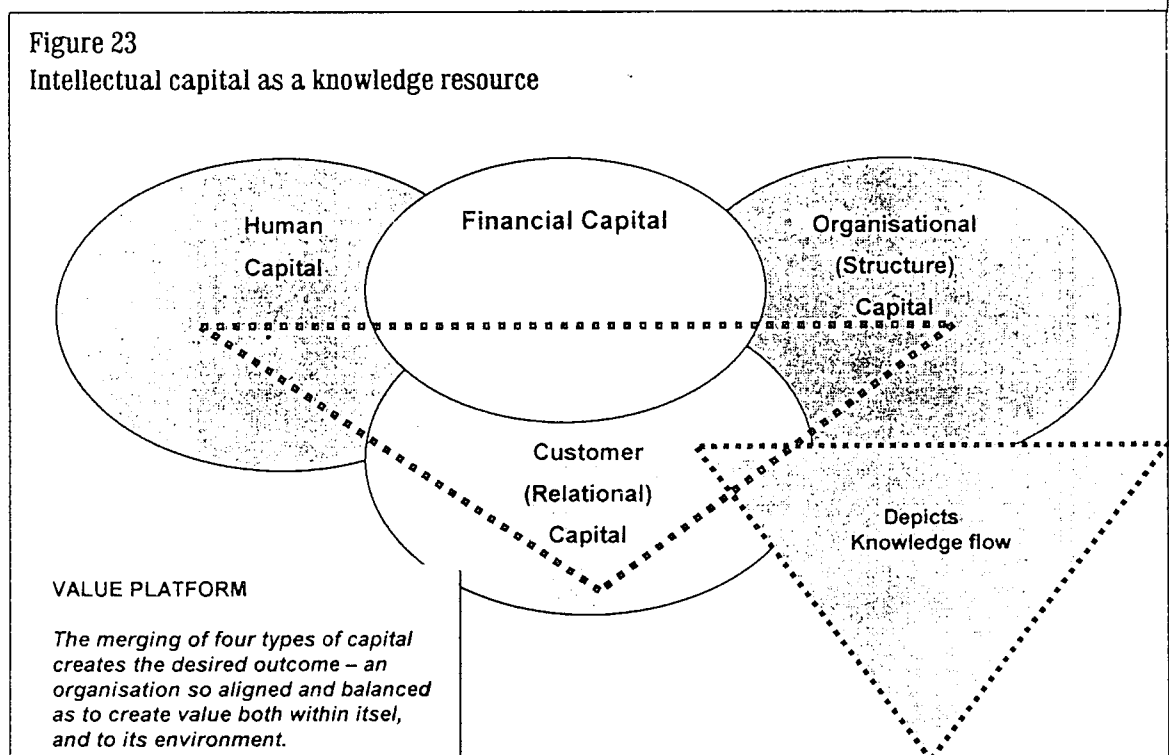
Another, slightly different, but equally informative model, prescribes that intellectual capital is formed by (Roos *et al.*, 1997:33):

- *Service assets*: all service-related intangibles, such as reputation, customer satisfaction, distribution channels and so forth.¹
- *Human-centred assets*: skills and expertise, problem-solving abilities, leadership styles and everything that is embodied by the employees of the organisation.
- *Intellectual property assets*: know-how, service rendering initiatives, and any intangible element that can be protected by copyright.
- *Infrastructure assets*: all the technologies, processes and methodologies enabling an organisation to function.

In terms of the intellectual capital idiom, an organisation needs to manage and measure much more than only the traditional resources, of which financial – and human resources were the most predominant. The total *being* of what constitutes the organisation must be managed. It was consistently reasoned during the scope of this thesis that the ultimate aim of any organisation is to add value – within the organisation to start with, but eventually also to its environment.

¹ This point has been substantially amended to suit the government sector perspective.

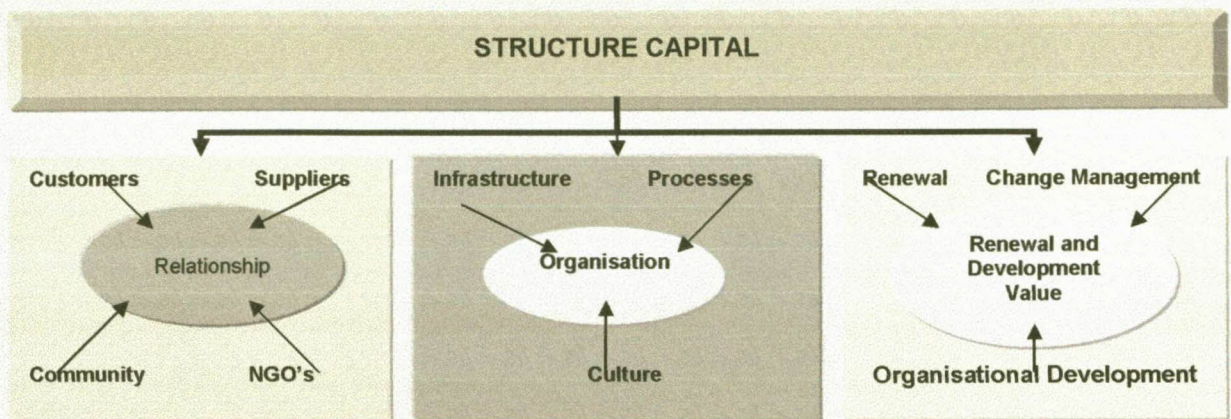
If this approach is taken as a given and it is accepted that the entire concept of intellectual capital is part and parcel of the knowledge management drive, intellectual capital as a management object can be illustrated as indicated in the Figure below. The concept of structural capital plays an essential role within the broader context of intellectual capital. In a sense, it caters for the infrastructure of the organisation – all those physical and related resources required to enable the flow of knowledge within the confined “boundaries” of the organisation. From a holistic perspective this would include all relationships active within the organisation, the systems and processes in place, as well as the management measures taken to ensure continuous renewal and orderly change.



(Dzinkowski, 2000: 33 – 34 & Roos *et al.*, 1997: 31)

The concept of “structural capital” is a new, unknown manifestation of corporate wealth in public sector management sciences, and would therefore be exposed and explained by means of the Figure, exposing the main components thereof:

Figure 24
Components of structure capital



<p>The External Actors: Relationships – The value created or added as a result of the organisation's interaction with a wide variety of role-players in its environment.</p>	<p>Internal Efficiency: Organisation– Refers to the communication channels, systems and processes in place in the organisation to ensure the efficient processing of inputs into outputs.</p>	<p>The Future: Renewal and Development Indicators – Refers to the value created or added resulting from the organisation's ability to change and renew itself and in so-doing ensuring future effectiveness.</p>
<p>Structural capital refers to three categories of resources, viz.</p> <ul style="list-style-type: none"> • <i>Relationships.</i> For the organisation, the "value" of the "resource" of relationship is created by its customers, suppliers, the community and NGOs (a variety of "external" stakeholders). • <i>Organisation.</i> The "resource" of organisation refers to the infrastructure of the organisation that enables its management processes and that is directly influenced by the organisational culture alive in the organisation. • <i>The value created by renewal and development.</i> This "future resource" to the disposal of the organisation refers to the value created or added resulting from the organisation's ability to change and renew itself and in so-doing ensuring future effectiveness. 		

(Roos *et al.*, 1997: 42 – 50).

A new, 21st century *measurement system*, taking cognisance of all resources (tangible, and intangible), must entail a five steps process, which is to (Roos *et al.*, 1997:20):

- Develop new information architectures.
- Determine the hardware, software and telecommunications technology required.
- Align the system to the incentives.
- Draw on outside revenues and third parties.
- Design a process to ensure the other four activities actually take place.

In order to determine the true value of the organisation, the intellectual capital measurement philosophy prescribes the following (Roos *et al.*, 1997: 21 – 22):

- Financial measures should be flanked by non-financial measures. The other, non-financial success drivers of the organisation must also be monitored. It is important to choose the right criteria to measure the success or failure of selected strategies (the value position of the organisation). A “balanced scorecard” approach must be followed, meaning that the measures chosen must contain a proper balance between present and future and internal and external perspectives. This balanced scorecard must be affected by the actions of the unit and by the actions of the unit in question only, consistent with the short-term and long-term goals of the organisation and reliability (Roos *et al.*, 1997:22).
- Account for the intangible side of the organisation. An organisation must determine the value of both tangible and intangible assets and liabilities to reflect a true picture of the value contained in the organisation. (Roos *et al.*, 1997:23–24).

7.4.2 EMOTIONAL CAPITAL

Thomson (1998: xvii) remarks that “*(i)n the next millennium, emotional capital will be an asset on the balance sheet of any major business. Business leaders will be working to a blueprint for their organisations that will go well beyond the focus of traditional assets. They will be exploring new territory – how to build upon two critical and interrelated assets, knowledge and emotions*”.

Emotional capital is a key ingredient of intellectual capital. Thomson explains that intellectual capital is made up of the time, money, training, data, manuals, formulae, processes, policies and procedures, that an organisation has invested in the development of information and the translation of that information into knowledge (Thomson, 1998:5). Traditionally, knowledge was not treated as an asset. The first change in this occurred when organisations began to protect their intellectual capital (trade marks, patent rights) by means of copyrights and patents. Increasingly, managers began realising that organisational information and knowledge cannot be managed around functions and business processes alone, but must be treated within the broader context of motivating people and harnessing their passion and drive (Thomson, 1998: 6). The concept of emotional capital can be defined in terms of two components, *viz.* (Thomson, 1998: 7):

- *External emotional capital.* This is held in the hearts of the customer (community) and the external stakeholder. This is the capital sometimes described goodwill and in the government sector context, legitimacy.
- *Internal emotional capital.* This is held in the hearts and minds of people functioning within the business.

The concept of emotional capital cannot be separated from *corporate culture* (Thomson, 1998:22), and is essentially aimed at creating and sustaining personality inside, as well as outside an organisation. Thomson (1998:23, 24) is of the opinion that this personality is largely dependent on the so-called ten dynamic emotions in business (as opposed to the ten deadly emotions in business that must be avoided):

Table 15

The ten dynamic and the ten deadly emotions in business

Ten dynamic emotions in business	Ten deadly emotions in business
<ul style="list-style-type: none"> • <i>Obsession</i> – persistent idea that constantly forces its way into consciousness. • <i>Challenge</i> – desire to rise up, fight and win – especially against all odds. • <i>Passion</i> – strong affection or enthusiasm for delivering a specific service, personality or idea. • <i>Commitment</i> – the dedication or involvement with a particular action or cause. • <i>Determination</i> – unwavering mind, firmness of purpose. • <i>Delight</i> – the act of receiving pleasure like fun, laughter, amusement. • <i>Love</i> – great affection or attachment, to want to 'give'. • <i>Pride</i> – feeling of honour and self-respect, a sense of personal value and organisational value. • <i>Desire</i> – wish to have, own or be. • <i>Trust</i> – confidence in the integrity, value or reliability of a person or entity, such as a team or organisation. 	<ul style="list-style-type: none"> • <i>Fear</i> – feelings of distress, apprehension or alarm caused by a sense of impending danger. • <i>Anger</i> – feeling of great annoyance or antagonism as the result of real or perceived grievances. • <i>Apathy</i> – lack of motivation. • <i>Stress</i> – mental, physical or emotional strain or tension. • <i>Anxiety</i> – state of uneasiness or tension caused by apprehension of a possible misfortune. • <i>Hostility</i> – antagonism and/or 'oppositional' behaviour. • <i>Envy</i> – discontent, a begrudging feeling or resentful admiration aroused by the possessions, achievements or qualities of another. • <i>Greed</i> – excessive desire for wealth and power. • <i>Selfishness</i> – lack of consideration of others actuated by self-interest. • <i>Hatred</i> – feeling of intense dislike.

(Source: Thomson, 1998: 23, 24)

Based on the above-mentioned, Thomson (1998: 29 – 42) identifies the following four elements of emotional capital:

- *External corporate personality.* This refers to the perceptions of an organisation in the eyes of its customers, consumers and other stakeholders.
- *External brand personality.* This basically refers to the perceptions and feelings of external stakeholders regarding the products and services of a specific organisation.

- *Internal brand personality.* This element could be summarised as follows: "We are what we do; we do what we are". The services provided by a specific public sector organisation contains the human characteristics and personality to which customers, consumers and stakeholders relate.
- *Internal corporate personality.* Internal corporate personality is very similar to organisational culture and refers to "the way we do things around here". Emotions around the services provided, like passion, obsession, motivation, morale, drive, creativity, dependability and a host of others create internal personality and drive perceptions about the organisation.

7.5 THE LEARNING ORGANISATION OF THE 21ST CENTURY

An increasingly popular theory suggests that the key to survival of organisations is for them to become learning organisations. According to this theory, ongoing, continuous and never-ending learning is taking place, involving all parts of the system itself. To achieve this goal, organisations need to master five separate abilities, *vide.* (Roos *et al.*, 1997:26):

- The ability to create shared vision.
- The ability to share knowledge and therefore learn as a team.
- The ability to develop mastery, a behavioural variable stimulating organisational members in search of future knowledge.
- The ability to elicit, evaluate and change the mental models of the members of the organisation.
- System thinking - that is the ability to see events not as a linear chain but as an interconnected web, with systemic and cyclical features.

The "learning organisation" has its origins in companies like Shell and was implemented as a management tool to ensure continuous competitiveness in an ever-changing environment. Learning organisations are those that have in place systems, mechanisms and processes used to enhance their capabilities and those who work with or for it, to achieve sustainable objectives, for themselves and the communities in which they operate. (Skyrme Associates, 2000: <http://www.skyrme.com>). The Shell experience regarding continuous learning and staff development in organisations has indicated that (Brenneman *et al.*, 1997:65):

- Learning is almost automatic in organisations characterised by workplace attributes created by top management like clarity of goals, roles and

expectations, openness, curiosity about alternatives, respect and attentive listening.

- Conditions for learning must be created by new or transformed power-holders, who articulate, model and reinforce the learning attributes. Training or experimental workshops cannot replace these conditions.
- Only the truth about the cultural realities can prevent the organisation from being plagued by dissatisfaction and resentment. Any analysis to determine the situation in the organisation must be facts-based and frank.

The concept of a learning organisation is in line with the unfolding 21st century realities, and entails that employees of government organisations need to be exposed to in-depth training and sensitising as long as they are employed in that government agency. The idea could be translated into the concept of *organisational learning*. The principles and ideologies underlying to this concept provide an interesting perspective on strategies that may contribute to creating or adding value in government organisations.

Chris Argyris, the "father" of the theory of organisational learning, identify the following requirements for "tomorrow's" organisations that must obviously stand central in any teaching and learning in organisational context (Fulmer & Keys, 1998: 31): Modern organisations need much more creative planning, valid and useful knowledge about new products and new processes, increased concerted and cooperative action with long-range commitment, and increased understanding to meet the challenges of complexity. These requirements in turn depend on continuous and open success between individuals and groups, free, reliable communication, where interdependence is the foundation of cohesiveness, trust, risk-taking, and helping each other is prevalent, so that conflict is identified and managed (Fulmer & Keys, 1998: 31). These conditions, in turn, require individuals who do not fear their complete views, value and seek to integrate their contributions into a creative total, rather than needing to be individually rewarded, thus finding the search for valid knowledge and the development of the best possible solutions (Fulmer and Keys, 1998: 31).

To elaborate on the above-mentioned, Peter Senge (Fulmer & Keys, 1998:33-34) has bound together various pieces of research in respect of organisational learning, and in so-doing, developed the so-called "Fifth Discipline", with the five disciplines being:

- *Building a shared vision* – the practice of unearthing shared "pictures of the future" that foster genuine commitment.

- *Personal mastery* – the skill of continually clarifying and deepening personal visions.
- *Mental models* – the ability to unearth people's internal picture of the world, to scrutinise it and to open it to the influence of external actors and events.
- *Team learning* – the capacity to “think together” that is gained by mastering the practice of dialogue and discussion
- *Systems thinking* – the discipline that integrates the others, fusing them into a coherent body of theory and practice.

How can these principles and ideologies being implemented in government organisations? Tichy and Cohen (1998:28–33) present a model that could be used fruitfully as a possible implementation model, based on the model used by General Electric:

- Develop a *leadership pipeline*. Every professional-level employee must have a career map that describes where he or she is in their career relative to the positions they have had and may hold in the future. The map includes an assessment of their skills and the specific skills they will need for the next position. It also describes primary job assignment, stretch assignments and formal development and coaching opportunities.
- *Key leaders must be coached*. Organisations must identify key competencies, especially in the field of strategic leadership and continuously concentrate to develop and coach these persons. These persons must constantly receive brutally honest feedback on their performance. Their strengths must be identified and used as a basis to train others. Weaknesses must be addressed by means of training and coaching.
- *Organisational structures must encourage leadership development*. Though the specific forms may be different, the underlying premise is the same: Bureaucracy stifles people's ability and desire to lead. Organisations must be re-structured to allow for an organisational culture that promotes a learning culture.
- The *entire human resource systems and processes* need to be geared to developing leaders and emphasise the need for leaders to teach others.

In building teaching organisations, the strengths and talents available in the specific organisation must pro-actively be identified and utilised. Leaders, acting as competency-based coaches, must see to the following (Tichy & Cohen, 1998: 30):

- Consider developing leaders as a core competency. Leaders must be able to take the organisation into the 21st century and simultaneously ensure that the

organisation continuously improves its strategic ability to render services effectively and efficiently.

- Develop teachable points of view on how to operate and grow an organisation and how to teach others to be leaders.
- Design and execute methods of teaching on a wide scale and ensure that teaching goes beyond technical skills to include developing and honing leadership abilities.

Storck and Hill (2000:<http://mitsloan.mit.edu>) add to this by identifying six guiding principles that are applicable whenever circumstances require organisational learning:

- Design an interaction format that promotes openness and allows for serendipity.
- Build upon a common organisational culture.
- Demonstrate the existence of mutual interests after the initial success at resolving issues and achieving corporate goals.
- Add leverage to those aspects of the organisational culture that respect the value of collective learning.
- Embed knowledge-sharing practices into the work processes of the group.
- Establish an environment in which the community shares knowledge about processes and cultural norms that are defined in other parts of the organisation.

7.6 CONCLUSION AND CHAPTER LINKAGE

This Chapter has attempted to conceptualise the way in which the public sector organisations would be managed in the 21st century. During most of the 20th century, the idea of management based on a solid information foundation has grown rapidly. However, the 21st century will even move to a following step. In the dynamic, fast-changing, knowledge-based 21st century reality, organisations will base their management systems and processes on *knowledge*. Knowledge is applied information; meaning that it is information that has already been processed into a useful resources that could creates and continuously adds corporate value.

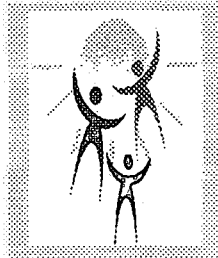
Knowledge will be a key resource to enable the management process in the 21st century. The essential advantage of knowledge, as a key management resource, is the fact that it multiplies by usage (it spreads as it is used); compared with the traditional 20th century corporate resources that were consumed to the level of extinction.

As a organisational resource, knowledge manifests itself best in terms of *intellectual capital*. This phenomenon represents an all-encompassing approach to organisational value and calculates *all* organisational assets as part of an organisation's performance criteria, as oppose to the predominant 20th century expression of organisational value in terms of its financial performance.

A knowledge-based organisation will need to be a learning organisation; meaning that the entire organisation will continuously be geared to spread knowledge throughout its ranks.

The next Chapter (8) will concentrates on conceptualising the paradigm shift in the organising and structuring of government organisations from a 20th century, hierarchical pyramid bureaucracy, to a 21st century, circular-structured, project-based organisations, characterised by flexible organisational structures and an internal free market (which allows for core function-specific structuring). The specific objectives of the Chapter will be as follows:

- To conceptualise the basic theoretical foundation for environmental-responsive organising.
- To explain and conceptualise the project-based organisation as a viable option for flexible service rendering by 21st century public sector organisations.



CHAPTER 8 THE PROJECT-BASED PUBLIC SECTOR ORGANISATION OF THE 21ST CENTURY

8.1 INTRODUCTION AND CHAPTER OBJECTIVES

Organisations worldwide, both in the private, and the public sector, are still managed as if long-term business (operational) continuity is assured. The implication is that, in the eyes of the managers of public sector organisations, bureaucracy prevails, because it is a system perfectly suited to provide structure and logic to organisational operations in a stable environment that does not change, or at least, changes slowly. Obviously, bureaucracies provide adequate time for the organisation to go through the bureaucratic processes and timely adapt itself to reflect the changes taking place in its environment.

However, the 21st century environmental realities will be different. Much has been made of the fact that public sector organisations of the 21st century will operate in a dynamic, ever-changing environmental reality and that they must be structured and managed to be responsive to changes in their environment as averred in this thesis. Organisations functioning within these environmental realities, will rapidly have to be able to re-organise themselves to respond effectively to changes in the management environment. The implication is clear; if an organisation wishes to have any chance of achieving this kind of flexibility, it has to move beyond the bureaucratic impasse. Increasingly, the solution suggested as a viable option for structuring service rendering programmes and initiatives in the 21st century organisational context, is to make use of the principles of project management; but then not only incorporating project-based service rendering into the business portfolio of existing functional organisations, but to make the ultimate paradigm shift towards project-based organisations. Such organisations treat all their service rendering obligations in terms of separate projects and structure themselves accordingly.

This Chapter will recommend such an approach to service rendering as an appropriate structured foundation for public sector organisations operating in a dynamic, 21st century organisational and environmental reality. However, such an approach entails much more than meets the eye. If one wishes to recommend the adaptation of the project-based organisation within the scope of the existing bureaucratic styles of organising, it is doomed to fail. The transition needs to be complete. Bureaucratic, pyramid-structured organisations need to be replaced by organisational modes of organising that inherently allows for literally *immediate* responsiveness (re-structuring), without self-destructing or damaging itself in the process. In order to achieve this, the idea of circular-structured organisations, as a model of organising capable of supporting a project-based business portfolio, will be suggested.

Chapter objectives:

- *To conceptualise the basic theoretical foundation for environmental-responsive organising.*
- *To explain and conceptualise the project-based organisation as a viable option for flexible service rendering by 21st century public sector organisations.*

8.2 THE MANAGEMENT ENVIRONMENT AS ULTIMATE DETERMINANT OF ORGANISATIONAL STRUCTURE

This thesis supports the contingency theory of organisation that prescribes to the "idea that the most effective structure for an organisation depends on the characteristics of both the organisation and its environment" (Baird *et al.*, 1990:227). It is important to fit the structures of the organisation to its environment - that is, to enable it to respond speedily and pro-actively to the demands of its clientele (Analytictech, 2002: <http://analytictech.com>).

Organisational structures of government agencies operating in the 21st century must be adaptable and flexible in order to ensure an ability to reflect changes in environmental realities speedily. Griffin (1999:91) makes the following interesting remarks regarding organisational design and flexibility: "*An organisation may ... adapt to environmental conditions by incorporating flexibility in its structural design. For example, a firm that operates in an environment with relatively low levels of uncertainty might choose to use a design with many basic rules, regulations, and standard operating procedures. Alternatively, a firm that faces a great deal of uncertainty might choose a design with relatively few standard operating procedures, instead allowing managers considerable discretion and flexibility over decisions.*" The

approach that will be promoted as an ultimate solution to the management problem in the 21st century, will be that organisational structures must eventually become so flexible that their boundaries become "blurred".

8.2.1 Organic versus mechanistic organisational structures

The concepts of *organic*, as opposed to *mechanistic* organisations are important for the purposes of this thesis, as it reflects on organisational approaches to the environment. Baird *et al.* (1990:227) defines the concepts as follows: "**Mechanistic organisations** are organisational structures characterised by rules, procedures, a clear hierarchy of authority, and centralised decision-making. **Organic organisations** are organisational structures characterised by flexible, decentralised decision-making, and the absence of rules and procedures. The authors then continue to present the following informative comparison of mechanistic versus organic organisational systems" (Baird *et al.*, 1990: 229):

Table 16

Characteristics of mechanistic and organic systems

<i>Stable Technologies and environments – mechanistic organisational structures provide the best results.</i>	
<i>Rapidly changing technologies and the environment – organic systems performed the best.</i>	
Mechanistic Systems Characterised by:	Organic Systems Characterised by:
1. Highly specialised and separate jobs.	1 Individuals contribute as appropriate to overall goals.
2. Jobs pursued as distinct from organisation as a whole.	1 Jobs related directly to the organisation's current situation in the organisation.
3. Co-ordination by hierarchy and supervisory authority.	1 Co-ordination by mutual adjustment.
4. Precise definition of rights and responsibilities.	1 Wide sharing of responsibility for outcomes.
5. Responsibility and commitment attached only as a single job.	1 Responsibility and commitment to organisation as a whole.
6. Hierarchical control, authority, and communication.	1 Network structure with pressure to serve the common interest.
7. Knowledge focused at the top of hierarchy.	1 Knowledge located anywhere creates its own centre of authority.
8. Primarily vertical interaction.	1 Lateral communication flow resembling consultation.
9. Work behaviour governed by superiors' communications.	1 Communications are in the form of information and advice.
10. Insistence on loyalty and obedience.	1 Commitment to company goals valued over loyalty and obedience.
11. Local company knowledge and	1 Knowledge and experience from

experience most important.	wider professional and industry arena most important.
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(Source: Baird *et al.*, 1990: 229)

It is clear from the above comparison that organic organisations will be far better suited to meet the demands of the fast-moving, ever-changing 21st century reality than that of mechanistic organisational structures that are best suited for stable environmental circumstances. This perspective is confirmed by Griffin's (1999: 362) definition of the terms organic and mechanistic organisations, which reads as follows: "*Organic organisation is a very flexible and informal model or organisation design, most often found in unstable and unpredictable environments*". *Mechanistic organisation*, on the other hand, is being defined as organisational structures "*similar to the bureaucracy ... most frequently found in stable environments*".

The theory of organic, - as opposed to mechanistic organisations is directly related to what has been labelled *System 1-design* organisations as opposed to *System 4-design* organisations. System 1-design organisations are similar to bureaucratic organisations, while System 4-design organisations are similar to the behaviour model of organising (Griffin, 1999: 357). The distinction between the two systems can be presented as follows (Griffin, 1999: 358):

Table 17

System 1 and System 4 organisations

System 1 Organisations	System 4 Organisations
1) Leadership process includes no perceived confidence and trust. Subordinates do not feel free to discuss job problems with their superiors, who in turn do not solicit their ideas and opinions.	1) Leadership process includes perceived confidence and trust between superiors and sub-ordinates in all matters. Subordinates feel free to discuss job problems with their superiors, who in turn solicit their ideas and opinions.
2) Motivational process taps only physical, security and economic motives through the use of fear and sanctions. Unfavourable attitudes toward the organisation prevail among employees.	2) Motivational process taps a full range of motives by participatory methods. Attitudes are favourable toward the organisation and its goals.
3) Communication process is such that information flows downward and tends to be distorted, inaccurate and viewed with suspicion by subordinates.	3) Communication process is such that information flows freely throughout the organisation – vertically and laterally. The information is accurate and undistorted.
4) Interaction process is closed and restricted. Subordinates have little effect on departmental goals, methods, and activities.	4) Interaction process is open and extensive. Both superiors and subordinates are able to affect departmental goals, methods and activities.
5) Decision processes occur only at the	5) Decision process occurs at all levels

top of the organisation; it is relatively centralised.	by means of group processes; it is relatively decentralised.
6) Goal-setting process is located at the top of the organisation; discourages group participation.	6) Goal-setting process encourages group participation in setting, high, realistic objectives.
7) Control process is centralised and emphasises fixing blame for mistakes.	7) Control process is dispersed throughout the organisation and emphasises self-control and problem solving.
8) Performance goals are low and passively sought by managers who make no commitment to develop the human resources of the organisation.	8) Performance goals are high and actively sought by superiors who recognise the necessity for making a full commitment to developing and training the human resources of the organisation.

(Source; Griffin, 1999: 358)

The ideal will be to move towards System 4-design organisations as a basis for 21st century organisational design.

Concepts such as organic and system 4 organisations make a useful contribution towards creating a mindset change in favour of a clear organisational responsiveness to environmental dynamics. However, these concepts are still predominantly based on a bureaucratic organisational structure. The paragraphs that follow will motivate the demise of bureaucracy in favour of a project-based organisation.

8.3 THEORETICAL ROOTS OF THE PROJECT-BASED ORGANISATION

When referring to a "project-based organisation", it is necessary to conceptualise the term "project" in terms of a public service rendering option. This will give a broad overview of the kind of management structures and arrangements to be put in place for a project-based organisation to take shape.

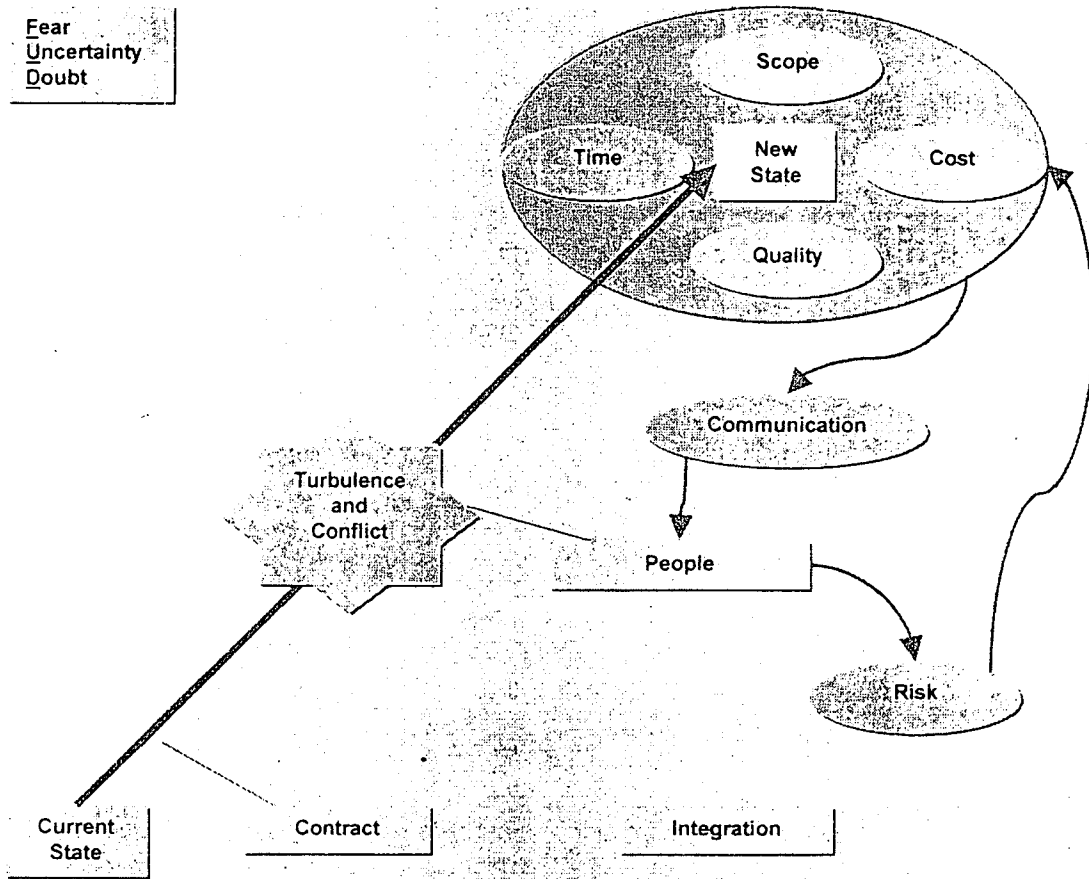
A project can be defined as an *unrepeated* activity. It has the following main features (Van der Waldt and Knipe, 1998:59):

- It is objective-orientated.
- It has certain restrictions; for instance, limited resources.
- The result is quantifiable.
- It brings about change.

A key characteristic of projects is the fact that it creates change. From this perspective, the project management process can be presented diagrammatically (see next page).

Figure 25

The project management process



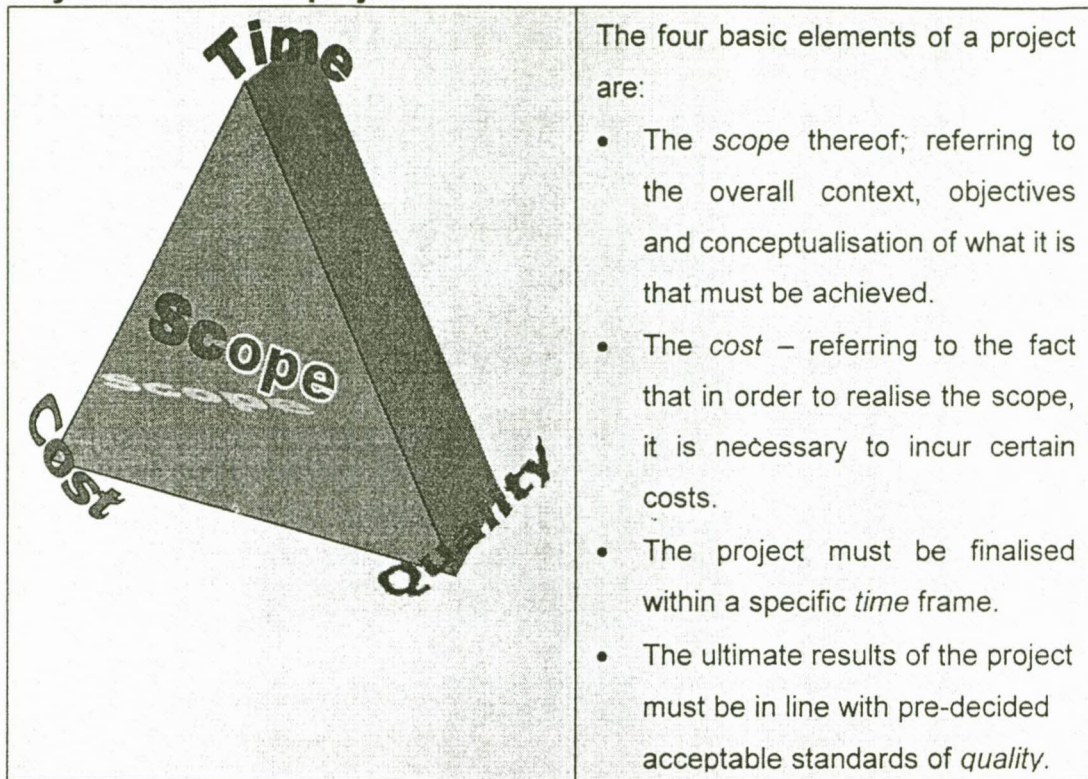
(Source: Denzo, 2002: 3)

The diagram can be explained as follows:

- A project creates change.
- A project is limited in scope and time.
- A project has mixed goals and objectives.
- A project involves a variety of resources.
- A project is unique.

Figure 26

Key elements of a project



(Source: Van der Waldt & Knipe, 1998: 5)

The following risks are inherent to projects, and must be managed effectively to avoid the failure of projects follows (Denzo, 2002: 3):

- *Fear*, brought about by the inherent change dynamics of the process.
- *Uncertainty*, which can easily, result in low morale and negativity.
- *Doubt*, brought about by the fear and uncertainty inherent to the project management process.

Eight areas of knowledge in project management are identified and these are as follows (Oosthuizen *et al.*, 1998: 36):

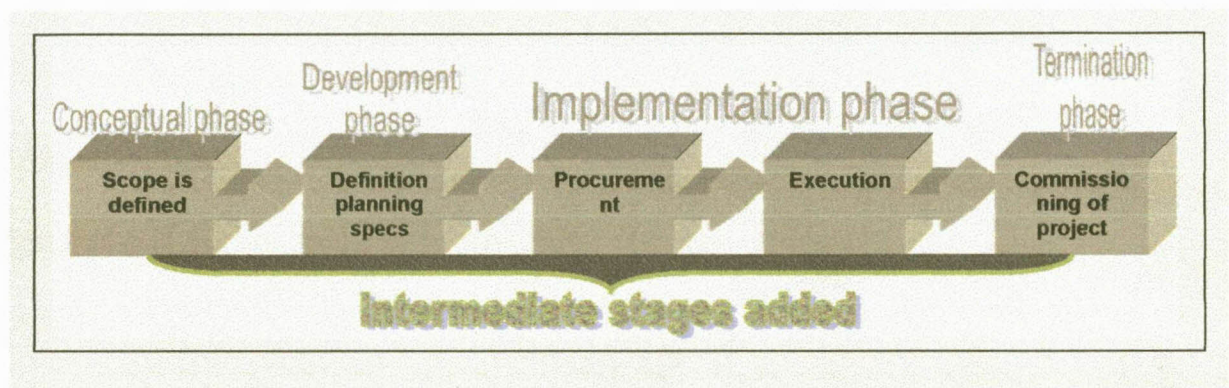
- *Scope management* that keeps a project true to its aims, goals and objectives throughout the process of concept development, full scope definition, scope of reporting and project result.
- *Time management* that implies appropriate time allocation throughout the successive stages of the project's life cycles.
- *Cost management* that maintains effective financial control of the project through the processes of estimating, budgeting, monitoring, evaluating, analysing and forecasting and then reporting this cost information. Project management improves cost control because it is based on costing practices whereby actual

activities are individually costed. The “cost-guessing” is eliminated (Arthur, 2000: 20).

- *Quality management* that comprises quality assurance and quality control.
- *Human resource management* directs and co-ordinates human resources during the life of the project.
- *Communication management* entails the organisation and control of information transmitted to satisfy the needs of the project.
- *Risk management* limits the organisation’s exposure to influences and actions detrimental to its resources.
- *Procurement management and administration* is the by through which resources are required to enable service rendering activities in the project.

Figure 27

Phases in project management



(Source: Oosthuizen *et al.*, 1998: 33)

The project management process can be explained as follows on the hand of the above Figure:

- The first step in the Project Management process is to define the scope – that is, to conceptualise the project and come to agreement regarding the objectives and main aims thereof.
- During the second step (development phase) it is important to determine key performance targets, finalise budgets and allocate resources to the project activities. These activities must be defined and the critical path must be highlighted.
- During the procurement (3rd) phase, all the required resources to complete the project successfully must be obtained.
- The project must then be implemented (4th phase).

- In the final instance, the success or failure of the project must be evaluated and assessed.

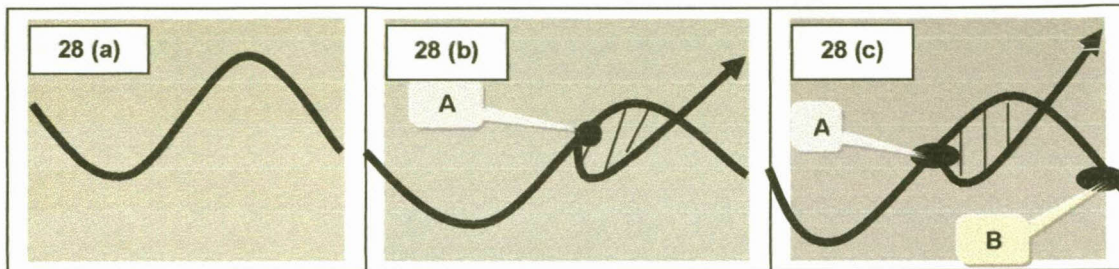
The participants involved in projects are (Comninos, 2002:15–19):

- *The owner and client* are considered the same group of participants. The owner is the person or group who will own and operate the project deliverables. The client is the internal or external person or group that purchases the project deliverables. Benefits resulting from the integration of the project deliverables accrue to the owner (Comninos, 2002:15).
- *Performing organisation*. The performing organisation can be an internal group or an external organisation undertaking the project work. This also includes the management of the performing organisation, as a very important role-player, called the *project sponsor*. The project sponsor is the executive-appointed top manager who champions the project. The sponsor is responsible for the successes of the changes resulting from the project.
- *The project manager* is responsible for the efficient management of the project management process and the effective achievement of the project objectives.
- *Project team members* are those people who report either directly or indirectly to the project manager. These persons are responsible for the implementation and execution of the project. The project *core team* consists of individuals from the key contributing function areas, which remain on the project from the project definition phase through to project completion.
- *Stakeholders* are those persons and bodies who have a stake in the project (for instance, prospective clients).

8.3.1 CONCEPTUALISE THE PROJECT-BASED ORGANISATION IN TERMS OF THE CONCEPT OF “CREATIVE DESTRUCTION”

The principle of *creative destruction* could best be understood if put within the context of the so-called Sigmoid Curve – the S-shaped curve that explains the story of life itself (Handy, 1994: 50). It can be explained as follows (Handy, 1994: 50 – 52):

Figure 28 - The Sigmoid Curve



(Source: Handy, 1994: 50 – 52)

Any living organism, from the human being to the empires of the world, start out slowly, exploring their surroundings, then gradually grows, and eventually declines. It is the story of the Roman Empire, the British Empires and all other empires. It is, as indicated above, the story of life itself (see Figure 28 [a]).

However, there is life beyond the curve. The secret of constant growth is to start a new Sigmoid Curve before the first, or original one, peters out (Handy, 1994: 51) (see Figure 28 [b]). The right place to start the second curve is at point A, where there is the time, resources and energy to get the new curve through its initial explorations and floundering before the first curve begins to dip down. This is an important principle to keep in mind when promoting the principle of creative destruction.

The problem is that most efforts for change starts at point B, when an organisation, country, society or person does not have the energy, resources and ability to make the required return to a healthy status any more (see Figure 28 [c]).

Smith (1998:36) is of opinion that “(p)roject management is no longer a business activity left to those who have manage large construction projects or who need to tool up a new factory”. Project management needs to become a way of corporate life. What will be suggested, for the purposes of this Chapter, is to take this argument to its natural conclusion; that is to propose an organisation that performs on its core mandate solely in terms of a project structure. This totally new paradigm in the science and practice of organisational structure and design will be explained in terms of the principles of a phenomenon labelled *creative destruction*.

The underlying philosophy behind the concept of *creative destruction* could find useful application for the purposes of this Chapter. This philosophy (based on an exposition in this regard contained in the best-selling book by Richard Foster and Sarah Kaplan, titled *Create Destruction*) can be explained as follows: Organisations operate with the management philosophy based on the assumption of continuity. Their control processes, the very processes that enable them to survive over the long haul, deaden them to the vital and constant need for change. The result, in the long

run, is that organisations cannot create value at the pace and scale required by their markets (Foster & Kaplan, 2003: <http://web.mit.edu>).

Foster and Kaplan further argue that organisations must adapt to a totally new business paradigm and redesign the corporation to change at the pace and scale of the markets, rather than merely operating. Corporations that have managed to optimise longevity and adapt successfully to an ever-changing environment (like Johnson and Johnson and General Electric) have overcome cultural “lock-in” by transforming, rather than incrementally improving their companies. They are doing this by creating new businesses, selling off or closing down businesses or divisions whose growth is slowing down, as well as abandoning outdated, ingrown structures and rules and adopting new decision-making processes, control systems, and mental models. Organisations must learn to be as dynamic and responsive as the market itself if they are to sustain superior returns and thrive over the long term (Foster & Kaplan, 2003: <http://web.mit.edu>). The authors motivate this reality as follows: *“Long-term corporate performance has not matched the performance of the markets, because corporations do not adapt as fast as the markets do ... For historical reasons ... corporations have been designed to operate – to produce goods and services – rather than to evolve. In order to survive, they have to get better at creation and destruction – the two key elements of evolution that are missing”* (Foster & Kaplan, 2001: 49). Creation and destruction cannot simply be “added on” – it must be carefully designed. Organisations need to be redesigned from top to bottom on the assumption of discontinuity. Management must stimulate the rate of creative destruction by the generation or acquisition of new firms and the elimination of marginal performers – without losing control of operations (Foster & Kaplan, 2001: 49).

The lesson that could be taken from Foster and Kaplan's philosophy of creative destruction, for the purposes of this Chapter, is that 21st century organisations must adapt to respond pro-actively to the demand of their market (the community). Private sector companies drastically lose market value, or disappear because of their inability to adapt¹. In the public sector, the reality manifested itself in terms of the growing legitimacy crisis of government throughout the world, an inability on the side of government's managerial agencies to keep customers satisfied, and (as a result)

¹ The first Standard and Poor's index of 90 major United State's companies was created in the 1920s. The companies on the original list stayed there for an average of 65 years. By 1998, the average anticipated tenure of a company on the expanded S&P was 10 years. If history is a guide, over the next quarter of a century, no more than a third of today's major corporations will survive in an economically important way (Foster & Kaplan, 2001: 41).

the continuous re-organisation and re-shuffling of such agencies. (In this regard, also refer to the discussion relating to longevity in Chapter 9).

What does all of this mean? Foster and Kaplan (2001:48) are of the opinion that the answer may be found in the way in which private equity firms operate. These firms never buy any company to hold forever. They rather focus on intermediate (three to five year) value creation. Other corporations, in contrast, concentrate on the very short term (less than 18 months) for operations and the very long term (greater than eight years) for research. Private equity companies think of their business as a revolving portfolio of companies in various stages of development. They realise that they will sell some of their properties each year and buy others. They keep the pipeline full of new properties at the front end and supplied with buyers at the back end, cultivating both simultaneously.

The essence of this argument, for the purposes of this thesis, is this: In an extremely dynamic and turbulent 21st century organisational reality, all organisations (private and public alike) must manage around the market (their clients). They must adapt organisational structures and designs around these clients (the market). The aim will be to accept that all services and portfolios have a natural life-cycle and that one must not get "attached" to certain service portfolios. Carefully plan service portfolios to satisfy a need in the market, but remember that the specific service portfolio will have a limited life-span. In an "Age of Chaos" (see Chapter 2), long-term planning is unrealistic. Planning should take place in such a way that value could be optimised during the life-span of a specific service portfolio.

This Chapter will attempt to take the "natural line" of the above-mentioned argument a little further by suggesting that an appropriate way to organise post-modern public sector organisations in terms of the principles of *create destruction*, is to be found in the concept of a *project-based organisation*. In terms of this organisational scenario, an organisation will structure itself loosely around specific projects (identified and organised around the above-mentioned "service portfolios"). These projects will have limited life-span and as soon as the project goals and objectives have been exhausted, the project will cease to exist, and the resources that are "free up" as a result, will be re-allocated to newly identified service rendering priorities, that will then become a new service portfolio and ultimately, a new project.

8.3.2 MANAGEMENT PRACTICALITIES IN RESPECT OF PROJECT-BASED ORGANISATIONS

The Finnish Ministry of Labour, who has transformed the agency to reflect the essence of a project-based organisation, has discovered the following advantages to such an approach (Itaaho & Arto, 1999: <http://www.thcc.com.tw>):

- The Ministry of Labour can better serve and support its customers because there are different departmental entities specialised in providing services for different customers.
- Experts of certain areas are organised in the same resource pool, with the implication that the competence for any service is likely to be positioned under one governance structure in the organisation.
- The decision-making process is easier due to empowerment of project managers.

The last fifty years has seen a shift in the nature of work, from mass production, with stable customer requirements and slowly changing technology, to the current situation where services may be supplied according to a client-required specification. Technology changes continuously and increasingly rapidly. This new, modern environment is based more on a project-based economy, than on the classical management theory, developed years ago. Classical management offers the traditional organisation many strengths derived from the functional hierarchy at its core. The project-based organisation requires a new approach to its management, which addresses the unique, novel and transient nature of its work, but retains the strengths of classical management (Turner & Keegan, 2001: <http://www.henleymc.ac.uk>).

Turner and Keegan (<http://216.239.53.100/>) reflect on the following realities facing a project-based organisation:

- Every project is different and requires a different approach to operational issues. Project management therefore breaks the traditional link, prevailing in the functional hierarchy, between organisational governance and operational management.
- The above-mentioned reality also breaks the use of the functional hierarchy for communication and co-ordination purposes.
- As projects are transient, they cannot offer people careers.
- As every project is different, it can be difficult to predict the future skills required by the organisation.
- Not one single structure exists for project-based organisations –different models require different projects.
- It is not possible to grade jobs – in a unique, ever-changing organisational environment; it is even difficult to define a specific job properly.

- Effectiveness (the realisation of goals) is totally dominant to efficiency (procedural regularity).

Three areas of special concern can be identified and these would potentially impact directly on the successful functioning of a project-based organisation:

- Contract-based hiring practices.
- The necessity to function as an open-system organisation.
- Team-based working practices.

8.3.2.1 Contract-based hiring practices

The United State's Department of Labour (<http://www.dol.gov>) has issued a report titled *Futurework – Trends and Challenges for Work in the 21st Century*, in which the comment is made that "... millions of workers are in alternative arrangements that don't fit the traditional model. The age of 'just in time' production has given rise to 'just in time' workers – employees whom a business can hire on a moment's notice to fill a moment's need". Fact is that the traditional, 20th century employment arrangement, characterised by life-long career options, and is fast coming to an end. In an age of project-based organisations, workers will be in demand for the value that they can add to a specific project. They will be hired for the duration of that project, after which new workers, possessing the skills required by a new project, will be sought. Workers therefore will mostly be hired on a contract basis – and the remuneration and other benefits attached to this contract will most likely be performance-based.

It is worth noting that project-based hiring is fast spreading all around the world, which is the practice whereby people are hired for a specific project only – in terms of a contract-based appointment (Indian Express Group, 2001: <http://www.expressitpeople.com>).

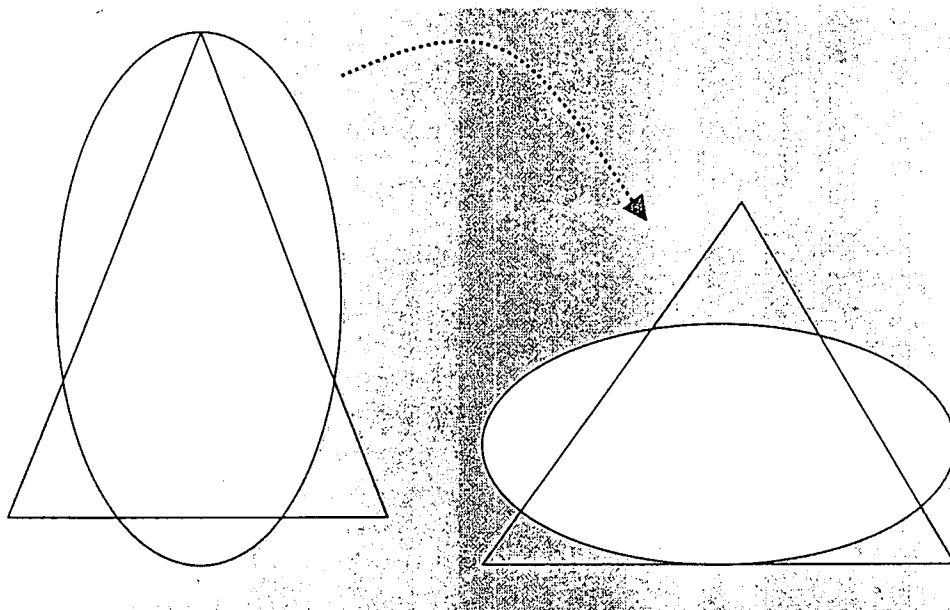
8.3.2.2 "Open" organisational systems (modes of organising)

In order for organisations to be responsive to the needs of their environments, a basic requirement is for them to function as *open systems*. Open systems are systems that interact with their environment, whereas *closed systems* do not interact with their environment (Griffin, 1999:51).

layers of bureaucracy, it give workers broader scope and scale of responsibilities, and it speeded up decision-making and cycle times. However, the trauma caused by the drastic degree of downsizing accompanying the move from tall to flat structures, and the general side effects of rapid and far-reaching re-structuring caused people in such organisations to lose focus of the customer and of performance-targets in place in their organisations (Vicere & Fulmer, 1996:62–63). This phenomenon can be explained by using the “*oval of activity*”, which can be presented as follows (Vicere & Fulmer, 1996: 63):

Figure 31

The “Oval of Activity”



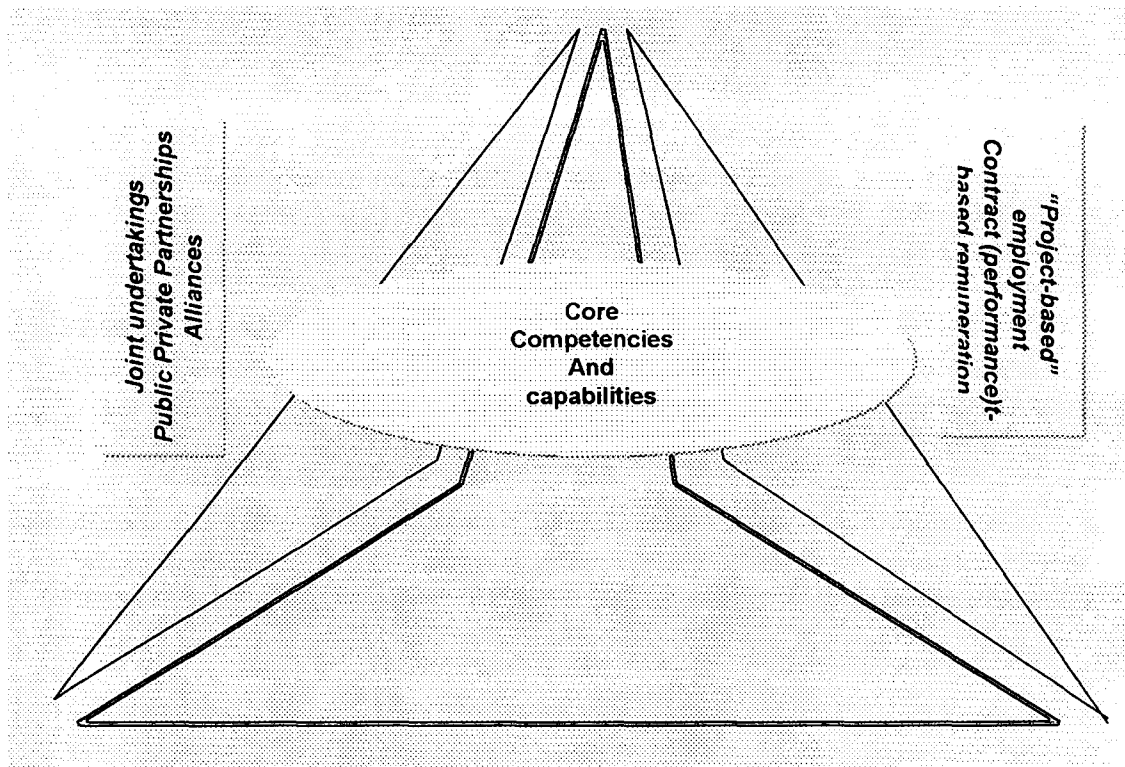
(Source: Vicere and Fulmer, 1996: 63)

In the traditional tall pyramid, the oval of activity is shown to be standing upright. In the first-wave downsizing efforts, organisations simply tend to push the oval on to its side. That is, they often continue to do all the things they have always done, but with fewer people.

The next phase in the development of structural organisational thought was the development of the so-called *shadow pyramid organisation* in response to the above-mentioned explanation. This model is based on a dualistic focused sense of purpose, consisting of a *strategic intent*, coupled with a unique set of *core competencies*, which together drive the development of the organisation (Vicere & Fulmer, 1996: 64). The shadow pyramid shows that an organisation does not need its own complete structure; it can enhance its performance and expand opportunities by relationships with other well-managed organisations (Vicere & Fulmer, 1996: 66).

Figure 32

The "Shadow Pyramid"



(Source: Vicere & Fulmer, 1996: 65)

The above Figure can be understood as follows: The shadow pyramid structure is characterised by the following (Vicere & Fulmer, 1996: 64 – 66) --

- It is flatter, leaner, more focused, and directed. The organisation has been paired down to its essence. It represents only that mix of competencies, capabilities, functions and processes that enable the organisation to compete on a truly unique basis as an globally competitive service rendering agency. *All non-essential activities, functions and so forth have been removed from the core.* Some of the removed activities have been deemed by the organisation to be redundant, to add no value to the core functions of the organisation and have been eliminated entirely.
- Some of the above-mentioned functions, although not necessarily core functions of the organisation are still necessary for the organisation to function effectively. It thus has to find alternative ways to engage economically and effectively in these non-core activities. Today organisations increasingly deal with these functions by means of innovative *outsourcing*. In terms of this strategy, a network of strategic partner-suppliers is built up to maintain efficiency and ensure flexibility. At the same time, the organisation ensures that investment is being appropriately

directed toward core competencies and capabilities that enable the organisation to build up a strategic competitiveness that will enable it to provide value to its clients (the community) in line with the expectations of politicians.

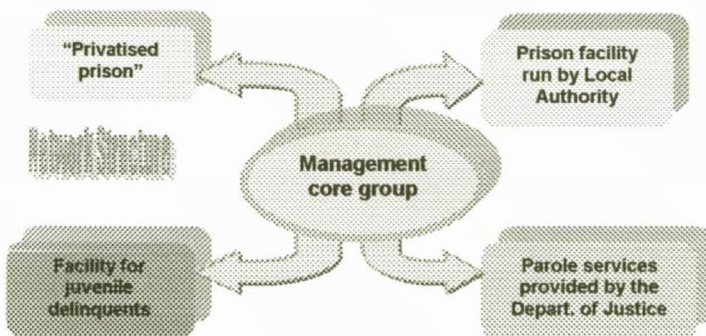
- A fully developed shadow pyramid organisation has a wide and extensive network of strategic partners, and even includes joint ventures (PPP's [Public-Private Partnerships]) and alliances. Most of its workers will also eventually be part-time workers; specialists who would join the organisation on a contract basis to execute specific projects.
- Employment practices are temporary (for the lifespan of the project only), and remuneration is based on a pre-signed performance agreement or contract.

8.4.3 THE NETWORK, CIRCULAR-STRUCTURED VIRTUAL ORGANISATION

In the network structure a small central decision-making core relies on other organisations to render certain functions on its behalf on a contract basis. Outsourcing is a vital management tool in this kind of structure (Straub and Attner, 1994:207–208).

Figure 33

A network structure



(Source: Straub & Attner, 1994: 208).

The network structure prescribes to the principle that a core management group facilitates service rendering by creating an expanded network of service rendering partners. These core group co-ordinates management activities related to service rendering of a specific service, but does not necessarily deliver those services itself.

The next and final phase in the development of thought regarding organisational structure is the *circular organisation*. The circular-structured organisational structure represents a shift from pyramid-structured organisations. It is founded on the principles that (Pinchot and Pinchot, 1993: 128):

- Organisations need to function as *open systems*.
- A move away from chain-structured, hierarchical organisations where authority flows from the top to the bottom and accountability from the bottom to the top; with all, or virtually all organisational functions concentrated in a structure

consisting of nearly one hundred per cent permanent positions on the staff establishment.

- The borders of the organisational set-up are *flexible* and "vague". As soon as changes in the environment are detected, internal structures and functions can be restructured with virtual immediate effect.
- Functional (line) service rendering "components" are all structured as programmes or projects.
- Decisions are taken by general consensus among project members and the project leader.
- Work is divided in terms of specialities, rather than along the lines of functional authority.
- Remuneration will depend on scarcity (supply and demand) rather than on hierarchical position. (The engineer, or even a specialised painter, can earn more than the Project leader if their skills are in greater demand).
- "Internal" competition can exist between external and internal providers who provide the same kind of services. In larger organisational systems, competition can also exist between internal service providers, and of course external ones.
- Internal service providers are also allowed to "outsource" their expertise.
- The strategic management consists of the top management. However, it does not necessarily exercise functional authority, but rather acts as a supreme co-ordinating "project team" and liaises with the corporate governing unit. Their role is to co-ordinate, plan strategically, monitor performance and analyse results obtained by management efforts.

An important pre-condition for this model to be successful, is that organisational authority must be *devolved* as far as possible to the various teams. They must be allowed to function as individual organisational units. The relationship between them and the organisational strategic unit will be contractual. Non-performance will be a suitable basis for termination of the contractual arrangement. Non-performance in respect of identified *key performance standards* will ensure legal grounds for immediate termination of the contract, an event for the strategic management group to institute legal proceedings to retain any losses resulting from wastage or corruption due to the actions of any of these groups or organisational participants.

Little doubt exists that 21st century project-based organisations will, in many aspects, operate as "virtual" organisations.

8.4.3.1 Virtual organisations

Words fail to express the magnitude of the transformation brought about by the unfolding virtual reality the world is about to enter. Perhaps the best way to bring home the implications of this reality is to quote an example; eBay is an on-line auction company. It has reported a consolidated income of \$18 million in the third quarter of 2001, compared to \$15,2 million a year earlier. Consolidated net revenues increased by 71 per cent to \$194,4 million. Users increased some 3,5 million to a total of 36,6 million. Transactions reached a staggering \$2,355 billion, realising gross profit of \$159, 9 million. However, the remarkable fact about the company, which illustrates the point best, is that *eBay is a marketplace manager*. The company has no factories, no warehouses, no retail stores, no inventory and no sales force. This results in a terrific operating model, which is not capital intensive (De Waal, 2002: 9). PricewaterhouseCoopers (1999:10) makes the comment that e-business has transformed not merely what it means to *do* business (render services), but what it means to *be* a business (organisation). This is also true of government organisations in the 21st century. From the lens of a digital environment, organisational management has been totally transformed in various ways (PricewaterhouseCoopers, 1999: 6):

- *E-management is a complete alternative to transact ordinary organisational activities*. Since new, unfamiliar management practices are routinely scrutinised by governments and regulatory institutions, protectionist regulatory practices will continue for the foreseeable future.
- *E-management is, by definition, global*. Management methods that are effective and acceptable in one jurisdiction may either not be permitted or not working in other societies. Variations in practice across national lines can be expected, despite the best efforts of international rule-making bodies.
- *E-management shrinks the window for optimal regulatory action*. New management models with a global influence can influence within months and not years. This rapid change means that regulatory issues must be addressed early to avoid overly "reactive" responses that can be counter-productive.
- *E-management's effectiveness depends on a regulatory environment that is both supportive and predictable*. It is necessary to find a narrow balance between rules aimed at responsive decision-making, and the need to foster a culture of innovative decision-making.

Muller and Bredenkamp (2000:4–5) presents a useful picture of the way in which the move towards virtual organisations will influence the organisational environment:

- Work and rewards systems are central and defining characteristics of the virtual organisation. Dramatic changes will take place in rewards, including greater use of contractual and/or contingent pay arrangements for work teams composed of people from more than one organisation. These rewards will be designed as part of a work system that includes a virtual work design and virtual skills. All these elements will define work force effectiveness in the virtual organisation.
- Organisations embracing virtual tools and technologies can provide the means of getting people together to share information, complete tasks and ensure the speeding up of the delivery process.
- The virtual organisation will typically fit the following description: *"To the outside observer (the virtual organisation) will appear almost edgeless with permeable and continuously changing interfaces between organisation, supplier and customer. From the inside the organisation the view will be no less amorphous with traditional offices, departments and operating divisions constantly reforming according to need. Job responsibilities will be regularly shift as will lines of authority – even the very definition of employee will change, as some customers and suppliers begin to spend more time in the organisation than will some of the firm's own workers"*² (Muller and Bredenkamp, 2000:5).
- Virtual service is defined by its instantaneous availability at any time, in any place and in any variety. The capacity to produce or provide the service at any time, in any place and in any variety is defined as its "virtualness". A co-operative network that includes a combination of suppliers, public service rendering organisations and the community, produces the virtual product. The virtual service can be delivered almost instantaneously because product specifications, production capability and delivery are on-line and can be made available to all network participants simultaneously. Roles in the process are defined as soon as the product is conceived. Relationships change and reshape for each successive product or service.
- The challenge in work force effectiveness in the virtual organisation is to move beyond the boundaries of the traditional public organisation, to support the government in creating a competitive advantage to a country in the 21st century environment.

² Words such as "firm" and "company" have been changed to "organisation" in the above-mentioned quote in order to suit the purposes of this study.

- People in a traditional work place generally work at a common site with a high division of labour. This approach, born in the industrial revolution and driven by the bureaucratic model, is aimed at achieving low labour cost. Decisions are made top-down and requisite layers of organisation drive the decision process. The decision process is supported (or bounded) by a highly structured set of protocols that tend to freeze the long cycle time. Information is guarded and data that does not support protocols are not necessarily desirable if they upset the routine. Traditional organisations are structured around departments, units and sections. (Muller & Bredenkamp, 2000: 4 – 5).

The traditional model has evolved into a “lean” model that is characterised by striking differences in the people, decision-making and information loci. In this model, reversal of division of the labour take place, and teams were used to perform work. Instead of a functional or departmental focus, work is organised around key processes with individual team members developing multiple skills. Labour costs increase per head, mainly due to individual diversity. However, work is still performed on a common site because project work teams require significant interaction to achieve effective results. The eventual aim of the high performance (or “lean”) model is to reduce cycle time.

- The virtual workplace will be defined by process and product and would include the chain of suppliers, customers and producers. These role-players would be available to the virtual network on an on-demand basis. They will be connected to the organisation in a number of ways, ranging from a toll-free help line to support personnel of computer software companies. The virtual workplace does not represent a return to traditional ways of division of labour and traditional jobs. The virtual work process facilitates more individual contributions from inside and outside the organisation. Direct labour costs in virtual organisations will be lower than for high performance organisations due to more flexible working arrangements replacing permanent employment (Muller & Bredenkamp, 2000: 4 – 5).

8.4.3.2 An “Internal Free Market”

The decentralisation of organisations into units that can afford to be quite independent must be encouraged, almost as if separate organisational entities are applicable (Pinchot and Pinchot, 1993: 102). Free intraprise is a natural extension of this concept. *The concept of free internal market* will provide a key pillar of project-

based organisations. In order to create an appropriate perspective regarding the meaning and extent of the concept with the reader, the application thereof as a public sector phenomenon will subsequently be explained.

The term *free intraprise* refers to a situation where employees are allowed to operate their own "business" (intraprise) within an existing organisation - if they can find the customers and capital to do so. Such groups must then be allowed to offer their services to clients, both from inside, as well as from outside the organisation and being paid for rendering these services. The system allows for divisions to offer their services to other organisational units at a price. However, if that is the case, and a "capitalist system" is being created within the organisational environment, then the rules that make the free market system so successful must be followed. This means that provision must be made to allow for competition among service providers in order to prevent monopolies and subsequent cost manipulation. (Pinchot & Pinchot, 1993: 133 – 149; Pinchot, 2001: <http://www.eep.com> and Pinchot & Pinchot, 2001: <http://pinchot.com>).

The concept of an organisation structured around the concept and principles of a free internal market is truly reflective of a post-bureaucratic organisational structure. The shift in emphasis and approach can be presented as follows (Pinchot & Pinchot, 1993: 130):

Table 18
Bureaucracy versus Free Intraprise

	BUREAUCRACY VS	FREE INTRAPRISE
Source of authority	Assigned a reporting relationship	Customers that value what one offers
Responsibility	To follow orders.	To produce end results.
Action	Determine the chain of command.	Chosen together with team, customers, and selected suppliers.
Support	None – peers have little power to protect one in tough times.	Part of a team, an intraprise that is a small community in its own right and thus protects its members.
Development	Arrested by subservience.	Allowed full freedom and responsibilities of adulthood.
Dependence	Emotionally dependent on the boss whose decisions determines one's fate.	Self-supporting and interdependent with customers and suppliers.

(Source: Pinchot & Pinchot, 1993: 130)

A concept closely associated with that of an internal free market, is outsourcing.

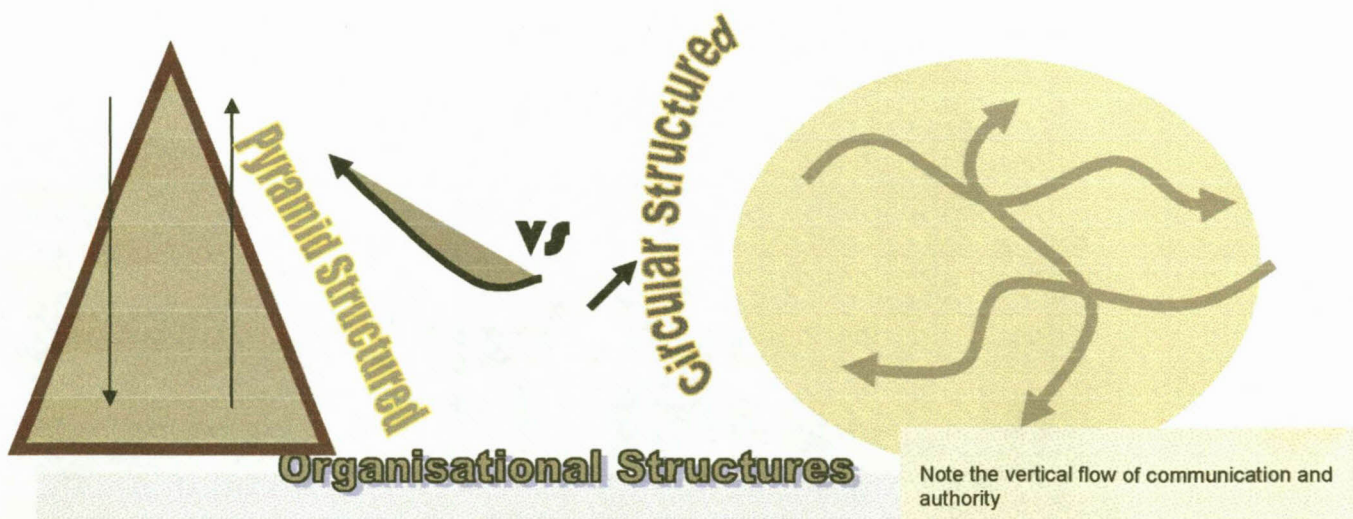
8.4.3.3 Outsourcing

Outsourcing can be defined as “... the practice of contracting with outside organisations to provide services normally performed inside a company” (Straub & Attner, 1994: 208). In a project-based organisation, outsourcing will have to be a key ingredient of business strategy. In that kind of environment, all management practices will centre on core functions, and activities that are not related to the core functions of the organisation will be outsourced in order to minimise overhead cost. Sub-contracting will be optimised in order to get rid of non-core activities. The ultimate manifestations of outsourcing, known as co-sourcing, will increasingly become a viable organisational option in an era of the project-based organisation. In the co-sourcing model, the client and service provider form a third organisation in which each holds an equal owner’s interest (Gordon, 2000:71).

8.4.4 THE CIRCULAR-STRUCTURED PROJECT-BASED ORGANISATION

The 20th century saw the rise of the pyramid-shaped organisational structure, with authority flowing from the top to the bottom, and accountability from the bottom upwards. However, 21st century organisations will be structured around the circular principle, whereby the organisation is viewed as a dynamic entity which functions as an integrated system, receiving inputs from its environment and process it into valued outputs. A simple presentation of this concept can be done as follows: (Pinchot & Pinchot, 1993: 128).

Figure 34
Towards circular structured organisations

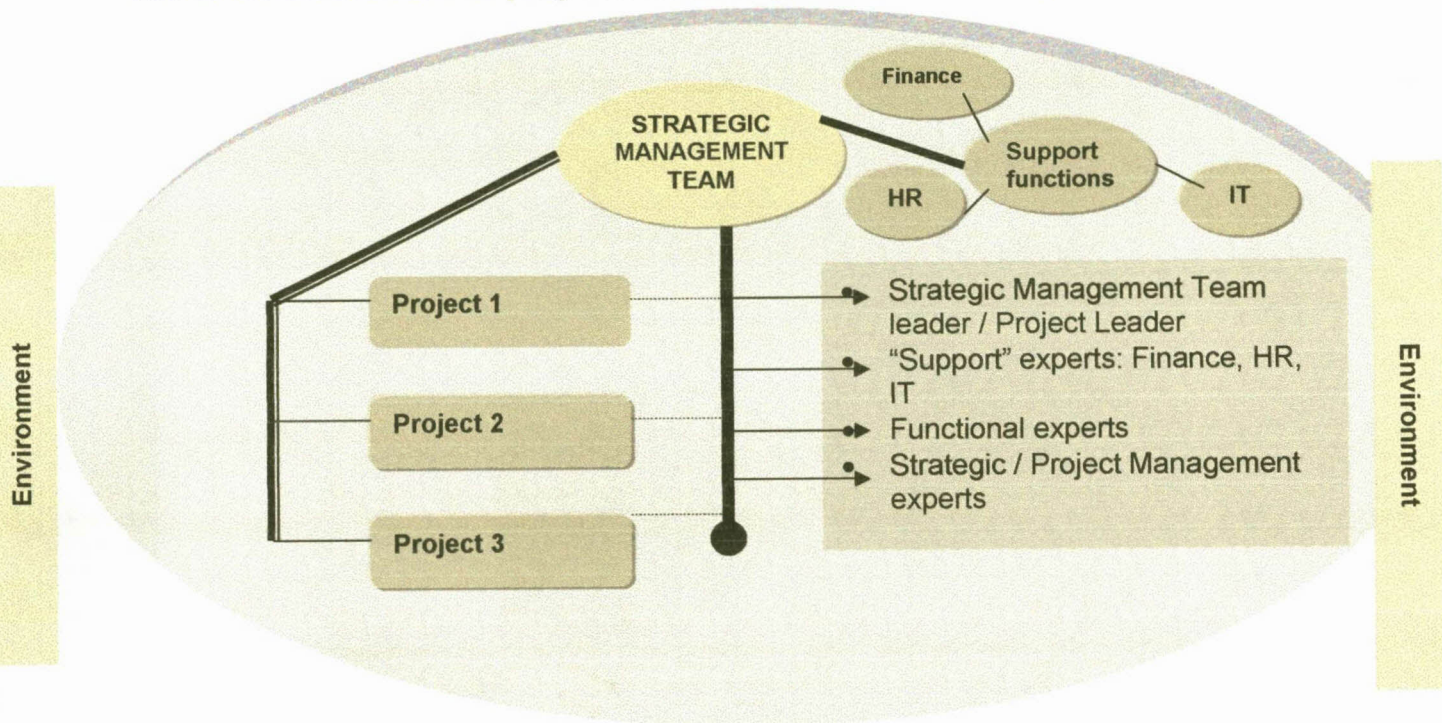


In the case of hierarchical organisations, the nature of the structure is pyramidal. Authority runs from top to bottom, and accountability from bottom to top. In circular organisations, hierarchy is blurred and functional competency much more important. Teamwork is the name of the game, and organisational interaction is running vertically, as well as horizontal.

(Conceptualised from Pinchot & Pinchot, 1993: 128).

Figure 35

The circular-structured project-based organisation conceptualised

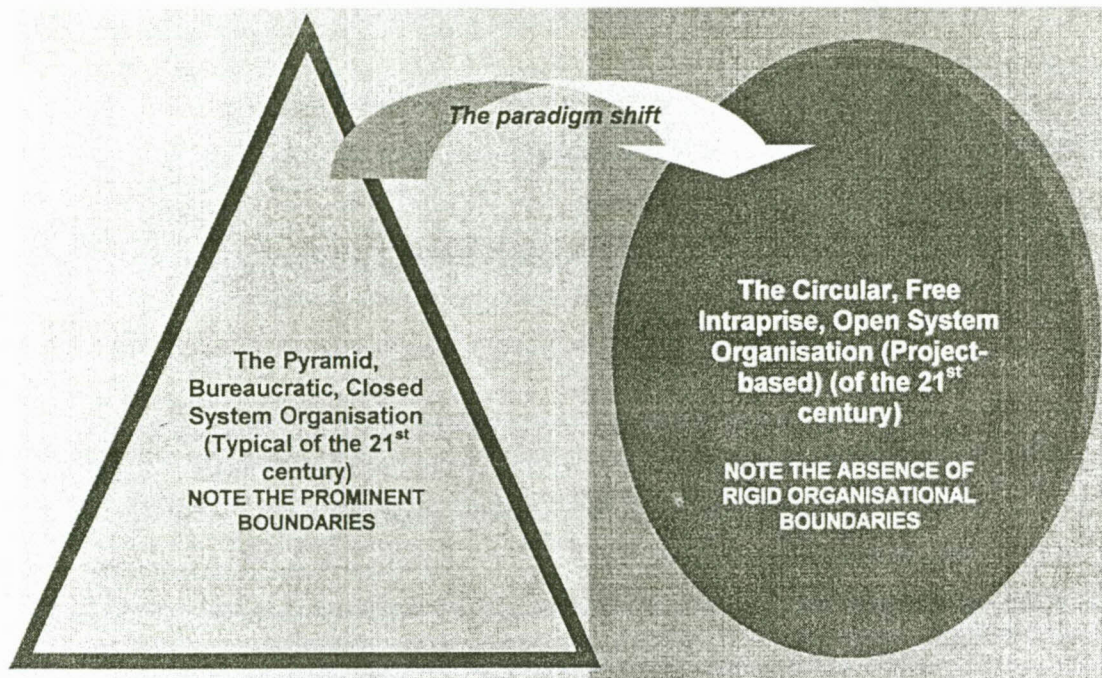


(1) The project-based organisation will be *circular* in nature – the traditional pyramid; authority-based organisations will be replaced with an organisational set-up where the core of the management will be in the hands of the Strategic Management Team (SMT).

Another characteristic of the project-based organisation will be its close interaction with its environment. Note that absence of a “formal border” in the above Figure. This implies that no “boundary” exists between the organisation and its environment – the latter structure (and continuously adapt) itself to reflect the realities in its environment. For the sake of clarity, this phenomenon can graphically be explained as follows:

Figure 36

Open versus closed organisational systems



(2) The Strategic Management Team (SMT) must consist of a corporate team leader (Chief Executive Officer ["CEO"]), experts that will assist this team to interpret information for decision-making, functional experts that could advise the strategic team regarding the identification and planning of needs-based projects, and strategic project management advisers.

The responsibilities of the SMT will be to--

- Give strategic direction to the activities of the organisation (design its "create destruction" strategies). This team must continuously identify new projects, based on the core functions or primary mandate of the organisation).
- Appoint Project Leaders on a contractual basis and evaluate his or her performance and progress in terms of this contract.
- Plan, measure and manage organisational performance.

(3) An interesting aspect to consider is the place and position of support functions in the recommended project-based organisational set-up. Obviously, the implication is that line functions will be conducted in terms of projects.

It is clear that no organisation, not even a flexible, project-based organisation functioning in the 21st century, can operate without support structures and functions. Management needs professional advice, based on the expert interpretation of information, to successfully manage organisations successfully in a knowledge-based era. However, what will be important, will be not to create and establish heavy,

loaded organisational units to perform these functions. To employ one or two highly skilled persons (on a contract basis) will be adequate. The actual work (that essentially boils down to record-keeping and data analysis) can be outsourced, or it can be devolved to the various projects. The SMT must remain a strategic planning and measuring "level".

(4) The circular organisation must function as an *internal free market* in order to be workable. This means that members (and units) of the organisation must be allowed to act freely "inside" and "outside" the organisational boundaries, with "boundaries" being defined in terms of performance contract-based *key performance areas* (KPAAs) and *not* in terms of traditional manifestations of organisational boundaries, such as fixed work hours, fixed posts on a fixed staff establishment, and a fix hierarchy with authority flowing from top to bottom and accountability in the opposite direction.

(5) Two thorny issues to be considered at this stage, are that of (1) the numerous staff agencies in the public sector (such as the treasury and Public Service Commission functions) and (2) those agencies where strict discipline, required for effective execution of the policy mandate (primarily defence and policing) is dependent on a hierarchical flow of organisational authority.

Staff agencies are often tasked with the responsibility to regulate specific functional activities across public sector management activities (such as financial and budget policy-making and control and human management control). This obviously implies on-going activities in respect of a specific function that would be very difficult to break up into separate projects.

Two issues are important in instances like this (the situation mentioned in the above paragraph). The first is that it might be a good suggestion to consider limiting regulation in respect of a specific field of activities (such as budget control) in terms of its scope and duration, because this will allow for "automatic" review of existing policies and across-agency performance on a regular basis (for instance, in terms of a medium term expenditure framework period) even if this materialises as continuously "rolling" projects. The point is that a project must address a specific strategic issue (or mandate) that must enjoy attention. This does not imply that the number of operational projects active at any given stage must be limited. For instance, a project could be tasked with the responsibly to regulate and review the budget performance of government agencies for the 1999/2000 to 2002/2003 financial year, while, simultaneously, another project team may be established to oversee the auditing and performance assessment of public sector operational agencies for the same period (the 1999/2000 to 2002/2003 financial years).

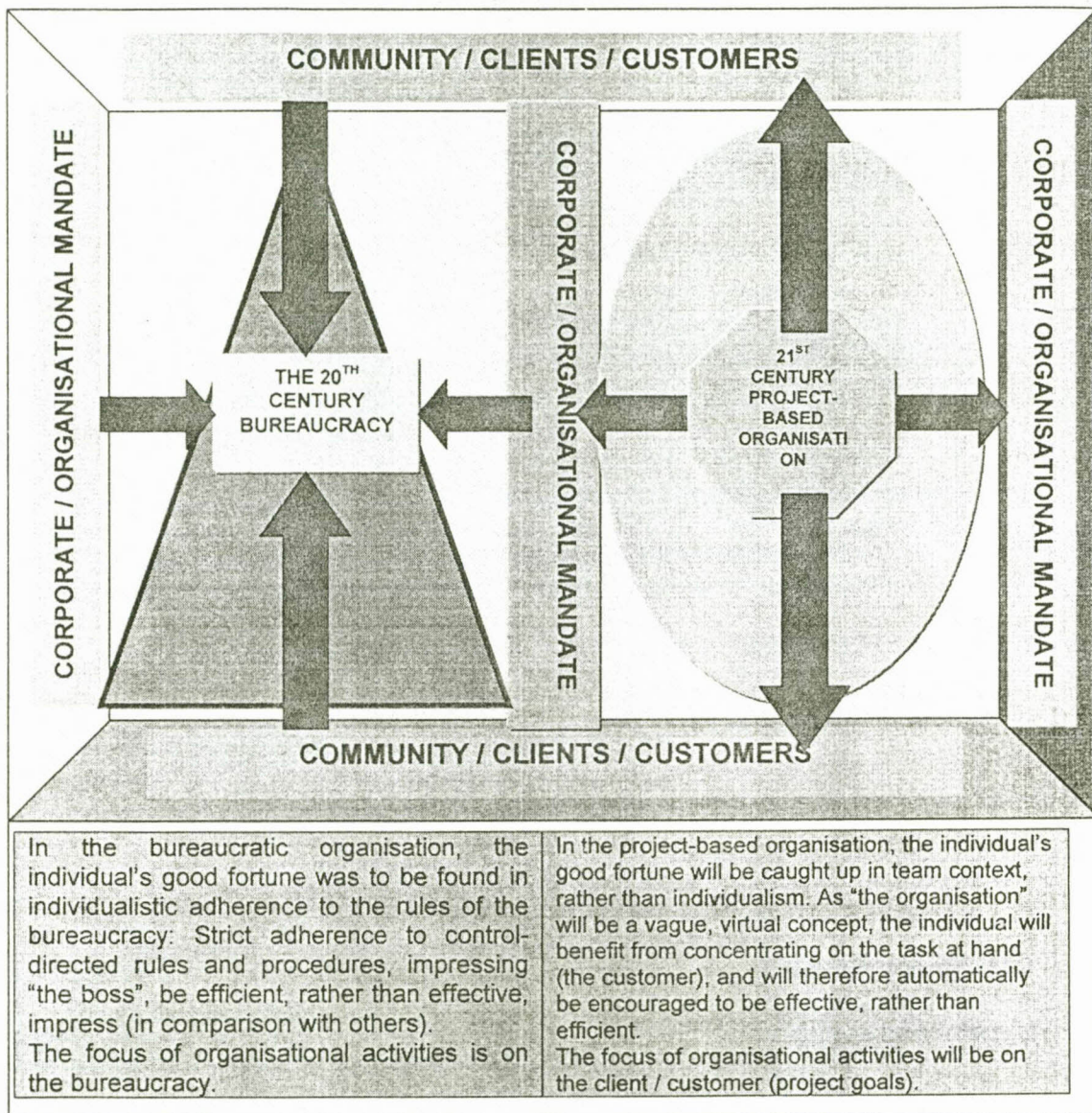
The second issue is that, as the transformation towards project-based organisations will require a fundamental paradigm shift in the way in which public sector organisations conduct its affairs, it might be useful to retain a "functional organisational structure", but simultaneously, increase the project-based component of the organisation. However, in such a scenario, the intention will be gradually to manage down the functional organisational structure and steadily increase the emphasis on the project-based component of organisational activities.

In certain "industries" (such as policie and defence), it could indeed be reasoned that the more traditional distribution of bureaucratic organisational authority is necessary to maintain discipline required for an effective execution of policy mandate. The issue to be considered here goes to the heart of organisational authority and power, and the point to be made (and emphasised) at this stage, is that the project-based organisation will *not challenge the necessity to apply organisational authority and power*. This can never happen. Authority and power are absolutely necessary to maintain organisational discipline – in all organisations, for that matter – not only police services or defence departments. Someone will always be a corporate leader (or manager), tasked with specific responsibilities, and the authority to "make it happen" (lead, or direct other people towards certain goals). What is important is to get rid of bureaucratic notions of organisational authority (that is authority that serves the bureaucracy, and not the task or goal). The issue is not the necessity for organisational power and authority, but the bureaucratic application thereof. The intention is to get rid of the habit in bureaucratic organisations to "work for", and satisfy "the boss", rather than the task at hand.

Within the context of the argument contained in the above paragraph, it can be reasoned that even agencies responsible for defence and police could arrange their organisational structures in such a way that resources and strategic planning activities could be focussed on the most pressing mandate issues, rather than pumping it into the bureaucracy. Within these "projects", adequate authority and power could easily be arranged in such a way that the required discipline will be maintained. Consider the following graphic presentation to reflect the above perspective:

Figure 37

The bureaucratic “inward-bound” organisation versus the project-based “outwards-bound” organisation



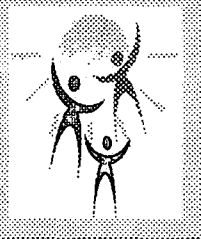
8.5 CONCLUSION AND CHAPTER LINKAGE

This Chapter addressed the challenge of matching organisational structure with the dynamic, turbulent 21st century management environment. The only way in which government organisations operating in a 21st century reality will be able to meet the demands of sophisticated consumers and ever-changing environmental circumstances successfully, will be to adapt its organisational structures and systems to respond swiftly and responsively to the demands originating from this environment.

The project-based organisation was recommended as an appropriate structural model to carry government organisations successfully into the 21st century. This model is built on the principles of continuously adaptation (based on the principles of creative destruction) and internal free market, and the circular flow of organisational authority, rather than the more traditional pyramid-like arrangements. The rationale for such a model is to achieve a consumer-focused service rendering portfolio, as opposed to the bureaucratic inclination to serve the bureaucracy, rather than the client or corporate mandate.

The next Chapter (9) will be the last in the three (3), which dealt with the construction of a 21st century model of public sector organising and management capable of effectively implementing government's policies, and promoting the general welfare in a sustainable manner. The objectives of the chapter will be as follows:

- To conceptualise the term "organisational performance" as a 21st century public sector management phenomenon.
- To expose and shortly discuss the strategic management roots of performance management.
- To explain the relevance of risk management as a pro-active strategic management tool in the public sector.
- To shortly discuss contemporary management responses to the challenge for organisational performance.



CHAPTER 9 COMPREHENSIVE PERFORMANCE MANAGEMENT IN THE PUBLIC SECTOR

9.1 INTRODUCTION AND CHAPTER OBJECTIVES

In Chapter 6, the quest for value creation throughout the organisational management process has been exposed and discussed. This requirement for effective public management in the 21st century manifests itself on a "macro" level, in the sense that it focuses "internally" (with reference to unique organisational processes, systems and resources), as well as "externally" (the organisation's environment, its clients, suppliers and regulators). This argument has been followed with the perspective that 21st century public sector organisations must be structured in terms of a project-based organisational paradigm, and its organisational processes must be managed, based on a sound knowledge basis.

If an attempt is made to "focus in", and concentrate more on specific organisational processes required to create and continuously add value, the question that confronts one, is how the key resources of modern public sector organisations, operating in a dynamic 21st century, knowledge-driven reality, could be managed to fulfil its ultimate mandate, which is, of course, to promote the general welfare by adding and/or creating value.

This Chapter will attempt to answer this question by suggesting a *comprehensive performance management approach*. This essentially entails an approach in terms of which all organisational and management activities are directed at achieving the organisation's strategic goals and objectives in a structured, co-ordinated and focused manner. This is achieved by following a performance-based framework in terms of which organisational resources and activities are planned, organised and controlled.

Chapter objectives

- To conceptualise the term "organisational performance" as a 21st century public sector management phenomenon.
- To expose and shortly discuss the strategic management roots of performance management.
- To explain the relevance of risk management as a pro-active strategic management tool in the public sector.
- To shortly discuss contemporary management responses to the challenge for organisational performance.

9.2 CONCEPTUALISATION OF THE CONCEPT OF "ORGANISATIONAL PERFORMANCE"

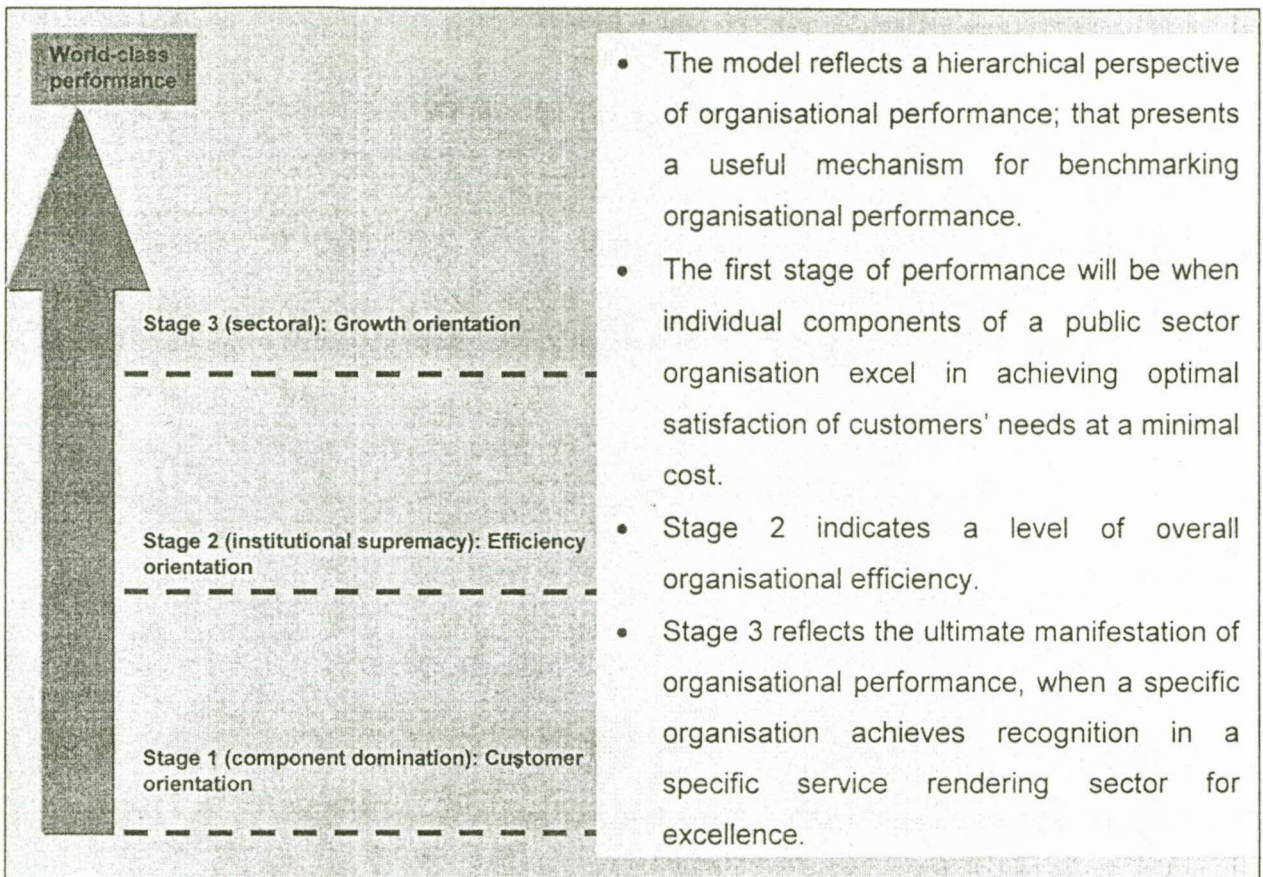
The ultimate challenge of any organisation is to produce goods or services of high quality, while controlling the costs of producing these goods and services. This is required to optimise marginal value (refer to Chapter 5). They are also concerned with managing the performance of their work force (Baird *et al.*, 472). From a management perspective, the main responsibilities of executives are to plan the work of the organisation and to be sure that the organisation achieves the objective exposed in the plan. The business of management, put plainly, is *organisational performance* (Nash, 1984:3).

It is clear from the above that organisational performance is the ultimate focus of management activities. However, this statement does not make clear what the concept of "organisational performance" actually entails. It therefore would be useful to start with a discussion regarding Comprehensive Performance Management by attempting to contextualise the true meaning of the phenomenon "organisational performance".

Before continuing with a short conceptualisation of the term "organisational performance", it will be useful to present the following perspective of the *growth stages towards world class performance*.

Figure 38

Growth stages towards world class performance



(Source: Roodt, 2002: 24) (Adapted to reflect a public sector perspective)

9.2.1 CONCEPTUALISE “ORGANISATIONAL PERFORMANCE” IN CONTEMPORARY PUBLIC SECTOR ORGANISATIONS

Before a reliable Performance Management System can be introduced, it is important to clarify what the term means, or implies, in the context of modern public sector organisations. The best way to do this is to start off by assessing modern generic organisational tendencies that are globally accepted as indicators of satisfactory organisational performance.

Private sector organisations (businesses) perform if they make a profit. From a performance management perspective, Andrew (2003:26) concludes it is correct and appropriate when he states, “*business leaders should be rewarded on the basis of the profitability of their companies*”. If this is true for private sector organisations; if the ultimate measure of organisational performance is linked to the ultimate purpose of the company (that is to make a profit), then it can be reasoned that the ultimate

measure of organisational performance in government organisations could also be traced back to its *ultimate reason for existence*. This "reason for existence" could be found in a government organisation's mandate; that has its roots in the government's policies entrusted to it for execution. It could be argued therefore that public sector executives' performance should be measured in terms of the degree to which they have successfully managed to implement and execute the agency's ultimate policy mandate.

Policy mandate can never be quantified to the same extent as profit. Van der Merwe's (1992:113) perspective regarding a general assessment or review of the performance of an individual government department is therefore appropriate. He regards organisational performance in the public sector as an extremely complex matter that requires careful and balanced quantitative and qualitative judgements, based on detailed information about the resources available in relation to all the services rendered by the agency concerned. Another important aspect is the participation of the agency in policy-making and the drafting of legislation.

Nash (1984:118) links organisational performance to two broad "categories" (indicators) of performance that are (1) absolute ("intrinsic") indicators of organisational performance, and (2) indicators linked to organisational improvement (development / growth). From a private sector perspective, Nash regards the indicators of absolute versus "improvement" organisational performance in terms of (Nash, 1984:118):

Table 19

A private sector perspective on absolute versus improvement organisational performance indicators

Measure of performance	Primary (absolute) measure of performance	Development "improvement" measure of performance
The size of the company.	Sales volume, total assets, net income, and working capital.	Sales-volume growth, growth in total assets, growth in net income, and growth in work capital.
Profitability <i>Growth in profitability</i>	Return on equity, return on capital, return on assets, return on sales, return per employee.	<i>Growth</i> in return on equity, return on capital, return on assets, return on sales, return per employee.
Productivity <i>(Productivity growth)</i>	Sales-to-assets, sales per employee and sales-to-capital.	Growth in sales-to-assets, sales per employee, and sales-to-capital.
Stock-market performance	Return to investors, stock-price increase, dividend yield and P/E ratio.	Growth in return-to-investors and stock price increases. Dividend yield and P/E ratio.

(Source: Nash, 1984:118)

The above-mentioned provides useful guidelines for the identification of organisational performance indicators in public sector organisations that can subsequently be concluded and identified as follows:

Table 20

A public sector perspective on absolute versus improvement organisational performance indicators

Measure of performance	Primary (absolute) measure of performance	Development "improvement" measure of performance
Integration of organisational structures and infrastructure.	<ul style="list-style-type: none"> • Service rendering quality and quantity. • Budget efficiency. • Cash flow status. <p>The size of public sector organisations is not really relevant as an indicator of organisational performance, because this is mostly dependent on the priorities of political decision-makers, rather than on the performance of executives. However, the way in which they manage to co-ordinate and integrate often complex, matrix-structures and high volume, expensive infrastructure (land and buildings, equipment, vehicles) into an effective service rendering unit, is an indication of organisational performance.</p>	<ul style="list-style-type: none"> • Improvement in service rendering quality and quantity. • Improvement in budget efficiency and cash flow status. <p>Growth in structure and infrastructure can be regarded as an indication of organisational performance, if such expansion resulted from a natural expansion based on continuous organisational efficiency, effectiveness and economy (and not so much on the expansion of the organisation's political mandate). An example would, for instance, be the Department of Health "expanding" its existing services by offering a wider range of services, or opening new health facilities, without exceeding its budget or creating an additional bureaucracy.</p>
Effective, efficient and economic execution of political mandate	<ul style="list-style-type: none"> • Return on allocated resources (optimal cost-benefit ratio). • Return on organisational assets (optimal utilisation [value gained] of organisational assets). <p>If a government organisation succeeds in implementing the political mandate entrusted to it in an optimal quantitative and qualitative manner, without exceeding its allocated resources, it is</p>	<p>Growth in –</p> <ul style="list-style-type: none"> • Return on allocated resources (optimal cost-benefit ratio). • Return on organisational assets (optimal utilisation, value gained, of organisational assets). <p>Growth in organisational performance can be measured if government organisations succeed in saving money (that can be re-allocated to additional needy</p>

	performing well.	programmes), and optimise its internal and external efficiency, resulting in improved quality and quantity service rendering.
Productivity (Productivity growth)	<ul style="list-style-type: none"> • Value ("net benefits") gained in relation to assets (cost infrastructure). • Output per employee. • Output in relation to budget. 	Growth in terms of – <ul style="list-style-type: none"> • Value ("net benefits") gained in relation to assets (cost infrastructure). • Output per employee. • Output in relation to budget.
Cost-benefit performance	<ul style="list-style-type: none"> • Return on investment (optimal benefit for resources allocated). • Quantitative fulfilment of organisational mandate. 	Growth in terms of— <ul style="list-style-type: none"> • Return on investment (optimal benefit for resources allocated). • Quantitative fulfilment of organisational mandate.

(Concluded from Nash, 1984: 118)

What is clear from even a casual analysis of the above-mentioned "components" (or elements) of organisational performance, is the importance of the concepts of efficiency, effectiveness and economy are (key) elements of thereof. It will therefore be worthwhile to define and contextualise these terms.

9.2.1.1 Efficiency, effectiveness, economy

The CIMA Study Text (Stage 4)(BPP, 1993:451) provides a comparative perspective of the interaction and differences between the concepts of efficiency, effectiveness and economy that will subsequently be quoted as appropriate for the purposes of this thesis. The Table will be useful in so far as it not only provides a basic definition and explanation of the concepts of efficiency, effectiveness and economy ("3Es"), but also contextualise them in terms of the relationship to organisational goals (the "target"), and the outcome "requirements" of the management process (*quality*).

Table 21

The three Es (3Es)

Term	Definition	Example
Effectiveness	An effectiveness measure reveals the extent to which objectives have been met: it makes no reference to cost.	Total hip replacement operations are associated with a mortality rate less than 2 per cent.
Efficiency	An efficiency measure describes the relationship between the output of an agency and the associated inputs.	Average total hip replacement cost (unit cost of output) is R15,000.

Economy	Attaining the appropriate quantity and quality of physical, human and financial resources (inputs) at lowest cost. An activity would not be economical, if, for example, over-staffing was evident or failure to purchase materials of required quality at the lowest available price (BPP, 1993: 465).	Cheapest possible instruments of the required quality to be used for the hip replacement.
Quality	A quality measure describes the usefulness or value of a service. Relates to the delivery of that service to the recipient.	The average waiting time for a total hip replacement operation is 4 months.
Target	A target is a qualified objective set by management to be attained by a specific date.	Output target. Average number of total hip replacement operations per week next year to be 10,5 or above. Quality target: Waiting time for a first appointment next year to be no more than 2 weeks.

(Source: CIMA Study Text [Stage 4], BPP, 1993: 451)

Within the context of this thesis, it could be stated that the rationale for organisational performance is to optimise the value created and/or added throughout the management process. However, another dimension is evident to this rationale for organisational performance that is often overlooked in the public sector context. However, from a value-driven perspective, it will gain in prominence. This aspect is *organisational longevity*. This aspect will extensively be discussed in paragraph 9.2.1.3.

Another concept of importance is that of cost versus benefits. What makes this important, for the purposes of this study, is the fact that, in the absence of the "impartial" profit phenomenon to serve as ultimate indication of organisational performance in the public sector, the ratio of cost, as opposed to benefit gained from management activities, plays an important role in determining performance.

9.2.12 Cost versus benefits

The present debate in government circles is not so much whether to consider costs and benefits at all but rather what belongs in the estimated costs and benefits themselves (Kniesner & Viscusi, 2002: <http://www/aei.brookings.org>). Cost-benefit analysis, as a scientific method, is a fairly complicated phenomenon. However, some variations are available to quantify the cost of service options in relation to the

benefits gained; depending on the "level" of sophistication and the accuracy of the ratio requirements needed for decision-making and/or programme evaluation.

A *cost-benefit analysis* weighs the cost of a programme against the benefits that the programme provides. The calculation requires that both the costs and the benefits must be quantified in monetary terms. What gets counted as a cost or a benefit and how much it gets valued depends largely on the assumptions made for the calculation (Centre for Health Policy Research, 2000:<http://www.healthpolicy.ucla.edu>). Watkins (2001:<http://www.sjsu.edu>) adds to this that cost-benefit analysis estimates and totals the equivalent money value of the benefits and costs to the community of projects to establish whether they are worthwhile. These projects may be dams, highways, training programmes and/or health care systems.

Unlike cost-benefit analysis that compares dollars to dollars, *cost-effectiveness analysis* is an approach that compares a programme or service outcomes with how much its costs to produce that unit programme or service. It is possible that a programme or service may be "cost-effective" if it produces better outcomes than no intervention or if it produces similar outcomes as another programme or service option at a lower cost (Centre for Health Policy Research, 2000: <http://www.healthpolicy.ucla.edu>).

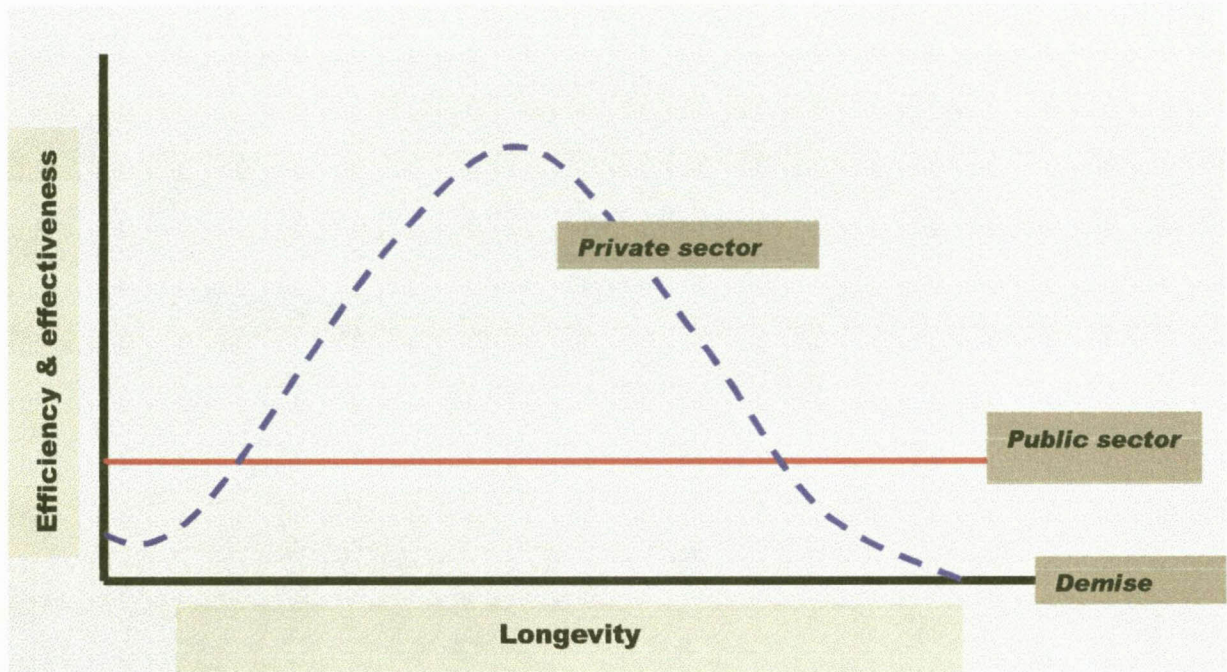
Cost-comparison is similar to cost-effectiveness analysis, because it compares cost of the benefits or the programme or treatment to the cost of other potential or alternative service options (Centre for Health Policy Research, 2000: <http://www.healthpolicy.ucla.edu>). It is worth mentioning that various costing options exist that can help public managers with performing cost-benefit (or related) research projects. The best-known and most popular technique is Activity-Based Costing (ABC). This technique entails the listing of activities involved in achieving a specific goal, or executing a specific project. These activities are then subsequently costed. This is a useful technique to support both the strategic management and performance management processes and is also valuable for reducing cost and optimise budgeting exercises in government sector organisations (Roztocki, 1998:<http://www/pitt.edu>).

9.2.1.3 Organisational Longevity

Organisational performance can also be measured in terms of its *longevity*. Consider the following perspective:

Figure 39 (a)

Longevity in private versus public sector organisations



The general perception is in line with the perspective reflected in the above-mentioned Figure. This perspective can be summarised as follows: In a private sector idiom, the phenomenon of longevity is directly related to the life-cycle of the organisation – which, in turn, is related to their continuous profitability. In the public sector the “impartial” measurement of organisational efficiency and effectiveness (profit) is absent. Regardless of whether they function effectively and efficiently or not, the continued existence of public sector organisations is more or less guaranteed because of the fact that it is built around the implement and/or execution of a specific policy mandate that must be executed, regardless of the performance of the agency or organisation responsible for its implementation.

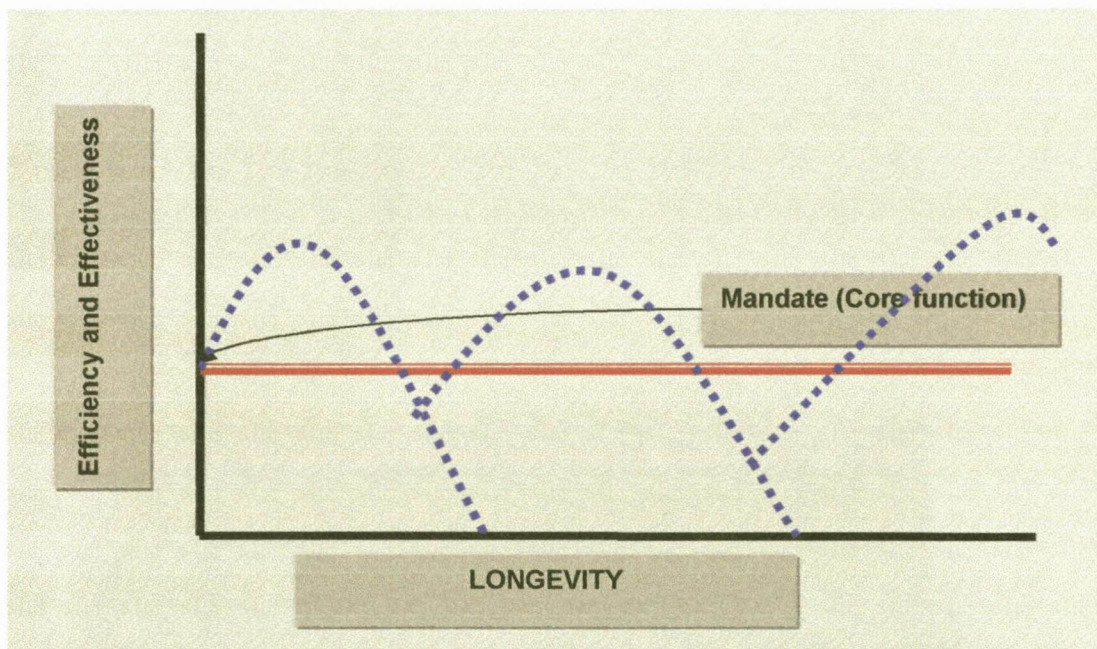
At first glance, the above-mentioned is a fair expression of the situation that prevails in the public sector. However, a more careful consideration of the situation places this argument in doubt. It could, for instance, be reasoned that consistent reshuffling of political heads of departments, as well as of the physical re-structuring of departments as such (such as the merger and de-merger of departments) are often the result of non-performance in respect of adequate delivery of the key components of a specific policy mandate. The same applies to the re-structuring within

departments and other service rendering agencies. To some extent, such measures imply "the end of the organisational life-cycle" of that organisation. It also sometimes happens that some functions are "pulled up" to centralised levels of service rendering because of non-performance by decentralised service rendering agencies. For example, if the Department of Welfare merges with the Department of Health to become the Department of Health and Welfare, with the primary reason for this merger being the fact that the Department of Welfare was perceived as being consistently unable to ensure the timely pay-out of pensions, this could be interpreted as "the demise" of the Department of Welfare because of non-performance. The function (or mandate) cannot be terminated, but the "organisation" can be.

A more appropriate and reflective presentation of longevity in the public sector will therefore rather look something like this:

Figure 39 (b)

Longevity of public sector organisations



Again, the argument related to the ultimate rationale for organisational existence emerges. If the ultimate rationale for the existence of a private sector firm is profitability and a lack of profitability causes the demise of the private firm, it could be argued that the demise of the public sector organisation will be dependent in the realisation of its ultimate mandate (core functions).

The ultimate argument is that it has become simply too expensive to maintain non-performing government bureaucracies. The only foreseeable way to change this

situation is for the government sector to implement alternatives to the present public bureaucracies and to consider alternative methods of service rendering.

9.3 THE STRATEGIC MANAGEMENT ROOTS OF PERFORMANCE MANAGEMENT

Performance Management cannot be separated from the Strategic Management theory. In a complex, dynamic and ever-changing environment, public sector organisations need a scientific method to reconcile organisational strategies with organisational capacity in terms of structure and resources. Strategic Management is ideally suited to serve this purpose. The instrument widely used to perform this function, is the so-called SWOT (strengths, weaknesses, opportunities, threats) analysis, whereby an organisation identifies environmental opportunities, and threats to the effective implementation of its policy mandate. However, in the public sector, the problem with this application that has initially been developed for application in the private sector is the fact that it seldom provides a sufficient foundation for strategy development. In the private sector, the imprecision of the SWOT analysis is dispelled by centring management activities on the concept of competitive advantage (Goold, 1997:292).

This address a very important issue in the application of strategic - and performance management in the public sector context – the lack of an appropriate “standard” to measure (benchmark) performance against. The private sector benchmark organisational performance against competitors, and express this in terms of its market share and competitive position in the industry-market.

Goold (1997: 292) suggests the application of a so-called *institutional advantage* approach for application in the public sector. Institutional advantage is held when a government organisation performs its tasks more effectively than other comparable organisations. It focuses attention on the following strategic points:

- What are the tasks of the organisation, and how can its effectiveness in performing them be measured?
- Which other organisations perform similar tasks (or sub-tasks) and could provide some sort of benchmark for effectiveness.

Although the above-mentioned approach has undoubtedly merit, it could also be argued that it is too limited in scope and application. In talking about and actively promoting the idea of a paradigm shift in thought about management in the government sector, it has become important to realise and acknowledge the fact that private sector organisations have over a number of years achieved remarkable

successes solely because they have based their business strategies on the concept of competitive advantage. Government organisations, on the other hand, very often, base the need for their existence solely on their monopolistic position, irrespective of often serious inefficiency and ineffectiveness. The result is massive bureaucracies that consume an enormous amount of scarce resources that gradually destroy value in the national economy. It can rightfully be asked whether government sector organisations could possibly learn something from the division between the private and public sector expressions of competitiveness.

The answer is that the government sector can indeed learn a lot from it. Firstly, it has already been reasoned earlier in this thesis that the government sector is not at all as "secure" in its monopolistic nature as it used to be. Increased globalisation, and strong pressures on governments worldwide to accept and acknowledge the principles of pluralism, has exposed the government to competitive forces very similar to those to that larger, multinational private sector companies have been exposed to.

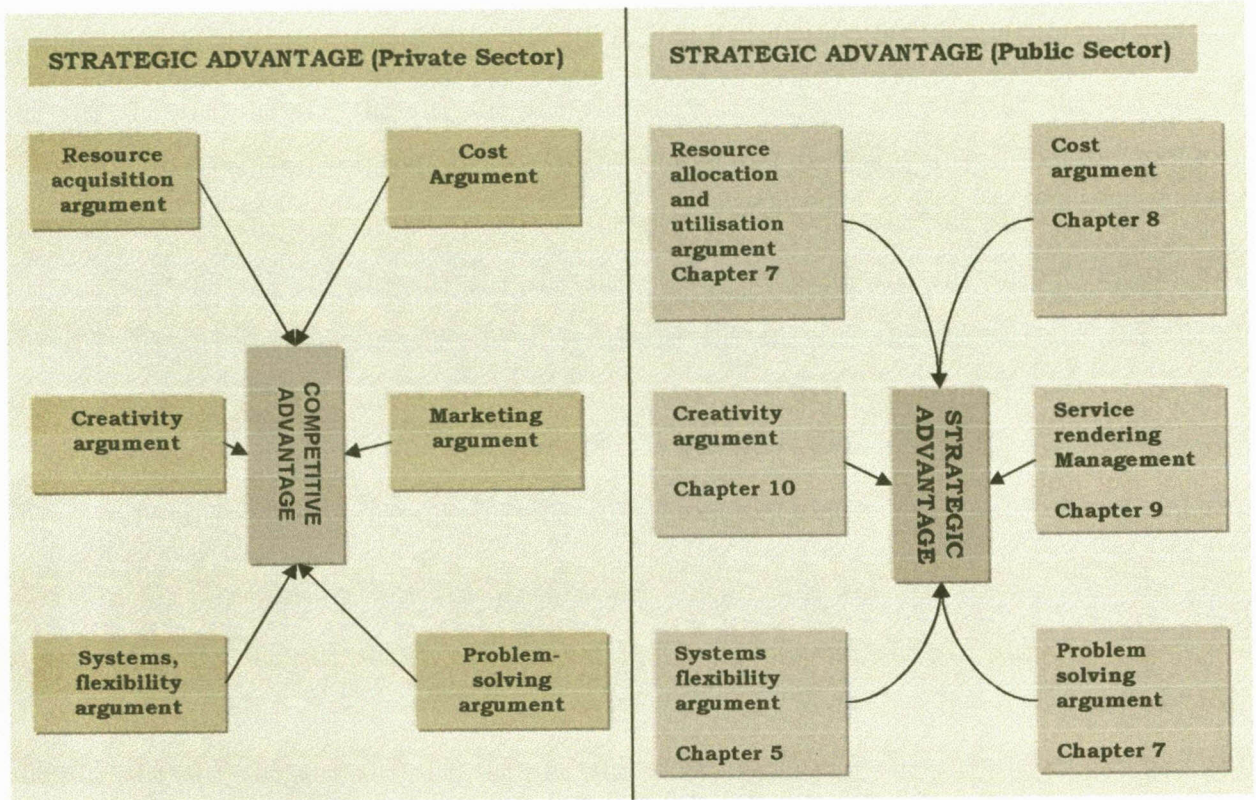
Secondly, regardless of whether direct competitive forces are in its environment or not, government organisations can learn a great deal from the way in which private sector organisations use the principles of competitive advantage to structure their service rendering (marketing) strategies. It is exactly these forces that make them cost-effective because they need to keep cost down to remain cost-competitive. Private sector organisations are efficient because they simply cannot afford to waste money and resources on unnecessary red tape and heavy administrative, bureaucratic structures. They are effective because they need to establish effective distribution channels, which will ensure that they and their products reaches the customers before that of the competitor – and more appealing to that customer than the product or service of their competitors.

In spite of all that have been said above it will still be inappropriate to try and apply competitive advantage in the government sector due to the very real differences between the public and private sectors. However, some of the underlying principles of the concept can usefully be applied if the contextual differences are appropriately taken into account. The approach that can then be followed is that of a *strategic advantage*. The concept refers to an approach whereby government sector organisations try to manage their resources and strategies in such a way that they achieve a situation of strength, relative to the "counter-forces" in their environment. The aim is to satisfy the needs and demands of prospective customers, members of the community.

If the above-mentioned perspective is accepted as a given for the purposes of this thesis, the various components to achieve a strategic advantage for a government organisation can be concluded as follows:

Figure 40

Competitive versus strategic advantage



(Concluded from Griffin, 1999: 181)

In the modern management idiom, it is useful to link strategic advantage to the concept of *benchmarking*. Benchmarking has been defined as “the search for industry best practices that lead to superior performance”. It seeks out, internalises and improves upon related industries’ best practices capabilities (Drew, 1997:427). The concept of benchmarking is of critical importance when evaluating the management performance of government organisations. The ideal will be for government organisations to benchmark their performance continuously with a view of improving its strategic advantage in executing its policy mandate. The benefits of using benchmarking is that organisational functions (units) are forced to investigate sectoral best practices and incorporate those into their own operations (Bowermen & Ball, 1989: 36).

Benchmarking, as a management tool, concentrates organisational efforts at comparing comparative management performance of the organisation and its individual components with other components in the same organisation (internal), as

well as with that of other organisations (external). In this regard, benchmarking (Bendell *et al.*, 1997: 19)—

- facilitates continuous ("sustainable") improvement,
- stimulates process efficiency and effectiveness,
- adds a much needed external perspective to organisational performance, and
- focuses organisational efforts and activities on what really matters.

In the final instance, it is important to contextualise everything that has been said about the application of the principles of strategic management above by referring to a hypothetical situation that often occurs in the public sector reality: Politicians, with specific reference to the political heads of executive agencies (often pressured for ever-increasing results themselves) pressure public sector executives to do more and more; that is, continuously to expand the political mandate of the agency. However, the resources allocated to the agency to enable and support the execution of its mandate hardly ever expands accordingly. This often resulted in what has become known as "unfunded mandates". Public managers (pressured to perform their functions within the scope of allocated resources) are not able to meet these demands. "Counter-forces" then emerge in such a scenario, with organisational performance suffering. The problem is that, where such a scenario occurs, the agency gradually "erode" its strategic ability to maintain long-term organisational performance.

The answer to meet such challenges to organisational performance is to use the "solutions" inherent to modern strategic management theories. One such a theory that could possibly find useful application in the public sector is the *balanced scorecard*; a technique that emphasises balance between services delivery successes today and preparedness for the service rendering challenges of tomorrow. This approach also emphasises the fact that organisational performance must be measured in terms of much more than *financial performance* only (Olive *et al.*, 1999: 5).

9.3.1 TOWARDS A 21ST CENTURY METHODOLOGY FOR THE APPLICATION OF STRATEGIC MANAGEMENT AS AN ORGANISATIONAL PERFORMANCE IMPROVEMENT TOOL

Robert Reisner (2002:52) identified as one of the main reasons for the apparent failure of the turnaround strategy of the U.S. Postal Service, the fact that the company did not link its change initiatives to its *core functions*. This resulted in a very

important point; the fact that modern organisations, irrespective of the sector in which they operate, must concentrate on managing its *core functions*. The 21st century management reality, knowledge-driven and ever-changing, is simply too dynamic and complicated to try and be "everything for everybody". Trying to keep it all in one organisational unit only fragments the organisation, not only in terms of its available knowledge sources, but indeed also in terms of its strategic focus. This reality started dawning on private sector organisations in the closing years of the 20th century, when large, bureaucratic organisations increasingly started breaking up corporate structures and re-structured around separately identified business functions, that is around differentiated *core functions*. This practice has become popularly known as "unbundling".

It will be important for 21st century government organisations to construct their strategic management practices around *core functions*. This implies that they must concentrate on optimal implementation and execution of those strategies and initiatives that are at the *core* of their political mandate. They are not resourced to do more, anyway. In order to strike a balance between this reality and the reality of unrealistic political pressure for an expansion of service rendering, it will be useful to consider using modern management tools, such as the balance scorecard.

The second implication of a core function-approach to strategic management is that the focus of strategic management activities must be on organisational functions as opposed to the traditional structural approach. Public sector organisations must structure and organise its activities and strategies around its identified core functions, and not around organisational structures (that is, *not* around the internal bureaucracy). Such an approach is in line with the reasoning and recommendations continuously promoted throughout this thesis.

In this regard, recent attempts to move away from the structure-based allocation of resources (for example the "Programme" structure traditionally used in the South African public sector), towards a *cluster* structuring as basis for the allocation of and control over resources, are indeed commendable. "Clustering" entails an approach whereby the focus of organisational management activity is shifted from organisational units towards organisational functions. Broad "bands" of organisational functions are "clustered" together. It represents a subtle, yet important shift in emphasis away from organisational bureaucracy as focus-recipients of organisational resources, towards *organisational functions* as the core focus of such resource utilising activities.

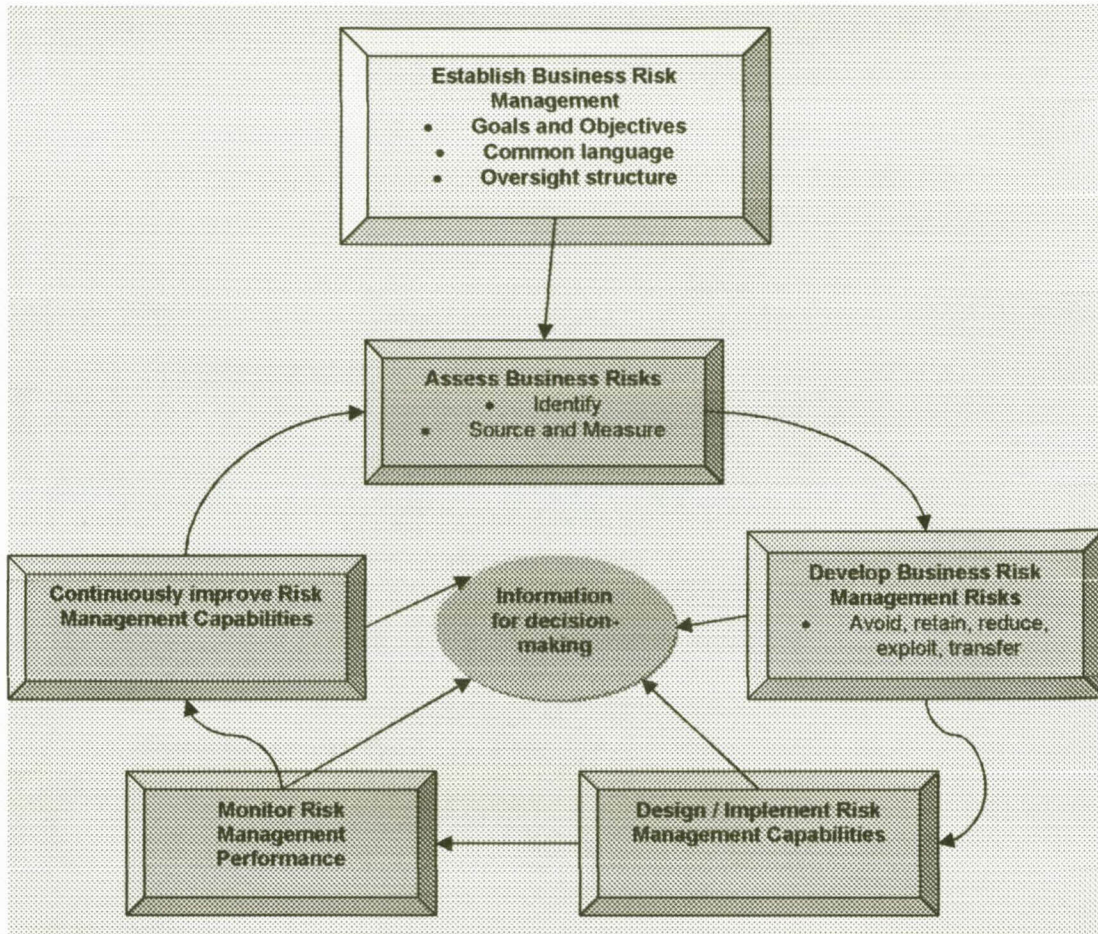
9.3.2 RISK MANAGEMENT AS A PRO-ACTIVE STRATEGIC MANAGEMENT TOOL IN PUBLIC SECTOR ORGANISATIONS

The application of the principles of risk management in the public sector organisational context has gained widespread appreciation and recognition in the recent past. The principles unique to risk management make it a theory ideally suited for strategic management purposes, as its main aim is to identify risks in the organisation's environment pro-actively and timely. This in turn devise strategies on how to deal with these risks in order to prevent its occurrence, or (if not possible) then to minimise the damage caused by it in terms of value added or created by organisational activity.

Morgan (1999:11) defines risk management as "*managing the cash flows of the business to protect and enhance their value*". This definition is relevant in so far as it emphasises the relationship between risk management and organisational value. However, in the public sector, the application of risk management practices gains its ultimate value from its potential to optimise the strategic management capacity of the organisation. In terms of basic risk management terminology, information must be continuously be gathering from the firm's environment that must then be evaluated, analysed and prioritised to identify the risks inherent to it. Appropriate steps must then be taken to accept, share or reduce risks (Clarke & Varma, 1999:415). In this regard, Clarke and Varma (1999: 415) define risk management as a strategic business process. "*Management needs to assess whether the business activities are consistent with its stated strategic objectives, and how risk management is linked to investment and growth decisions*" (Clarke & Varma, 1999: 415).

A new approach to risk management that is ideally suited to support the strategic management process, in terms of its ability to align strategy, processes, people, technology and knowledge for the purpose of evaluating and managing the uncertainties that an organisation faces, is the so-called *Enterprise-wide Risk Management (EWRM)* (Badat, 2000: 28). This approach can graphically be explained as follows:

Figure 41
Enterprise-wide risk management



(Source: Badat, 2000: 28)

The Figure can be explained as follows:

- *Establish goals, objectives and oversight.* Enterprise-wide risk management (EWRM) must be built around a well-established oversight structure. Risk management must be integrated with business planning and strategic management, so that it becomes linked to those processes. The goals and objectives for risk management must clearly be determined, stated and communicated throughout the entire organisation. The support of top management in this regard is essential (Badat, 2000: 28).
- *Assessing business risk.* A culture of risk awareness and early recognition and acknowledgement of risks must be created. All managers must be sensitised towards potential business (or organisational) risks. Risk assessment entails three key elements, which are (1) skilful risk “owners”, (2) a common risk language and (3) a forward-looking, on-going process of identifying, sourcing and measuring risks and opportunities.

- *Develop risk management strategies.* "Risk owners" must be identified for certain risks, or "categories" of risks. These persons, or groups, must then engage in improving risk management strategies, processes and measures. Such strategies or solutions may be focused at (1) avoiding risks, (2) retaining risks, but putting measures in place to minimise the damage caused by such risks, (3) reducing risks, or the affect on organisational efficiency and effectiveness, (4) exploiting risks with a view of actually gaining value from its occurrence, and/or (5) transferring risks to where it could best be handled, or amongst various organisational components, in order to minimise the negative affect of its occurrence on a specific organisational component or function.
- *Design and implement risk management capabilities.* As the risk sensitivity of an organisation's culture increases, its best employees are leveraged in building the most effective capabilities for managing risks. These persons are continuously revising risk strategies, and are implementing the required processes, reporting frameworks, methodologies and systems to enable the organisation to execute selected risk strategies and policies (Badat, 2000:29).
- *Monitoring performance.* Performance measures must be created to monitor the execution of risk management policies, procedures and controls. Relevant information must continuously be obtained from all business components to enable a comprehensive organisation-wide risk assessment at regular intervals.
- *Continuously improve risk management capabilities.* The structures, procedures, frameworks and procedures implemented to combat risk and pro-actively manage risks, must continuously be assessed to determine its efficiency, and improve its performance, based on the results of the said assessment (Badat, 2000:28).
- *It is of vital importance to understand the rationale for risk management practices in its proper context; that it is a tool to minimise risks, or timely identify such risks with a view of optimising sustainable (long-term) organisational performance.*

In conclusion, reference could also be made to the value of implementing a risk analysis methodology in public sector organisations. The idea behind such an approach is to identify those areas most vulnerable to risks, and to prioritise possible negative risks in an attempt to concentrate on those risks with the greatest potential for organisational non-performance (BPP, 1993:264).

9.4 MANAGING ORGANISATIONAL PERFORMANCE

The link and inter-relationship between performance management and strategic management has already been exposed in the previous paragraph. In reality, performance management is essentially based on the theory of Management-by-Objectives (MBO) – a management process originating from the strategic management process. It is predominantly used to implement the strategies identified during the strategic planning process. It re-emphasises the fact that *performance management* can be regarded as a natural extension of the strategic management process and cannot be separated from it.

9.4.1 MANAGEMENT-BY-OBJECTIVES (MBO): DISCOVERING THE THEORETICAL ROOTS OF PERFORMANCE MANAGEMENT

The link between MBO and performance management became apparent from the contents of a document titled "*Developing a Culture of Good Governance: Report of the Presidential Review Commission of the Reform and Transformation of the Public Service in South Africa*" (RSA, 1998: Chapter 4:26). The Report remarked that the origin of the so-called Personnel Performance and Management System (PPMS) introduced in the South African public sector is to be found in the MBO theory.

Moorhead and Griffin (1995:115-116) describe MBO as a collaborative goal setting process during which organisational goals cascade down throughout the organisation. The starting point in a successful MBO programme is top management support. Top managers must support the programme and take the first step by establishing overall goals for the organisation. After initial organisational goal are set by these top managers, supervisors and subordinates throughout the organisation collaborate in setting goals. First, the organisational goals are communicated to everyone. Then each manager explains the unit goals to subordinates and they determine together how subordinates can most effectively contribute to those goals. The manager acts as counsellor and helps ensure that the subordinate develops goals that are achievable. Finally, manager and subordinate ensure that the subordinate has the resources needed to reach his or her goals. The entire process spirals downwards as each subordinate meets with his or her own subordinate to develop their goals. In this way, the goals are cascaded throughout the organisation. During the time frame set for goal attainment, the manager periodically meets with each subordinate again to check progress. The manager may, for example, need to modify goals in light of new information, provide additional resources, or take other

action. At the end of the specified time period, managers hold a final evaluation meeting with each subordinate. At this meeting, managers and subordinates assess how well goals were met. This meeting often serves as the annual performance review as well as determining salary adjustments and other rewards based on reaching goals. Finally, this meeting may also serve as the initial goal setting meeting for the next year's cycle.

The importance of MBO and subsequently the more modern approach of performance management and development is that it creates a "link" between the main strategic objectives (mandate) of the organisations and its sub-objectives (the objectives of sub-units and/or functions).

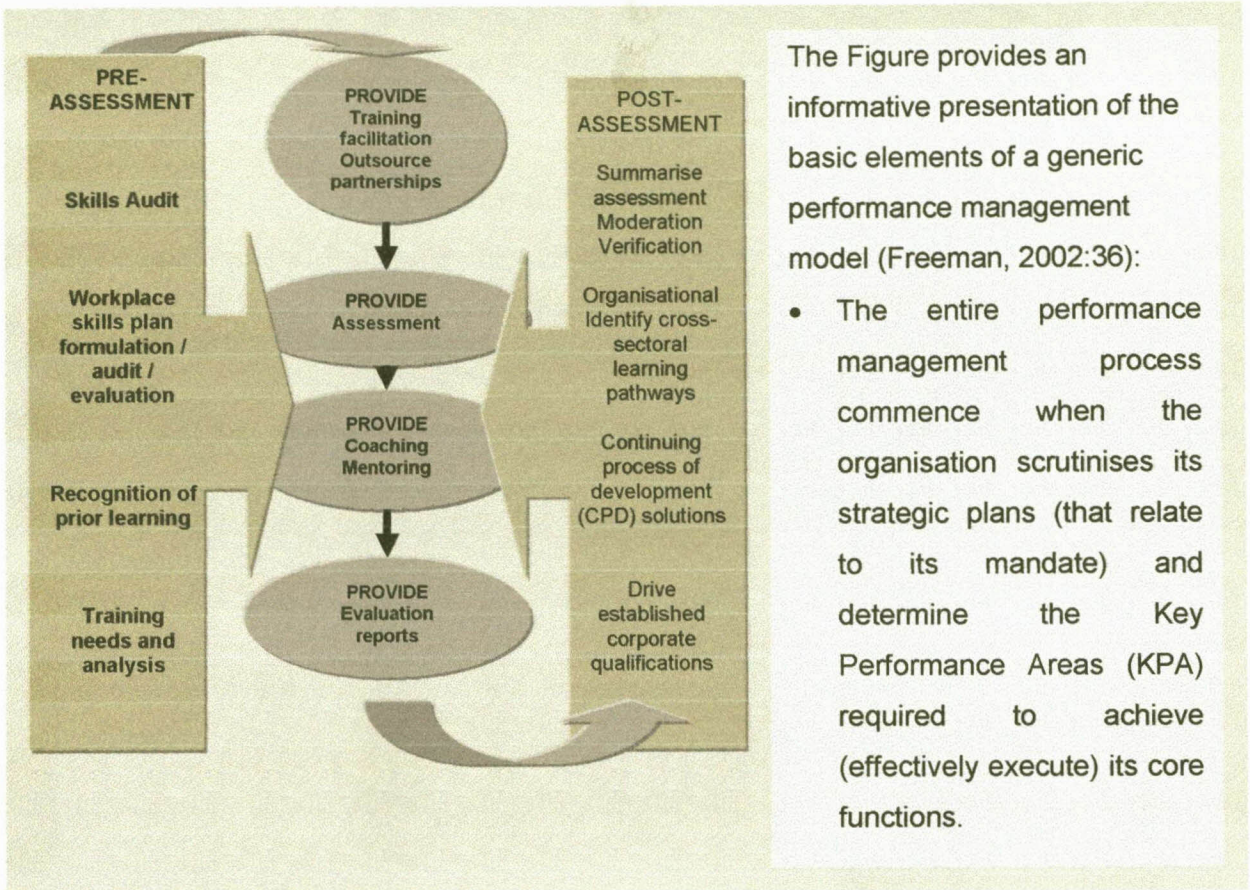
9.4.2 MANAGING EMPLOYEE PERFORMANCE

The *crux* of performance management boils down to the management of the performance of the workers who perform the every-day organisational activities. Various initiatives have been introduced in the public sector in recent times to pro-actively manage and optimise employee performance. The following are amongst the most predominant of these, and will be discussed:

9.4.2.1 A basic Performance Management Model

Performance management is a continuous process that hinges upon the establishment of goals and the measurement of peoples' contribution towards achieving those goals. Performance management also revolves around the assessment of efficiency by key performance indicators and subsequent corrective action (Freeman, 2002:36).

Figure 42
A basic performance management model



(Source: Freeman, 2002: 36)

The above Figure could be explained as follows:

PRE-ASSESSMENT

- The first step will then be to determine the competencies and activities required to effectively execute the said KPAs. This can be done by performing a skills audit. The results of such an audit will provide an indication of the skills gap existing in the organisation for an effective execution of its primary functions.
- A workplace skills plan can then be formulated, based on the results of the above-mentioned skills audit. This plan will contain details of the required key performance indicators that would indicate satisfactory performance, recognition of prior experience and learning of incumbents and new employees alike, an analysis of training needs and particulars of how the skills gap will be addressed.

THE PROCESS:

- Arrangements must be made to provide the required training and facilitation identified in the skills plan.

- Performance assessment services must be provided.
- Coaching and mentoring must be provided to top and mediocre achievers alike to ensure optimal performance in terms of the strategic objectives of the organisation.
- The organisation must continuously evaluate the results of the performance management system, and must report on the collective and individual performance of the organisation to stakeholders involved in the assessment process.

POST ASSESSMENT:

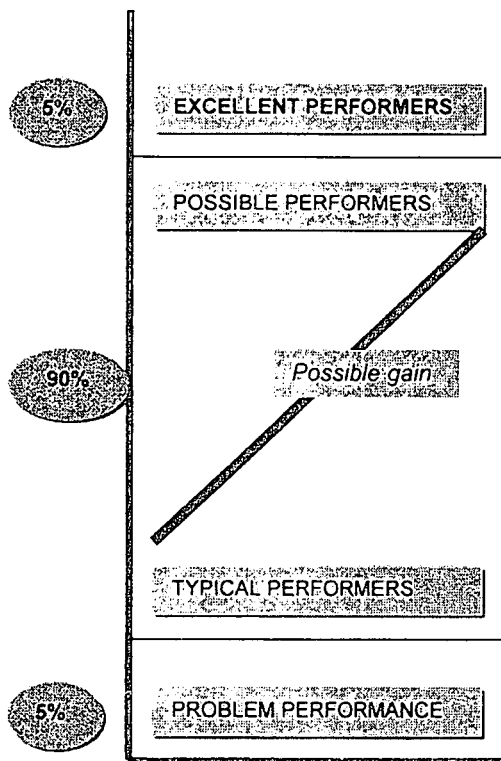
- A summary of the state and status of organisational performance must be provided to all stakeholders. It is also important that an independent moderation structure (committee or unit) must be in place in an organisation to verify the trustworthiness of the appraisal process.
- The post-assessment process provides an ideal opportunity to identify cross-sectoral learning pathways, meaning that those generic skills required for overall organisational excellence must be identified and addressed cost-effectively. It also implies that "best practices" in terms of organisational learning and career development must be identified where possible and applicable.
- The organisation can use the "results" of the assessment process to develop continuous development processes; that is, best practices that could generically be applied across business units and processes to ensure optimal and sustainable organisational development.
- The post-assessment phase is the ideal opportunity to identify the "most desired" corporate qualifications and drive these by encouraging employees to obtain these qualifications, or by setting such qualifications as requirements for filling of specific posts.

9.4.2.2 Maximum Performance Management (MPM)

The profile of the "average" workforce can be presented as follows (Boyett & Conn, 1995:6):

Figure 43

Performance profile of the "average" worker



The underlying philosophy is that all organisations must strive toward organisational excellence – just an "okay" performance is unacceptable. The typical workforce consists of more or less five percent top performers, ninety per cent average performers, and five per cent problem performers. The dilemma of modern managers is basically threefold (Boyett & Conn, 1995:6):

- How to keep the excellent performers excellent,
- What to do about the problem employees, and
- How to raise the average performance of the average, or "typical" employee.

(Source: Boyett & Conn, 1995: 6)

Excellent performers bring to the workplace the knowledge and skills necessary to perform the tasks they are expected to perform, or they acquire the necessary knowledge and skills quickly with little, if any, assistance. They can be given a minimum amount of direction and be left to their own devices. They have both technical skills and knowledge of what is critical for success. A manager does not have to explain his or her expectations to these employees in detail. Excellent employees initiate necessary work without any clue from management; they already know what needs to be done and how to do it (Boyett & Conn, 1995:7). Characteristic of the dynamic nature of such human capital, is that it has the ability to increase rapidly, accelerating organisational competence and value overnight, but can leave just as fast to a rival organisation (Freeman, 2002:37). Most organisations, especially the bigger ones, will have a small percentage of problem personnel. Included in this category are employees with drug, alcohol and emotional problems. Employees, who

lack the basic talent or skills to perform their tasks, also fall within this category. Unfortunately, these problem employees will consume a disproportional share of the modern manager's time and attention (Boyett & Conn, 1995:7).

The majority of employees are placed somewhere between the above-mentioned two extremes. They are neither excellent nor problem performers. Though their performance varies from day to day, week to week and month to month, it typically varies within a relatively narrow range. The performance of these employees is fairly consistent and average; although it is also well below capacity. Typically, excellent performers have a considerable margin for improvement (Boyett & Conn, 1995: 7). The reasons why some employees are excellent, some average and some poor can be summarised as follows (Boyett & Conn, 1995:6-8):

Table 22

Internal factors contributing to excellent performance

Performance Characteristic	COMPONENT (In terms of comparative performance, employees are separated by ...)
<i>Knowledge and Skills</i>	<ul style="list-style-type: none"> • Technical abilities. • Their understanding of business requirements (what it takes to do the job). • Their education. • Their training.
<i>Motives</i>	<ul style="list-style-type: none"> • Their intrinsic values, as it relates to the work culture, and attitude towards work. • Their beliefs. • Drives (what it is that motivates (drive) them to do their jobs). • Their needs (ambitions, aspirations and recognition). • Intrinsic motivation.
<i>Abilities</i>	<ul style="list-style-type: none"> • Mental abilities. • Physical abilities.

(Source: Boyett & Conn, 1995:6-8)

Boyett and Conn (1995:8-10) expelled two "myths" about managing for employee excellence by stating that –

- *excellence cannot be created by matching people to jobs.* It is extremely difficult to identify all the necessary prerequisites for a perfect match between an employee and a job. Even where it could be done, the dynamic nature of modern organisations results in continuous changes in the nature, content and scope of jobs.
- *People cannot be trained to be excellent.* Poor performance is rarely caused by a skill deficiency correctable by training. Even when a skill deficiency does exist and training is provided, seldom any meaningful follow-up training pays

dividends. Employees are not required to apply the newly gained skills immediately, and are not provided with on-the-job coaching for applying these skills. Most training is also designed for "the average person", but since there is no "average person" exists, the pace, method of instruction and instructional aides, will not fit most persons.

Boyett and Conn (1995:11) then suggested that excellence can be created by utilising the following three leverages available to managers:

- Information to overcome limitations in knowledge and skills.
- Consequences to overcome deficiencies in natural drive and motivation.
- Involvement of employees to overcome weakness in natural ability.

The application of these tools to enhance organisational excellence can be summarised as follows (Boyett & Conn, 1995:11-15):

Table 23

Methods of creating excellence

Method	Application
Information (knowledge)	<ul style="list-style-type: none"> • Information provides managers with an integrated perspective of the shared values and business strategies that direct and drive business (or organisational) activities. • Adequate information linked together; missions and goals into integrated organisational strategies. • Information drives efficient and effective strategic organisational measurement and feedback. • Information enables managers to identify critical employee behaviour that could potentially influence organisational performance.
Consequences	<p>Good performance must matter for the "average" employee – he or she must be able to see (or experience) the "results" of good (or bad) performance (that is, the consequences of employee performance).</p> <ul style="list-style-type: none"> • Consequences reinforce social consequence: Make use of praise and recognition to "reward" good performance. • Use "contingent awards" – prolonged, sustainable good performance must visibly be rewarded. Negative performance must be penalised. • Use "pay-for-performance". Regardless of pay for performance is an intrinsic motivator or not – its remains an important tool to reward positive employee performance. (Devise a remuneration system where a sizeable part of remuneration is subject to good performance).
Involvement	<p>In a democratic, 21st century organisation, employees must be made part of the performance management system of the organisation employing them.</p> <ul style="list-style-type: none"> • "Enforce" participation on employees - voluntary systems seldom work as employees seldom participate.

	<ul style="list-style-type: none">• Create work-teams directed by organisational managers.• Create cross-functional task forces. This creates a holistic understanding of organisational activities, and subsequently of what organisational performance means.
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(Source: Boyett & Conn, 1995: 11 – 15)

9.4.2.3 Performance Contracting

Public sector organisations have increasingly started implementing performance contracting as a way of managing the performance of senior managers. According to a *Baseline Implementation Guide* (Republic of South Africa, 1999:71) the rationale for this development is to:

- assist an executing authority and top management of a department to manage the performance of senior managers in accordance with the needs and circumstances of the department;
- assist in aligning the performance objectives of senior managers with the strategic plan of the department;
- assist senior managers in defining their key responsibilities and priorities;
- improve communication between senior managers and their supervisors regarding the setting and measuring of performance outputs; and
- provide performance related pay for senior managers by means of individual consultation, rather than collective bargaining.

The following extract, quoted from a document titled *Performance Agreement and Assessment: Guidelines 2002/2003*, issued by the Western Australian Government (2002:<http://www.sesonline.wa.gov.au>), exposes the basic components of performance agreements and demonstrates the importance of this new approach to the management of senior managers for effective performance management in the public sector:

The performance agreement and assessment consists of three (3) sections:

- Agency outcomes.
- Across sector outcomes.
- The financial statement.

The implication is clear: Senior public sector managers will be remunerated and performance assessed in terms of their ability to contribute pro-actively towards the realisation of the policy objectives of government.

However, the concept and practice of performance contracting goes beyond contracting for required skills only; which is important for the purposes of this Chapter, because emphasis must be placed on an all-resource-based approach to performance contracting. The Organisation for Economic Co-operation and Development (OECD) identifies the following types of performance contracting in place in OECD countries (OECD, 1999: 10 – 11):

- *Framework agreements* cover overarching strategies and priorities for a department or agency negotiated between a political executive and a chief executive. Such an agreement instils upon the chief executive the required autonomy for managing an organisation, in exchange for a commitment to meet specified strategic goals. Examples of such an arrangement are the *framework documents* for "Next Steps" Agencies in the United Kingdom and *letters of allocation* in Norway.
- *Budget contracts and resource agreements* focus on the performance-related allocation of, and subsequent control over money between the central budget office or finance ministry and the chief executive of a department or agency. They provide aggregate budget authority and flexibility (autonomy) for managing resources to CEOs, in exchange for agreed performance targets and a method for monitoring performance. In setting performance targets, a detailed budget contract may be the same as an organisational performance agreement. An example was a practice in the Danish public sector, in terms of which contract agencies offered budget guarantees for the multi-year contract period. However, this practice has since been eliminated.
- *Organisational performance agreements*, such as between a political executive and chief executive officer of a service rendering agency, or between a chief executive officers and organisational senior managers, break down overall strategic goals into programme elements, setting specific, often detailed, operational, process and output oriented targets in exchange for increased operational autonomy in achieving targets. Examples are Danish Contract Agencies, French Tax Administration, and Performance-based Organisations operating in the United States. Similar arrangements are also found in the management of state-owned enterprises in many OECD countries.
- *Chief executive performance agreements* negotiated between political executives and chief executive officers (a contractual arrangement, which often complement organisational performance agreements). The arrangement often manifests itself between senior management and staff at various organisational levels as well.

Chief executive agreements are used in agencies in Australia, Denmark, New Zealand, Norway, and the United Kingdom, as well as for the appointment of chief executive officers of public enterprises in most OECD countries. The use of performance agreements for line managers and staff varies considerably, even between organisations in a country. In most cases, however, these are limited to individual performance agreements (not linked explicitly to employment).

- *Funder-provider agreements* focus on clarifying responsibilities by separating the role of the funder and the provider of the services. For instance, in New Zealand, political executives and chief executive officers negotiate agreements for the purchase and supply of specified outputs, detailing factors such as timing, volume, cost and quality. *Purchaser-provider* agreements may also be found within public sector organisations. Such models, based on can be found in Australia (on a limited basis) and New Zealand.
- *Intergovernmental performance* contracts and partnership agreements are often linked to devolution of programmes or funding from national to sub-national government. State and local governments are provided with funding, in exchange for providing specified levels and quality of service. Such contracts are relative common in the education, health care and labour market services areas, where the national government may still retain formal responsibility and accountability for the provision of the service, but find that programmes are more effectively implemented by local authorities. Most of these kinds of arrangements tend to focus on distribution of financial resources, without necessarily including links to performance. Such performance contract arrangements are to be found in Canada, France, Germany, Norway, Spain, Sweden and Switzerland.
- *Customer service agreements* are statements of service standards, provided by a programme or service to its clients specifying the quality and level of services to be expected, and, in some cases, avenues of redress and compensation where services fail to meet standards. Customer service contracts are not "negotiated", but are often developed with input from customers. Customer service agreements can be found in national and/or local governments in Australia, Belgium, Denmark, France, Italy, the United Kingdom and the United States.

The OECD (1999: 16) identified the following important factors to be considered in the design of performance contracts:

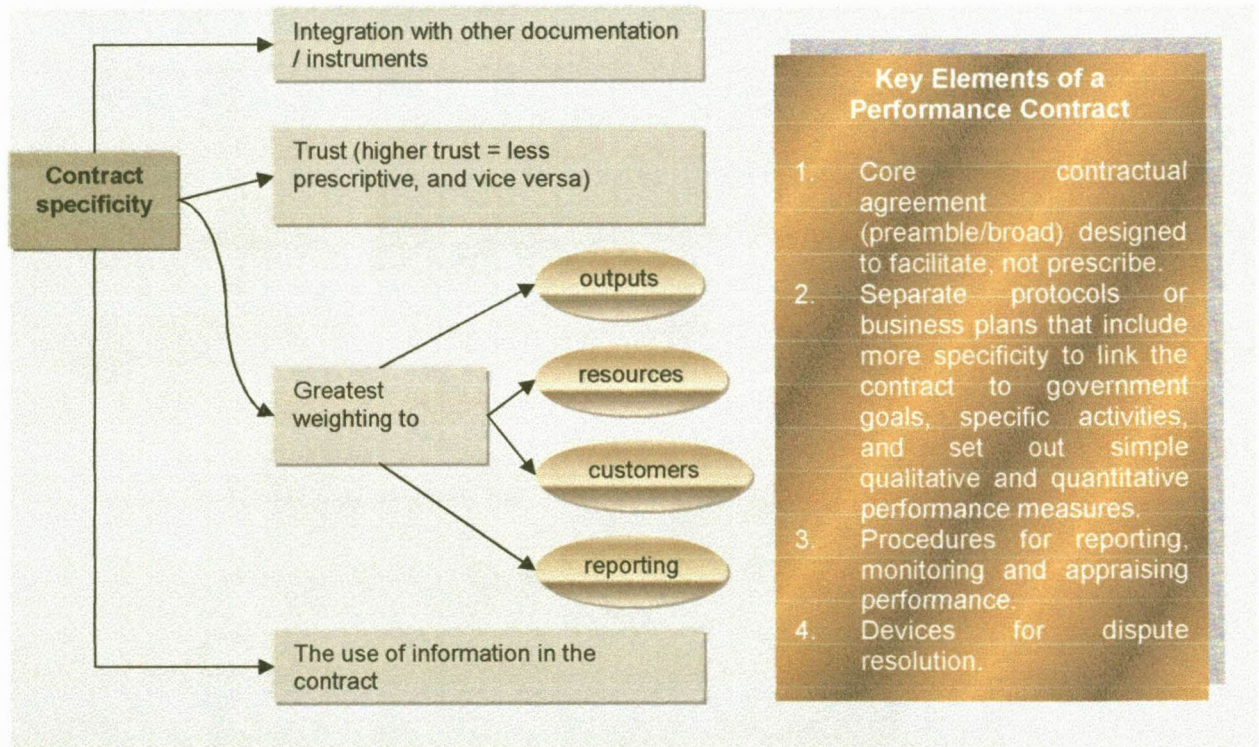
- Performance contracting exists only as one element of a broader performance management regime.

- Performance contracting is not a substitute for ensuring the right people are in the right jobs.
- Where there is a little prior experience in disaggregating programmes, the time involved and the start-up costs of developing contracts may be high.
- Experience with developing and linking appropriate performance targets and performance measures to programmes and services is an important aid to developing performance contracts.
- It is important to test performance contracting against other possible options.

The OECD (1999: 27) provides the following guidelines for designing performance contracts:

Figure 44

Key considerations in designing a performance contract in the public sector



(Source: OECD, 1999: 27)

The degree of specification will vary on a case-by-case basis, and, moreover, may change as the contracting process matures. The case studies suggest that specificity in performance contracts is a function of factors such as:

- the level of integration of contracting has with other documentation or instruments for performance management and resource allocation;

- the level of trust (in a political/governmental context) between the contracting parties; and
- how the information in the contract will be used.

9.4.3 PERFORMANCE BUDGETING

The allocation, utilisation of and control over resources are obvious key components of Performance Management, as they are, indeed, of the management process *per se*. This process of allocating, utilising and controlling resources to activate organisational activity, and in turn implementing and executing organisational strategies, starts with financial planning, a phenomenon that is authoritatively expressed in terms of the *budget process*.

The concept of budgeting can be defined in line with the above-mentioned argument as entailing "*compiling a plan for acquiring resources (planned revenue) and deploying them in pursuit of public sector objectives (planned expenditure)*" Strachan *et al.*, 1999:19). Traditionally, public sector budgeting practices were based on the so-called line-item budgeting system that refers to a system where objects or lines of expenditure (for example, personnel, supplies, contractual services, capital outlay) provides the focus of development, analysis, authorisation and control of the budget (NASBO:<http://www.nasbo.org>). As the emphasis in government service rendering agencies shifted from operational towards results-orientated management practices, budgeting practices also changed. This trend has led to the popularisation of so-called Programme Budgeting systems and practices; a concept originally taken over from the Ford Motor Corporation (NASBO:<http://www.nasbo.org>). From this basis, the concept of Performance budgeting was developed.

Performance budgeting is a useful technique to link financial planning and management closer with broader management practices. It places emphasis both on outputs and outcomes in managing performance (Abedian *et al.*, 1998:58, 59), which automatically clarifies its importance for utilisation as a performance management application. Before continuing with a basic assessment of performance budgeting as a performance enhancing and control utility, it is important to mention that, in its modern-day application, the system is usually applied in conjunction with a *zero-based approach to budgeting*; meaning that each service programme or initiative is costed from activity level upwards; the process literally starts at a "zero-base" level (Strachan 1999:25). It is a process designed to analyse the very essence of an agency, programme, or other unit to determine its worth and value to government and citizens (NASBO: <http://www.nasbo.org>), because budget priorities are

considered throughout the process as decision-making and prioritisation move up from a zero-base to higher "budgeting levels".

A final comment regarding prerequisites for optimal effectiveness of a performance budgeting methodology, is that it must preferably be multi-cycled; meaning to concentrate on planning and review fiscal performance for more than one (a single) budget period. The Medium Term Expenditure Framework used in South Africa, for instance, focuses on a three-year budget cycle and is based on a performance budget framework. It defines outcome, output, a provision schedule, beneficiaries, a monitoring system and cost over time (Abedian *et al.*, 1998:11 – 12).

In 1993, the federal government of the United States of America enacted the *Government Performance and Results Act* with a view of improving the effectiveness, efficiency and accountability of federal programmes, and by having agencies focus its management practices on programme *results*. This act aims to obtain closer and clearer linkages between resources and results (United States General Accounting Office, 1997: 1) that lies at the heart of a comprehensive performance management philosophy. A report titled *Performance Budgeting: Past Initiatives Offer Insights for GPRA Implementation*, issued by the United States General Accounting Office to a Congressional Committee in March 1997, draws from the so-called Planning-Programmemeing-Budgeting-System (PPBS) and MBO (see paragraph 8.3) as a foundation to motivate the continuing implementation of the principles of Performance Budgeting, as an involving budgeting theory in the United State Federal agencies (United States' General Accounting Office, 1997:5 – 8).

Concluded from the experiences of the Jamaican public sector with the introduction of performance management, the implementation of a structurally effective and efficiency performance budgeting system depends on the following repertoire (Marshalleck & Lehan, 1988:59–67). What is important about these is the fact that it suggest a sound structural and procedural "base-line" for the introduction of performance budgeting in the public sector:

- *The identification and management of Cost Centres:* As organisational concepts, cost centres should focus attention on primary activities or purposes. These units should provide a structural focus on financial planning and control. If such a structure (or structures) could be established, and made the centre of budgeting activities, it could potentially serve as a useful platform to improve productivity, accountability and reportability of budgeting performance in terms of planned (anticipated) performance standards.
- *A new orientation towards issue papers.* Issue-papers refer to the "input documentation (forms)" that cost centre managers must submit to request new

money for new service rendering initiatives (programmes), or to rationalise existing programmes or initiatives. It expose --

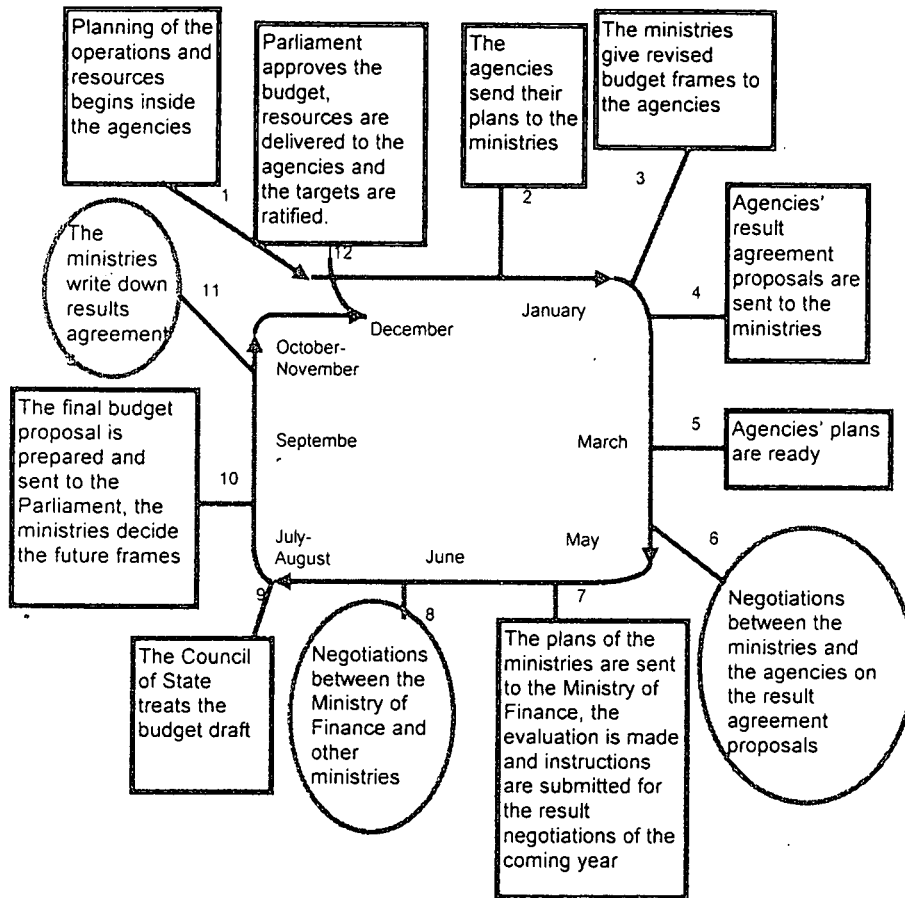
- the service rendering (strategic) goals of each cost centre,
 - the target population that it intends to serve,
 - the performance criteria against which its ultimate outputs and outcomes could be measured,
 - its current year's accomplishments, a workplan that contains specifics of activities required to execute strategic goals, and
- alternatives (quantified in terms of anticipated cost and performance accomplishment).
 - *The submission of short, performance-based budget information to the Legislature.* Cost centre managers must be given the responsibility to prepare drafts of not more than one page to be included in the ultimate budget submission to the Legislature. This document then provides a useful, short and "manageable" overview of the expected performance of the various agencies for the budget period in question.
 - *Reliable and effective performance review procedures must be implemented.* It is advisable that an independent body must perform such reviews on a quarterly basis.
 - *Budget perspective.* An important component of effective performance budgeting is its usefulness as a practical management-for-performance-improvement tool. In this regard, it is important to use it as a method for national fiscal planning and review. This concept is practiced effectively in South Africa, where the Minister of Finance presents the annual budget to Parliament in terms of a Medium Term Expenditure Framework Review (a performance-based three year "rolling" budget ideology).

Budgeting could also be especially useful in implementing and managing performance contracting (see paragraph 9.4.2 above). In this regard, consider the Finnish example (OECD, 1999: 24):

Figure 45

Links between the budget and performance contracting cycles in Finland

(Lumijärvi & Salo 1997, reproduced in the Finnish case study).



(Source: OECD, 1999: 24)

9.5 CONCLUSION AND CHAPTER LINKAGE

This Chapter dealt with the concept of organisational performance, expressed in terms of a public sector idiom. In attempting to realise the objectives, the following has been proposed:

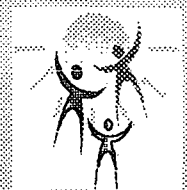
- Organisational performance (from a public sector perspective) is realised when the cost-benefits ratio can be optimised with the implementation of the political mandate of an organisation. In terms of management terminology, this implies (1) the integration of organisational structures and infrastructure into a co-ordinated organisational strategic focus, (2) the realisation of organisational efficiency, effectiveness and economy, culminating in organisational productivity. All of this most enhance organisational longevity.

- For a contextually proper understanding of, and response to, performance management, it is important to acknowledge the link between strategic management and organisational performance management. In this regard, the principles of risk management could be applied fruitfully to improve long-term strategic management practices.
- Applicable and appropriate performance management models for public sector organisations operating in a 21st century reality are Maximum Performance Management, performance contracting, and performance budgeting.

The preceding five (5) Chapters have attempted to explain how 21st century government organisations must structure themselves to enable continuous value creating through optimal service rendering (which is the output-component of organisational activity in terms of the system approach to management). Chapter 10 will address the one component, which is inherent to the management process, and therefore much less manageable, namely *leadership*; to be precise – corporate leadership. Rather than trying to formulate theories and paradigms, the discussions will focus on conveying the requirements set for effective leadership by an unfolding 21st century corporate and environmental reality.

The following aims have been formulated for Chapter 10:

- To conceptualise and contextualise the concept of leadership as a critical key performance area for the success of the management of public sector organisations in the 21st century.
- To explore the changing role of the CEO in a 21st century organisational context in terms of the need for dynamic corporate leadership.
- To explore the scope of required corporate leadership skills as the world enters the 21st century.



CHAPTER 10 CORPORATE LEADERSHIP IN THE 21ST CENTURY PUBLIC SECTOR

10.1 INTRODUCTION AND CHAPTER OBJECTIVES

The discussions preceding this Chapter have dealt with the structural and/or procedural components of 21st century organising and management systems. The recommendations and conclusions made in these Chapters (7–9) were aimed at constructing a model for a 21st century organization and management that would be responsive to the requirements of the 21st century management environment, and visualise the structure and nature of a typical 21st century government organisation. The intention was to conceptualise a model that would structurally and procedurally be able to manage for sustainable value creation.

However, management is more than structure, procedure and system. The ultimate deciding component of any management model, would not be its infrastructure components (systems, structures and procedures), but rather its human foundation, and then specifically the leadership component thereof. The one inherently intrinsic component of the management phenomenon that is unfortunately also the least manageable is leadership. The irony is that an organisation could have the most responsive organisational structures imaginable, an ideal knowledge creation and distribution system, and the best possible performance management framework, but if that one element, “the leader of men and women” is absent, the organisation has no chance of reaching its goals and objectives effectively.

This chapter will deal with this enigma, the most elusive, yet most important element of management success in the 21st century – corporate leadership. However, different from the nature of discussions usefully found in classic textbooks regarding the concept of

leadership, the analysis in this chapter will reflect very little of the theories of corporate leadership. The exposition will rather focus on building a profile of the kind of leader required for management success in the 21st century. Surprisingly, and in direct contrast to the views expressed in relation to the other components of a 21st century model for public sector management, this chapter will not suggest any major paradigm shifts in respect of the successful corporate leader of the 21st century. The main (in fact, the only reason) for this, is the belief that leadership is ultimately an inherent personal characteristic, rather than a manipulative management phenomenon. A great corporate leader will be a great corporate leader in any age or circumstance, regardless of whether it is the 19th, -20th or 21st century.

10.2 ABOUT LEADERSHIP

What is it all about, this “thing” about leadership? Perhaps the best place to seek the answer to this question is to analyse the possible lessons “hidden” in the experiences of truly great leaders in the world’s history. Such an analysis and the subsequent observations conclude of the selected examples, will subsequently open the discussions in this chapter.



Alexander the Great –
one of the Great leaders
in the history of mankind.
(Source:
<http://wso.williams.edu>)

Alexander the Great (356 – 323BC) King of Macedonia ascended the throne at the tender age of younger than twenty years. He was a great leader, who managed to conquer Greece’s hereditary enemy, Achaemenid Persia. He conquered Greece in 336BC, defeated the Persia king Darius in Asia Minor in the year 333BC, and then moved on to Egypt, where he found Alexandria. In the battle with Darius in 333BC, he managed to conquer an army of almost half a million with 47,000 men (The Hutchinson Encyclopaedia, 2000: electronic edition and the Webster’s World Encyclopaedia, 2000: 1999: electronic edition).

What made Alexander so special? The answer lies in his ability to convince people to follow him willingly.

Genghis Khan (“emperor of all emperors”) was also a leader to be noted. Born to the name of Temujen in 1167 in inner-Mongolia, he was undefeated in battle and war, conquering two thirds of the known world at the time. At the age of ten, he became chief of the Yakka Mongols when his father was poisoned – resulting in all tribe members dissenting him. He then lived a harsh and lonely live, digging roots for food and owning only seven sheep at one stage. Through his perseverance and strong leadership, he gradually convinced people to follow him. He has proven exceptional and (for his time) uncommon leadership and organisational brilliance, Using strict discipline and tough training to organise a super army. He also wrote the first Mongol code of laws, called Yasa, which stated that he must choose his officers and rank by achievement, not their family connection (which was obviously revolutionary for the time (The Provincial Museum of Alberta, 2000: <http://pma.edmonton.ab.ca>, and Angelfire, <http://www.angelfire.com>).

The Duke of Wellington said about Napoleon Bonaparte: “*I considered Napoleon’s presence in the field equal to forty thousand men in the balance*” (<http://www.pbs.org>). The question could be asked, what it was that prompted an arch enemy and for that one of the finest militarists himself, like the Duke of Wellington, to make such a strong statement about Napoleon. The answer lies in Napoleon’s natural leadership abilities – that inherent ability possessed by so precious few in history – to convince his fellow men to follow him willingly. The weight of this statement became even more apparent when it is considered that Napoleon was born as the son of a lesser Corsican nobility, which could not be much of an advantage at a time when (in the Age of Feudalism), position in life was heavily dependent on birth, with the top positions reserved for the upper elite.



Napoleon Bonaparte, undoubtedly one of the most dynamic leaders in mankind’s recent history.

(Source: <http://www.napoleonbonaparte.nl>)

Neither did he support the French royalists, who had overthrown the monarchy – that meant that he could not expect any favours from France’s new rulers in the aftermath of the French Revolution. To add to all of this, he was not an impressive physical presence either – during his initial military training, he earned himself the nickname “Little Corporal” because of his small stature (Biography.com,2003: <http://search.biography.com>). In spite of this, Napoleon rose to Emperor of France, and

forces himself into the history books as one of the most brilliant military leaders in the history of the world.



Mao Tse-tung, leader of more than a billion people for more than twenty-five (25) years. (Source: <http://www.geocities.com>)

Mao Tse-tung rose from humble beginnings to become one of the most powerful rulers of the world. He was renowned as a socialist, a poet, a military strategist and ruthless ruler. He destroyed national power in China, unified the enormous country with its 1,3 billion people and nine million square kilometres of land mass and oversaw the greatest social reform in man's history. He could rightfully be regarded as the most powerful person who has ever lived. He controlled almost a billion people for more than 25 years (Jonathan, 1998: <http://www.geocities.com>). Mao shares one key quality with both Napoleon Bonaparte and Genghis Khan, which reflects his leadership qualities – namely his ability to convince ordinary people to follow him willingly to realise his visions.

Mohandas Karamchand (Mahatma) Gandhi was a giant among spiritual leaders. In the increasingly globalising world of the 20th century, Gandhi's influence was felt far outside his native India and he became the spiritual mentor of some of the greatest civil right leaders of the 20th century – people like Martin Luther King Junior and Nelson Mandela.

His practicing faith in the “ideology” of passive resistance, culminating in his preaching of *ahimsa* (“non-injury”), caused his personal stature to grow to such a magnitude that the colonial authorities of India (Britain) dared not interfere with him (Loretto Academy, <http://www.student.loretto.org>). Gandhi shared one common leadership characteristic with Napoleon, Genghis Khan and Mao Tse-tung, which is his ability to inspire ordinary people to willingly follow him in pursuit of his visions.



Ghandi, the spiritual leader of some of the greatest civil rights leaders of the modern time.
(Source: <http://www.mkgandhi.org>)



Nelson Mandela – One of the greatest moral leaders of all times.
(Source: <http://www.anc.org.za/people/mandela.html>)

“I have fought against white domination, and I have fought against black domination. I have cherished the ideal of a democratic and free society in which all persons live together in harmony and with equal opportunities. It is an ideal which I hope to live and to achieve. But if needs be, it is an ideal for which I am prepared to die”.
Nelson Mandela

Nelson Mandela was imprisoned for 27 years for his desire to create a non-racial, non-sexist society in South Africa. Once named among Time magazine’s 100 most famous leaders and revolutionaries, Nelson Mandela was born in a village near Umtate (rural Transkei, South Africa) and grown up as a typical African boy.

It was his exposure to the inhumanities of the apartheid system that ultimately tempted him to take up the fight against the white minority government of his country. Mandela was imprisoned, and sentenced to life in prison in 1941 for his role in the fight against the apartheid government (Biography of Nelson Mandela, 2003:<http://www.anc.org.za/people/Mandela> and Time Magazine on-line, 1994: <http://www.time.com>).

The "thing" about leadership is that it is the single most important aspect of human existence, which has moved the world. Of course the above-mentioned are not the only or most prominent leaders who have shaped the world of today. Religious leaders, such as Jesus Christ and Mohammed have had a much more profound influence on the thought patterns and attitudes (modes of thought and behaviour) of the human inhabitants of planet earth than any of the quoted leaders – and many more can be added to the list.

The sample selected and presented above, represents a reasonably fair reflection of leaders who, in different ages and diverse cultures, profoundly influenced the world and other people around them. Much can be learned from these examples regarding the essence of leadership. For the purposes of this Chapter, the following will be identified as especially important:

- First and foremost, truly great leaders have something special, something that cannot completely be described by words – a special enigma. Call it personal dynamics, a strong personality, or whatever, it is that something extra, that something that makes them different from "ordinary people" (99% of the world's population). What enables people like Genghis Khan, Napoleon, Nelson Mandela and Gandhi to break out of the severe social and physical constraints imposed on them in terms of the social order or personal realities of the era in which they lived? What enabled them to rise above these constraints, which would have forced any "ordinary" person into early and quick retreat? Only one answer to such questions exist: All of these people possessed a personal enigma, a dynamic side of their personalities and personhood that made them overcome the severest of resistance and suffering, but to take millions of other people with them, whether this manifested on a real, physical, or an emotional, aesthetical level. In a modern idiom, the best way to word this characteristic of truly great leaders is *charisma*.
- Truly great leaders believe in themselves, in fact, they tend to be a little arrogant at times. A good example to illustrate this point is Lady Margaret Thatcher. Geoffrey Howe summed her up as having an unshakeable belief in herself. In this regard, he remarked that, to believe your own thought, to believe that what is true for you in your private heart is true for all men, is a sign of genius. Anthony Storr differs from him, and noted that such behaviour is not genius, but narcissism. The irony, typical of great leaders, is that her narcissism was, ultimately, both the single greatest cause of her success and her downfall (Viney, 1999: 60).

- Truly great leaders are inherent rebels. They think in terms of continuously shifting paradigms, and are not afraid to act on their beliefs. Truly great leaders dislike "the comfortable known". They are constantly shifting goalposts – and they are impatient to take everyone around them along on the journey. Truly great leaders never accept the *status quo* without questioning it – which makes them good innovators. They always want to do better, go a step further, constantly replacing the goalposts. They are definitely not routine nine-to-five people. Unfortunately, it is exactly this quality that, more often than not, causes truly great leaders to self-destruct, some sooner, and some later. They simply do not know when to quit, and eventually simply overplay their hands. Genghis Khan conquered two thirds of the known world of his time, without losing a single battle. He never accepted his rejection by the other tribe members. He never accepted that "it is enough now". Nelson Mandela refused to accept the oppressing racial laws of his country, and rebelled against the inferior role he was expected to oblige with in the apartheid system. Napoleon was never satisfied with being the most popular ruler France has ever known – he continuously strived to expand his influence and power, which is typical of truly great leaders as [they are always ambitious]. In Napoleon's case, the end was typical of so many leaders – his ambition and constant expanding visions caused him to self-destruct.
- Truly great leaders possessed a unique ability to convince others (ordinary people) to follow them in pursuit of their visions. Genghis Khan was rejected by his tribe at the age of ten years, but nevertheless managed to convince them to follow him in pursuit of his visions and military strategies. What made ordinary Indians following Gandhi in his strategy of peaceful resistance, in spite of the immensely strong pressures from other nationalist's leaders who believed that military force must be employed to enable India to shake off British rule? The answer lies in his extraordinary ability to convince ordinary people to follow him willingly, and that without him necessarily explicitly attempting to achieve a goal.
- Truly great leaders are seldom truly great followers. They are naturally inclined to take charge. The lofty ideal worded in the saying "*he who wishes to be a good leader first needs to be a good follower*" is, unfortunately, not part of the practical everyday living of real great leaders. Take the examples mentioned above. All of them took charge from a very early age. Truly great leaders dislike authority – except, of course, when they are the ones exercising it.

- Truly great leaders are not afraid to actively pursue their dreams. Perhaps this remark regarding the characteristics of truly great leaders ought to be read in conjunction with the immediate preceding personality traits of such persons. It is not a case that great leaders are stripped of feelings of fear – not at all. The contradiction in their lives is just that their burning desire to make true a specific vision (it could also be translated in terms of personal ambition) is much stronger than the fear. Their desire to lead and conquer outstrips their fear for the possible obstacles.
- Truly great leaders are great strategists and know their trait (or stick to their principles). Alexander the Great, Napoleon and Genghis Kahn were first and foremost brilliant military leaders and their other achievements more or less emanated from their military brilliance. Expressed in terms of a modern idiom, it could be said that these leaders stuck to their core competencies. Gandhi and Mandela stuck firmly to their convictions – regardless of the negative consequences for them personally. In essence, the argument is again that truly great leaders are so passionate about their visions, and their leadership role in achieving those visions, that they can do nothing else but to act out these convictions.

What does all this say about corporate leadership? Before addressing this aspect, it is important to state an important contextual viewpoint at this stage, and that is that leadership is an inherent personal characteristic. Leadership cannot be taught – a person has it, or does not have it. Obviously different “types” of leadership exists. Great leaders in society are not always necessarily great corporate leaders. Great military leaders are not necessarily good corporate leaders, and so on. However, contextually applied correctly, the above-mentioned characteristics of good leaders are generically applicable.

This Chapter will focus on corporate leadership, that is, leadership within corporate context. It will be appropriate therefore, at this stage to proceed with the discussions by sharing a few general ideas regarding the manifestation of leadership in corporate context.

10.3 CORPORATE LEADERSHIP

Shapiro (1998:219) sardonically defines a leader in corporate (organisational) context as “(a) person whose enormous flows are exceeded only by the fit of his or her even more enormous abilities with the needs of the future”. This is, ironically, an ideal “definition” to

be used for the purposes of this thesis. If the above-mentioned characteristics of leader are accepted, it is clear that a leader is no angel. A person who is constantly wishing to break away, who never wants to accept the *status quo*, is difficult to control, and difficult to work within a team. It is much easier to work with a hardworking person, who wishes to satisfy the manager at all cost, who seldom (if ever) questions rules, regulations and orders. The problem is that such persons make excellent workers, but not necessarily excellent corporate leaders.

The second aspect emerging from the above-mentioned definition that is important for a proper understanding of corporate leadership is the futuristic nature. Good corporate leaders are those who are able to take organisations successfully into the unknown future. Adair (1990:4) expresses an important point by stating that, what industry (or, for the purposes of this thesis – government organisations) need is leaders and not bosses. The problem with this (very true) statement is that bureaucracy tends to create bosses, and not leaders. An environment conducive for leadership excellence to flourish is dependent on cultures that not only allows, but actively encourages entrepreneurship, continuous renewal, creativity and innovation. Bureaucracy does exactly the opposite: Personal creativity, innovation, entrepreneurship and renewal are suppressed in favour of certainty, structure and control-based rules and regulations.

Blake and Mouton (1989:11–13) identify six elements or facets of corporate leadership, viz.:

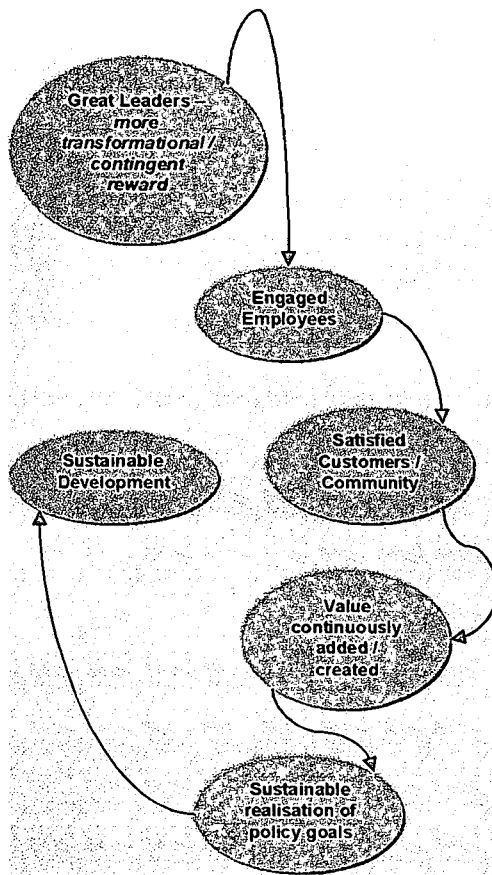
- *Initiative*. A leader exercises initiative whenever he or she concentrates effort on a specific activity. The two key components of organisational initiative are vigour (strong, determined) and enthusiasm (to be caught up in the spirit of an activity, participate wholeheartedly in a specific activity).
- *Inquiry*. The leader needs to have a full and comprehensive grasp of the situations for which he or she is responsible. This involves learning about the background and current status of problems, procedures, projects, and about the facts regarding the people involved in these.
- *Advocacy*. This element entails the idea that the leader expresses his or her convictions and stimulations, and convinces others to do likewise. All members of a group must be able and willing to explain where he or she is standing, what they believe, and what their convictions are.

- *Conflict solving.* An important role of the corporate leader is to resolve conflict, especially since such conflict could cause disunity, and sabotage a project or undertaking.
- *Decision-making.* The acts most commonly associated with leadership involves decision-making. This is a key skill for corporate leaders to possess.
- *Critique.* Critique means learning about how things have been done and how these, or similar activities, may be undertaken in an improved manner in future.

The importance of leadership for optimal organisational performance can be presented as follows (Maritz, 2002:18):

Figure 46

Good leaders add value to organisations and the community



- Good (great) corporate leaders are transformation oriented – they continuously look at opportunities to bring about change for the sake of improvement.
- Leaders must continuously engage employees to make them part of the change process.
- If the above-mentioned process could be concluded successfully, service rendering would be optimised, resulting in customer satisfaction.
- If this cycle could be maintained for a meaningful period of time, the implication will be that value will continuous be created and added, to organisational and community components of the management process alike.
- If value is continuously added and created, the result will be effective implementation of the policy goals and objectives of government; which would imply sustainable development.

(Adopted from Maritz, 2002: 19 to reflects the public sector perspective, and the approach of the thesis)

Effective leadership in the 21st century will be dependent on leaders' ability to respond pro-actively to a turbulent and dynamic, ever-changing environment – both internally, and externally to the organisation. In order to enable such responsiveness, corporate leaders will have to be creative and innovative, capable of pro-actively steering public sector organisations towards achieving their core mandate. This implies, in essence, that corporate leaders in the 21st century public sector organisations will have to be *intrapreneurs*.

Deriving from a careful scrutiny of the characteristics of leaders, four critical skills required for successful corporate leadership can be identified, viz.:

- Intrapreneurship.
- Creativity.
- Innovation (innovator).
- Strategic thinking.

10.3.1 INTRAPRENEURSHIP

Intrapreneurship can be defined as similar to entrepreneurship, except that intrapreneurs develop a new business in the context of a large organisation. Intrapreneurship is directly related to creativity and innovation (Griffin, 1999:405). An old saying has it that "*big business does not innovate*" (Drucker, 1985:135). Drucker (1985:143–144) has the following to say about entrepreneurial practices in existing organisations (that is – intrapreneurship):

- It focuses the attention of management on opportunities.
- Organisations must be pro-active in generating an entrepreneurial spirit throughout the organisation.
- Organisations thriving on an entrepreneurial spirit ensures that line functionaries and management regularly evaluate the performance of the organisation with a view of achieving continuous renewal to ensure constant growth.

According to Pinchot (one of the foremost writers on Intrapreneurship) (<http://www.pinchot.com>), the main "actors" involved in intrapreneuring are:

- *Idea people*: Every human is capable of creativity. In the information age, part of every manager's and every team member's job is to create an environment in which creativity is appreciated and new ideas are brought out to those who may have almost forgotten their creativity.

- *Intrapreneurs*. Most people have fresh, innovative ideas. Most will go to their grave with these ideas, because they are too afraid, or too insecure to express them. Intrapreneurs are those few people who make their ideas happen.
- *The Intrapreneurial Team*. The purest intrapreneurial team consists of volunteers recruited to the idea by one or more lead intrapreneurs. They form a core team that stays with the project from its early stages, well past its initial commercialisation or implementation.
- *The sponsor*. Sponsors support intrapreneurs in the execution of their ideas by protecting their work from the "corporate immune system". It is therefore useful if sponsors are senior managers. Sponsors bet on people and not only ideas. In the typical bureaucratic set-up these people are essential for the success of intrapreneurial ideas.
- *The climate makers*. Climate makers are essential when the organisational culture, especially among management, start to turn against intrapreneurs and their innovative ideas. The grapevine, sponsors and all possible avenues must be mobilised as climate makers if necessary.

Pinchot (2) is also of the opinion that the above-mentioned types of persons, the "intrapreneurs" of modern organisations, show the following characteristics (<http://www.pinchot.com>):

- Be a courageous moderate *risk taker*.
- Be frugal - stay *flexible*. The best intrapreneurial team is the one that learns the most at the lowest cost.
- Be *creative* about the pathway. Bureaucracies believe that only one right way exists to move ahead, only one place to go for assistance and resources. Intrapreneurs realise that many places exist where they can go for resource, assistance and feedback.
- *Build a team* of enthusiastic volunteers. Unlike invention, innovation is almost never a solo effort. A team of enthusiastic volunteers must be recruited. Be open and clear in this team-context about goals, sub-goals, targets and member's responsibilities.
- Build a *network* of sponsors. Build support among high-level managers for intrapreneurial goals, targets and objectives.
- *Ask for advice* before asking for resources. Consult broadly and involve management in all renewal efforts. They eventually have to give the resources and the organisational go-ahead to implement intrapreneurial initiatives.

The author (Pinchot (3): <http://www.pinchot.com>) identified what he has labelled *the intrapreneur's ten commandments*. These are the following:

- *Build a team* - intrapreneuring is not a solo activity.
- *Share credit widely.*
- *Ask for advice before you ask for resources.*
- *Under-promise and over-deliver* – publicity triggers the corporate immune system.
- *Do any job needed to make a dream work*, regardless of your job description.
- *Remember it is easier to ask for forgiveness than for permission.*
- *Keep the best interests of the organisation and its customers in mind*, especially when rules have to be bent or to circumvent the bureaucracy.
- *Come to work every day willing to be fired.*
- *Be true to your goals*, but be realistic about how to achieve them.
- *Honour and educate your sponsors.*

The question could then be asked how an "Intrapreneurial organisation" could be built. The above-mentioned authors, Gifford and Elisabeth Pinchot (2000: <http://www.pinchot.com>), recommended the following steps to an entrepreneurial organisation:

- Give users of internal services a choice of more than one internal vendor.
- Give employees the security of something similar to ownership right in the internal intraprise they create, as well as in the larger organisation.
- Demand and engrain truth and honesty, customer feedback and community demands, to support widespread decision-making.
- Give intrapreneurial teams responsibility for their own bottom line, even if they are "subsidised" by other cost centres in the organisation.
- Allow many options and diversity in personnel, in jobs, in innovation efforts, alliances and/or exchanges.
- Provide extensive training and education, as well as safety nets in order for employees to develop and take risks as their organisation develops and growth.
- Create an internal "bank account" for every internal enterprise.
- Streamline systems for registering internal enterprises so they have standing in the organisation.
- Establish a system for registering agreements and contracts between internal enterprises, so that people can give their word and trust the system.

- Establish a justice system for adjudicating disputes between internal enterprises and between employees and enterprises.

A person cannot be an entrepreneur if he or she does not possess the unique qualities of creativity and innovation. These concepts will subsequently be discussed briefly.

10.3.2 CREATIVITY

Projections regarding the type of professions that would dominate the early stages of the 21st century show that about eighty per cent of these do not exist as yet. What would be demanded, will be creative managers – managers who grasp the importance of ongoing flow of new sights, skills and constant renewal of knowledge (Neethling, 2001: 17). The following have also been identified the following as primary skills of creative managers (Neethling, 2001:17):

- They recognise and are aware of problems. They are able to define problems and are committed to deal with them.
- In their thinking they are able to get away from obvious and commonplace, to generate statistically rare, original ideas.
- In spite of the many possible alternative solutions, they are able to focus on important and essential issues.
- Having chosen an alternative, they are able to work out the details of implementation plans.
- When faced with unsolved problems, they do not prematurely jump to the same dull and mundane conclusions.

Professor Amabile compiled a list of six stimulants and supports to creativity. These are (Rifkin, 1998: <http://www.strategy-business.com>):

- *Freedom of autonomy* – feeling a sense of control over one's own ideas.
- *Challenge* – working on complex, important problems that others cannot solve.
- *Sufficient resources* – having enough backing to do a job well.
- *Working group supports* – receiving support from a creative team trying to solve a problem. This encompasses a mutual sense of trust, a free flow of ideas and information and a shared sense of commitment to the project.
- *Supervisory encouragement* – having an immediate supervisor who sets clear, strategic goals for the team, but at the same time allows operational autonomy.

- *Organisational encouragement* – having an upper-level management who fosters creativity with an effective system of rewards and recognition, along with a free flow of ideas and information.

The main requirements to keep in mind when managing creative people are as follows (Rifkin, 1998: <http://www.strategy-business>):

- Simple, intuitive and more art than science.
- Fostering good communication.
- Trusting people (colleagues).
- Realising that the entire organisation is creative and that good ideas can and will come from anywhere.
- Making sure that a well-conceived design document or blueprint for every project exists.
- Checking milestones along the way, evaluating prototypes, keeping projects flowing.
- Having the ability to champion projects, but also to kill projects if economics or the environment demands it.
- Avoiding divisive practices, like paying internal product royalties to employees.
- Knowing when and how to shake up stalled projects.
- Recruiting the best and brightest; promoting the ones with vision and organisational skills; distrusting formal credentials and long resumes.

10.3.3 INNOVATION

Academics in the United States have accumulated an impressive corpus of knowledge about innovation, much of which is heavily influenced by the following two assumptions, which are (Bolton, 1993: 31 – 32):

- Innovation is an activity rooted primarily in an organisation's internal competencies.
- Innovation is conceptually and ideologically embedded within the larger process of organisational evolution known as "creative destruction".

For the purposes of this discussion, *imitators* will also be regarded as innovators, in line with the definition quoted by Bolton (1993:33): "*An imitator working with an extremely sparse set of clues about the details of the imitator's performance might as well adopt the more prestigious title of 'innovator', since most of the problem is really being solved independently*". As the distinction between the two concepts is directly relevant in the

context of the discussions in this study, it is useful shortly to present these differences (Bolton, 1993: 35):

Table 24

Competitive strategies for developing new knowledge

	Innovation	Reflective imitation	Imitation
Primary process	Learning-by-doing	Learning-by-watching Adaptation / Modification	Transferring
Major source of knowledge	Internal	Internal and external	External
Major asset type	Specialised	Generic first, leading to specialised	Generic
Required R&D investment	Heavy	Moderate	Low
Information flow	Internal	Two-way	One-way
Type of knowledge	Entirely new	Some entirely new, some new to organisation	New to organisation
Dominant national strategy	United States	Japan	Peru

(Source: Bolton, 1993: 35)

Innovation can be promoted in organisations by (Griffin, 1999: 404 – 405):

- structuring the reward system to reward innovation,
- pro-actively managing the organisational culture to promote innovative activity, and
- promote intrapreneurship.

10.3.4 STRATEGIC THINKING

Ideas change the world. Henry David Thoreau, John Muir and Rachel Carson were instrumental in shaping the modern environmental ethics. Mahatma Gandhi, Martin Luther King and Nelson Mandela enlisted millions in struggles for civil liberties. The quality principles of W. Edwards Deming and Joseph Juran changed the way companies compete. All these leaders had *strategic perspective*, an ability to see the “big picture” and the important issues this encompasses. A person with strategic perspective creates clarity from the complex and seemingly disconnected details of the modern management environment. An executive with strategic perspective understands the forces shaping his

organisation, where his organisation is heading, and its opportunities to succeed (Keelin & Arnold, 2002: 39).

Public sector organisations of the 21st century will need strategic thinkers as its leaders. Strategic perspective confers enormous power on leaders (Keelin & Arnold, 2002: 40):

- Instead of iterating in the vicinity of a solution – but never converging on it – a person with strategic perspective cuts to the heart of a problem and sees the relationships between key elements.
- Strategic perspective makes it possible to articulate ideas that are clear and compelling – ideas that others willingly follow.

Table 25

A strategic versus a non-strategic perspective from leaders

STRATEGIC	NON-STRATEGIC
<ul style="list-style-type: none"> • Broad view with zoom-in • Abstract with powerful engagement of the imagination • Abstract illustrated with concrete examples • Important, non-intuitive, framework-breaking ideas • Embrace alternatives and uncertainties • Aims to achieve an over-arching goal 	<ul style="list-style-type: none"> • Narrow view • Concrete with no engagement of the imagination • Concrete illustration only • Generally understood ideas that fit within consensus framework • Embraces neither alternatives nor uncertainties. • Focuses on supporting goals

(Source: Keelin & Arnold, 2002: 40)

Keelin and Arnold (2002: 39 – 42) identified the so-called five habits of strategic thinkers, which are the following:

- *Habit 1: Get into the game.* To win, one must engage in the struggle to win. Many talented people fail to reach their executive potential, because they do not get into the game. Strategic perspective flourishes in intense learning environments and languishes in passivity and routine.
- *Habit 2: Embrace confusion and contradictory thoughts.* Business executives routinely live with contradictory thoughts. They must maintain established services, even as they undermine them with innovative and transformation-centred re-prioritisations. They must balance what customers say they want with what the brightest minds in the organisation know are possible. They must understand what happened in the past even as they scan the future for options and prospects. Confusing situations tempt strategic thinkers to grab a mental framework, interpret everything according to its terms, and disregard or ignore evidence that would lead

to greater learning. Strategic thinkers understand the implications of the choice of alternatives for all interested parties. They encourage learning by action.

- *Habit 3: Cultivate calmness of mind.* Many great leaders maintain an inner calm even in high-speed, stressful environments. Such calmness is perceived as a powerful "presence" – a quality that distinguishes the master from the student – the leader from the follower. Calmness of mind gives powerful insights in opportunities to incubate and develop.
- *Habit 4: Management of thoughts.* Success thought-management requires a discipline for dismissing time-wasting, distracting, or irrelevant thoughts. Suggestions in this regard are to latch onto good ideas as they occur, and letting go of low-value and distracting thoughts.
- *Habit 5: Cultivate clarity of expression.* Powerful strategic perspective must also be powerfully expressed and conveyed.

10.4 TRENDS IN ORGANISATIONAL LEADERSHIP: LESSONS FROM SUCCESSFUL CEOs OF THE 21ST CENTURY

The best way to try and identify trends in organisational leadership is to learn from experience, experiences to be found from the examples of proven successful CEOs of the 20th/21st century. Such an analysis would subsequently be attempted on the hand of the lessons to be learned from such experiences.

10.4.1 IN A 21ST CENTURY KNOWLEDGE-DRIVEN REALITY, MANAGERS CANNOT "KNOW IT ALL" (TOWARDS LEADERSHIP OF TEAMS)

CEOs in the 21st century will have to be team players. This seems unlikely to happen soon – mainly due to the legacy of the entrenched bureaucratic system. As Carr (2002: 96) explains it: Something is unconvincing in the idea that the world's largest companies will be run by self-effecting team players, eager to remain in the same job for a decade or so. Most chief executives thrive on risk; they have big egos and ambitions to match. If the prize is glory, they will try to seize it, despite the danger of failure.



Carly Fiorina,
first ever female
CEO of one of
America's 20
largest
corporations.
(Source: Sellers,
1999: 95)

When the first woman ever to be appointed CEO of Hewlett-Packard was interviewed by the Board of Directors of the company, she boldly told them, "Look, lack of computer expertise is not Hewlett-Packard's problem. There are loads of people here who can provide that. I've demonstrated an ability to pick up quickly on the essence of what's important. I know what I don't know. And I know that our strengths are complementary. You have deep engineering prowess. I bring strategic vision, with HP needs" (Sellers, 1999: 95).

So then, what is the "lesson" to be learned from the above-mentioned example (or the "trend" to be identified)?

Just this – 21st century managers cannot dream to follow in the footsteps of their 20th century counterparts and try to know everything of anything, or even to "know the best". The modern corporate and organisational environment and realities are simply too complex and diverse for one person to know it all and do it all.

Again a paradigm shift is required. Twenty-first Century CEO's will have to be team players. Majorie Scardino confirms this opinion by indicating that her success was partly based on her ability to build a strong management team (Galley, 1999:41). Robert Heller (1999:23), founder editor of the management magazine *Management Today*, makes a comment worth noting when he declaring that a well-regulated company never runs out of successors at any level, let alone at the top and that the success of a company (or organisation) should never revolve around the abilities, supposed or real, of one person. A smoothly functioning team of executives' peers should run on the principle of *primus inter pares* (first among equals - with reference to the role of the chief executive). A situation where the CEO is more *primus* than *pares* must be avoided. Non-executives are charged with seeing that all senior executives understand present realities and have ambitious future plans. They must make sure that a working plan for bridging the gap between present and future is available.

Rhymer Rigby (1999:110), draws some management conclusions from the well-known story *The Wizard of Oz* and some characteristics of CEOs should be:

- To network as much of possible, and build up a strong and reliable support network.
- Not having tunnel vision, and must be able to see the broader picture,

- Build competitive knowledge that will be extremely important in a knowledge-based 21st century organisational reality.
- Know his or her limitations.
- Think and act globally.

10.4.2 RECONSIDER THE NATURE OF "APPLICABLE SKILLS AND QUALIFICATIONS"

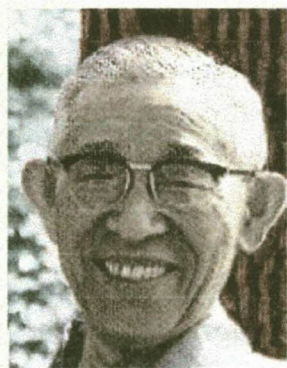
Experience and qualifications as prerequisites for the appointment of CEOs in the government sector will have to be re-considered. In 1999, only one-third of the 50 top businesswomen in Britain had MBAs, while two dropped out of high school (Sellers, 1999:110). The author of this study can confirm from own experience that very often the most productive and knowledgeable public officials are those without any formal academic qualifications. Those with formal qualifications are often promoted, although they do not always have the capacity to apply academically attained knowledge to improve organisational efficiency. A much more productive approach will be to identify potential available in government agencies and then send these people for appropriate management training; whether that training is presented by an "officially recognised tertiary institution" or by another forum.

The traditional custom, whereby officials were expected to rise through the ranks of the hierarchy before eventually reaching the top has slowly died down. Today chief executives are often appointed in their late 30s and early 40s. However, a problem that remains in this regard is the fact that the majority of them have probably risen through a single function, such as finance, or (in the case of the public sector) were line functionaries (Carr, 2002: 95). This needs to change. What is desperately needed in the 21st century corporate set-up is generalists – persons who know something of the core activities of the organisation and can provide strategic direction.

In spite of what has been said above, Kellaway (2003:118) is of the opinion that leaders will get older because of the reality that insufficient numbers of younger people will be available to fill the management positions.

10.4.3 THE NEED FOR VISIONARY LEADERSHIP

Strong leaders add immense value to an organisation's performance, quality and strategic accomplishments (Rand, <http://www.rand.org>). Visionary leadership is transformative. It involves greatness, penetrating the ordinary, and using time to bring out the best the world has to offer. A visionary leader is a unique personal feature that enables a person to anticipate events, influences the future and enables people to flourish in fundamental ways. In organisational context this means perceiving challenges and growth opportunities before they happen while positioning the association to produce extraordinary results that make a real contribution in the world. Visionary leadership requires total involvement, tremendous work, a willingness to put everything on the line and continuous engagement. Visionary leaders often suffer opposition from all sides. Yet, the payoff is greater than anything imaginable: the personal reward that comes from making a genuine and substantive contribution to humanity (Kahan, 2002: 1).



Konosuke Matsushita – perhaps the ultimate visionary corporate leader of the 20th century.
(Source: <http://www.php.co.jp>)

The public sector of the 21st century will be in need of true visionary leadership. Perhaps the ultimate expression of visionary corporate leadership was embodied in the person of Konosuke Matsushita, a Japanese industrialist. As far back as 1929, long before the popularisation of the modern trend towards recognition of social corporate responsibility, Matsushita Electric adapted a basic management objective, which recognises the inter-relationship between corporate profit and social justice. In fact, his entire career speaks of highlights and visionary leadership:

During the 1930 economic crisis, he decided not to fire factory employees, but to send them out to sell the backlog of unsold inventory, in 1931 he decided to buy a vital and expensive patent, and made it available for free to all radio manufacturers in order to stimulate growth, and he actively

aimed to cultivate the spirit of the independent entrepreneur in his employees (PHP Interface, <http://www.php.co.jp>).

10.4.4 LESSONS FROM THE GREATEST AMERICAN CORPORATE LEADER OF THE LATE 20TH CENTURY



Jack Welch, America's most respected CEO of the late 20th century ... and with reason – see the graphs below.
(Picture obtained from <http://www.askmen.com>)

Valuable insights can be gained from

taking note of the opinions of Jack Welch, CEO of General Electric for twenty years and perhaps the greatest corporate leader of the 20th century). This man turned GE into one of the most valuable companies in the world. In his autobiography *Jack: What I've learned leading a great company and great people* exposed some of these principles and ideas (Welch, 2002:17–22):

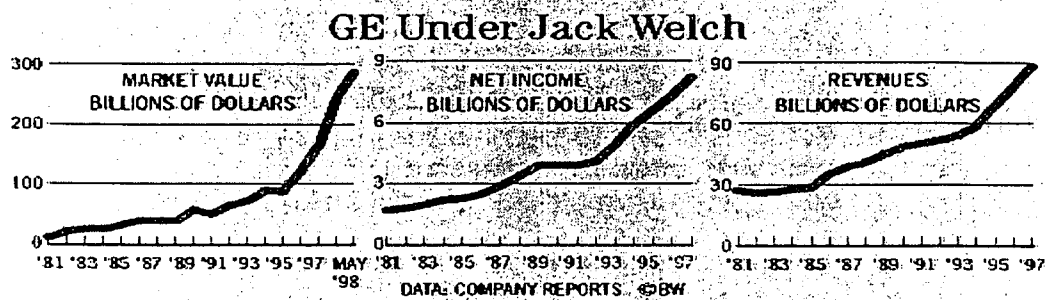
- No *pat formula* exists for being a successful CEO. Everyone does it differently, and right or wrong way is available.
- Managers must have *integrity*.
- Healthy organisations provide good and *challenging jobs* that provide their employees with the opportunity, spirit and resources to give back to their communities a thousand-fold.
- The *CEO must set the tone*. Members of the organisation are inclined to follow the CEO's example, and he or she must set an example worth following.
- CEOs must maximise an *organisation's intellect*. Good ideas must be encouraged, listened to, and implemented where feasible.
- *People* must take *centre stage*; not strategy.
- *Informality liberates*. Creating an informal atmosphere assist with establishing a strategic advantage.
- A manager must be *self-confident*, but *not* arrogant.
- All in the organisation must be encouraged and motivated to have a *passion* for what they are doing.
- *Stretch* – reaching for more than what you thought possible.
- Organisations need to have *fun* – make time for social events, and prevent a situation where employees start feeling that it is “just a job”.
- Align rewards with measurements and continuously appraise *performance*.

- No one likes to play God and rank people, *especially not the bottom 10 per cent*. Work out bad performers – they disadvantage the entire organisation. The surprising thing is that the lower you went in an organisation, the louder concerns about weak performers become.
- Make provision for effective *change management* and ensure that flexible strategies are in place to deal with sudden changes in the environment.
- Promote *innovation* and initiative.

In the same book, Welch (2001:377) remarks that, for him, the real payoff, the most exiting and rewarding aspect of heading the world's largest company, was not the money (although that is not to be denied), but rather the *fun*. The importance of the point, for the purposes of the lesson to be learned from it for the purposes of this thesis, is to be found in the personal qualities of Jack Welch, as it became evident from putting the remark within the context of his life and career, as it unfolds through the pages of the said autobiography. Jack Welch, the intrinsic characteristics that made him *Jack Welch*, was "tailored-made" to be the great business leader and CEO he eventually became. Great and successful CEOs (in terms of organisational leaders) create themselves – the trade cannot be taught. True enough, they can be coached and they learn from experience and exposure. However, if a person does not have the intrinsic qualities to be a great organisational and business leader, he or she will never become one. The best way to develop the selective few individuals with the required drive and personal capacities to become great corporate leaders is through coaching and exposure. Forget about fancy formal qualifications – concentrate on developing the *intrinsic* leadership qualities of an individual by exposing him or her to the right kind of experiences required to become a great corporate leader.

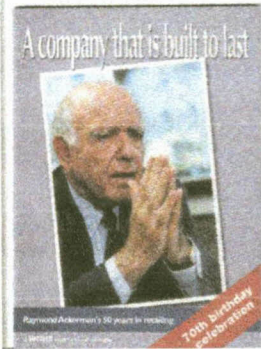
Figure 47

General Electric's performance under the leadership of Jack Welch



(Source: Business Week, 1998: <http://www.businessweek.com>)

10.4.5 LESSONS FROM A SUCCESSFUL CEO IN THE DEVELOPING WORLD

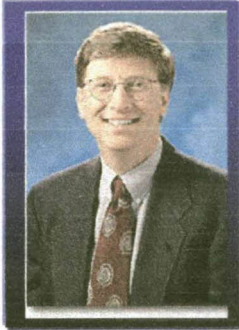


Raymond Ackerman, South African Entrepreneur and business leader per excellence. (Source: SUCCEED magazine add-in, 2001)

It is worthwhile to take note of the opinion of one of South Africa's most successful businessmen, Raymond Ackerman regarding what is important to ensure management success (Ebersohn, 2001:16–18):

- *Be idealistic* – look beyond self-enrichment and self-interest. Strive to achieve maximum success, and try to roll this success out to all interested parties who have an interest in the services provided by the organisation.
 - The *customer* is sovereign and must always be treated that way. (Care for the community).
 - Run the organisation on the basic principles of *honesty and integrity*.
 - Put as much as possible back into the *community*.
-
- Learn to *communicate* ideas and decisions to the community, staff and other participants.
 - Treat *people* as the organisation's greatest asset.
 - *Promote from within*.
 - Give people *responsibility*, and then hold them accountable for the results attained.
 - Set reasonable and attainable *goals*.
 - Let employees do what they do *best*.
 - Be *innovative*, but also learn from others.
 - Never persist with something that shows clear signs that it will not succeed.
 - Be firm, but do not lose *humanity* and empathy.
 - Pay attention to every *detail* in the organisation.
 - Be *determined*.

10.4.6 LESSONS FROM YOUNG ENTREPRENEURS



Bill Gates, co-founder of the Microsoft Corporation. (Picture obtained from <http://www.microsoft.com>)

Who could dare to refer to “young entrepreneurs” in the 21st century without mentioning the name Bill Gates? Guided by the belief that the computer would be a valuable tool on every desktop and every home, Gates and his friend Paul Allen started developing software for personal computing during their college years. The obvious lessons to be taken from this example, is the fact that it proves the value of entrepreneurship, foresight and vision in achieving personal and organisational goals in life (Microsoft, 2003: <http://www.microsoft>).

The May 2002 issue of the business magazine *Fast Company* carried an informative article regarding a group of innovative CEO who have all stepped into their positions at a time of enormous challenge, such as worried workers, scarce resources, demanding

customers, and made a success of the job (Overholt, 2002: 52). It is worthwhile to shortly reflect on their experiences.

- Gary Kusin (CEO of Kinko's Inc., a document-solutions company) expresses the viewpoint that the biggest service his company can sell is *competence*. Translated into public sector language, this re-emphasises the trends towards a knowledge-based organisational service rendering reality, and the need to manage for excellence (Overholt, 2002: 52).
- Susan Lyne (CEO of ABC Entertainment), is of the opinion that the modern CEO must concentrate on getting younger, creative people to speak up and contribute towards expanding the knowledge-bases of the organisation (Overholt, 2002: 54).
- Alfred Chuang (CEO of BEA Systems Inc., a diversified company offering a wide variety of high-tech, high knowledge services, ranging from engineering to finance and organisational development), believes that his ultimate task is to make sense out of the “madness” of the 21st century environment and to create a reality in which his company can thrive. (The relevance of managing in an Age of Chaos [Chapter 3] becomes clear from this perspective). This CEOs priority is to maintain the best conditions (value) for shareholders (owners) and employees. In achieving this, he

believes in trimming costs, and refocuses by increasing communication within the company (Overholt, 2002: 56).

- *Ron Sargent (CEO of Staples Sympres)* emphasises the importance of improving service to customers, and refocus organisational activities on their core customer base – in their case, the small business customer. This is in line with the concept promoted in Chapter 8 of this study - to focus strategic management activities at managing core functions (Overholt, 2002: 62).
- *James F. Parker (CEO of Southwest Airlines)* believes that the key to business success is to respond pro-actively and correcting to environmental turbulences. Prompt decision-making is vital. Organisational resources, with specific reference to cash, must be conserved in such a way that the organisation will be protected. He also believes that an organisation must look after its employees (Overholt, 2002: 62).
- *Shirley M. Tilghman (President of Princeton University)* believes that effective problem-solving is vital for organisational success (Overholt, 2002: 58).

10.5 DEVELOPING LEADERSHIP IN A 21ST CENTURY CORPORATE CONTEXT

In order to conceptualise the requirements for meaningful leadership development in 21st century corporate context, it is important to understand two aspects that would be regarded as the essential basics of successful leadership in such organisations, viz.:

- Leadership is an intrinsic personal quality. A person cannot be taught to be a great leader. All that can be done is to develop the inherent leadership ability already hidden inside a person. This is one of the core differences between leadership and management. Management encompasses structured logic – principles that can be taught and entrenched by way of repetitive training. Leadership can only be developed by the right kind of exposure.
- In large-scale, complex and knowledge-based 21st century government organisations, a leader's main method of intervention to direct activity with a view of optimising corporate performance will be to manipulate the organisational culture.

Griffin (1999:168) defines organisational culture as the set of beliefs, values, behaviours, customs and attitudes that determine what an organisation is, what it stands for, how it is doing things, and what it considers as important. The manager-leader not only creates

the rationale and tangible aspects of an organisation, but is also the creator of symbols, ideologies, language, beliefs, rituals and myths (Peters & Waterman, 1982: 104).

According to Blake and Mouton (1989: 3-4), the leader can shape organisational culture by:

- Projecting corporate vision. It is important therefore for leaders to be familiar with, and confident, in the corporate vision.
- Act as exemplary role-models, that other members of the organisation can emulate if they see it as sound, or renounce it if unsound.
- Establishes values that subordinates can be expected to embrace.
- Sets or condones the reward system that compensates people. It is vital therefore for organisational leaders to ensure that the reward system is impartial, fair and those arbitrary systems, based on favouritism and non-performance related notions are avoided.
- Sets policies by which an organisation is expected to be conducted. Policies on employment, remuneration, real estate, retirement, centralisation or decentralisation, are the basic determinants on how well an organisation is knitted together.
- Creating systems that influence how information flows, how work is undertaken, and other matters at the centre of corporate culture.
- Influence the attitudes of all members of the organisation towards customers positively.
- Demonstrating excellence in decisions and attitudes.
- Stimulating involvement and teamwork and promote sound use of human resources.

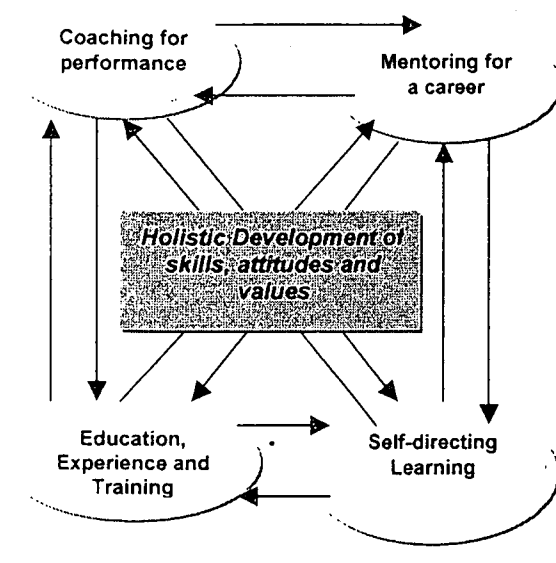
An increasingly important element of corporate culture that the corporate leader must deal with is the handling of multi-culturalism – especially in a pluralist working environment. In countries such as South Africa and Malaysia, where aggressive programmes aimed at achieving the objectives of focused affirmative action programmes have been introduced, the effectiveness of the way in which corporate leaders deal with this aspect, could ultimately make the difference between organisational success or failure.

10.5.1 DEVELOPING LEADERSHIP SKILLS

It has been stated repeatedly during the scope of the Chapter that leadership is an inherent quality that cannot be taught, but must rather be developed by exposing the

individual prospective leader to the correct kind of environment. It is useful to undertake such a development programme within the framework of a structured executive development process. This process can be presented as follows:

Figure 48
The executive development process



The model accepts that an individual is a complex, multi-faceted being. In order to develop his or her leadership skills, it is necessary to account for all these facets that include:

- The person's formal and informal qualifications, education and training.
- The need for self-directing and self-driven learning.
- The need to be coached for improved performance.
- The importance of providing qualified mentoring to assist him or her with career development.

(Source: Falkenberg, 2002: 30)

Executive coaching and mentoring will be the name of the game in developing leadership skills in the 21st century – that is the only way to develop the inherent abilities of executives in a knowledge intensive environment. The age-old profession of coaching is increasingly regaining prominence in the modern corporate world. This is a perfect leadership development tool for a knowledge-driven organisation; where the speedy and continuous transfer of organisational knowledge is vital for achieving organisational goals and objectives. Coaching is the transfer of knowledge - an ethos that evolves around the sharing of ideas (Bjorkman, 2001:18–19). Coaching is a contractual relationship between two people, or one person and a group or team. It is a powerful partnership that can enable a person or team to do what could be impossible individually. Mentoring, on the other hand, is a relationship based on trust, respect and a loving connection between two people – with both parties that give and receive (Hunter *et al.*, 1997: 98).

This concept is closely related to the mentoring of CEOs. Mentoring looks at leadership, decision-making, strategy and emotional intelligence. CEOs formally appoint "mentors" for themselves to assist them in performing the basic functions of management. In the past people gradually progressed through the organisational hierarchy. However, increasingly leaders are promoted into senior positions earlier and earlier. Mentoring is a method for these persons to build up a reliable support infrastructure around them (De Paravicini, 2002:1). A mentor has the skills, experience, understanding and networks of support that the protégé values and needs (Hunter *et al.*, 1997: 97).

10.6 CONCLUSION AND CHAPTER LINKAGE

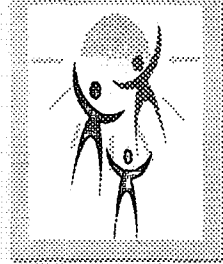
This Chapter has dealt with one of the most primary, yet most crucial components of effective management, namely *leadership*. The importance of leadership is vested in its dynamic nature; the fact that the manifestation of this completely human quality could result in either excellence or the defeat of even the best imaginable management model. The leaders required for 21st century public sector organisations will increasingly be expected to act as change agents, to think new and innovative. Twenty-first century organisations will function in a dynamic, ever-changing environmental reality, and corporate leaders must pro-actively be able to respond to the realities facing them on a daily basis. As a result of the dynamic, knowledge-driven reality in which they function, these leaders would not be blessed with a point of reference, where tailored-made solutions for the problems facing them could be found. They will therefore need to be creative and innovative.

Twenty-first century corporate leaders cannot possibly be expected to "know it all" – the modern, knowledge-driven organisational reality is simply too complex to sustain this long-held, 20th century belief. He or she rather is a team-player, capable of directing the activities of well-organised organisational teams.

Age, as determinant of organisational position, is increasingly becoming obsolete. CEOs are becoming younger and younger. What is in demand is visionary leadership and charisma. They must have integrity, and must be able to communicate effectively – to employees, politicians and the community alike. They must be responsive to the needs of all interested parties.

In conclusion, it is important to mention that appropriate leadership skills need to be identifies and developed pro-actively and then in line with the demands of 21st century organisational and management requirements.

The thesis has now concluded its exploration of management theories and "best practices", required to formulate an appropriate and responsive public sector management model for the 21st century. The next Chapter (11) will concentrate on formulating such a model by integrating the various components and attributes identified thus far.



CHAPTER 11

CONCLUSION, INTEGRATION AND ASSESSMENT

11.1 SYNOPSIS AND CHAPTER OBJECTIVES

This thesis was built on the notion that governments throughout the world are increasingly losing legitimacy, because of decreasing mobility. The cause for this state of affairs is government's unwillingness to adapt to changing environmental realities. It is trying to use the bureaucratic apparatus to provide services to a post-bureaucratic environment (the reality in which its customers, the community, is working and living).

The criticism that could be labelled against recent attempts to re-invent government and its management infrastructure is that these attempts have been undermined by the fact that the changes that were brought about were implemented within the existing bureaucratic power and organisational macro-structure. The results were, in general, negative and the positive spin-offs disappointing. This is no surprise; what really needs to be done is to *replace* irresponsible and inflexible, 20th century-based power and organisational arrangements and structures – no value is to be found in artificial attempts to amend archaic notions of organisational design and public service rendering.

What has subsequently been recommended throughout this thesis is an all-encompassing paradigm shift in the way in which government manages its structures, resources and processes to achieve its ultimate aim, which is to promote the general welfare. However, the recommendations made in the thesis, were not based on the perceptions or perspectives of one person of what could be appropriate for the 21st century, neither did it entails re-inventing the wheel. It was rather based on a careful analysis of the perspectives, ideas and concepts of a wide variety of management thinkers, philosophers and futurists. The ultimate recommendations were built on contemporary developments in the field of private, as well as public

sector organisational and management theory; expressed in terms applicable to the government sector.

It has been argued that the time has come to have a new look at not only the governing function aimed at promoting the general welfare and the vehicle used by government to promote the quality of life of citizens (public sector service rendering agencies) but also at both the management processes applied by these agencies in pursuing government policies. The very nature of the normative concepts used to measure the ultimate success or failure of these systems, structures and processes are also important. This is where it became important to present both the concept of "promoting the general interest", as well as the management paradigms to manage it in terms of a 21st century idiom, which requires that the outputs of the management processes, as well as the various sub-systems thereof, must be measurable (quantifiable).

The *aim* of the thesis has been presented as *formulating a model of public sector management in the 21st century, capable of promoting the general welfare in a sustainable manner*. Within the thematic context of this thesis, promoting the "general welfare" represents the *ultimate vision* for the government sector in the 21st century. Deriving from this statement, the main sub-aims of the thesis can be categorised as follows:

- To expose the challenges posed to Public Management in the 21st century in pursuing its ultimate goal, which is to promote the general welfare. This entails a scientific analysis of environmental trends, which would probably continue into the 21st century to provide the characteristics of a 21st century management environment.

Aim 1: *Exposing the challenges posed to public management in the 21st century in adhering to the ultimate vision of government; which is to promote the general welfare.*

- To present an alternative to the present paradigm dominating the theoretical framework for the application of the formal relationship between the ultimate custodians of state powers (the community) and their representatives (government). This aim will concentrate on recommending practical alternatives for the governance of public service rendering organisations (to replace outdated notions of "ministerial control") and promoting a quantifiable notion to express the ultimate vision of government.

Aim 2: *Promoting the general welfare in terms of a 21st century idiom: The social contract applied in a 21st century context.*

- To formulate a proposed model for Public Management that accounts for all the demands and requirements placed on it by the a 21st century environmental reality and would therefore be able to ensure optimal realisation of the ultimate universal goal of Government, and that is to promote the general welfare.

Aim 3: *Manage for value: Towards a 21st century paradigm for the organising and management of public sector service rendering organisations.*

- To acknowledge the one least manageable determinant of 21st century public sector management that may eventually, play the single most important role in deciding the success or failure of 21st century management in the government sector, which is *corporate leadership*.

Aim 4: *Public sector corporate leadership in the 21st century.*

The recommendations made during the scope of the thesis ultimate boils down to a re-design of the contemporary model for public sector management. During the process of analysis and re-defining of traditional paradigms, the following broad themes were addressed:

- A conceptualisation of the term *paradigm divides*, as conceptualised for the purposes of this thesis. This focused on the transformation of government sector organisational and management applications to get public agencies to be more responsive towards the needs of its citizens.
- *The environment*. Scenarios of a 21st century management environment; the characteristics of which would require a fundamental paradigm shift in the distribution and application of government power. (Refer to Chapter 3).
- *Mobilise for legitimacy*. Emphasise the importance for government to regain lost legitimacy by effectively mobilising government and its agencies to deliver services in such a way that the needs of 21st century communities are met successfully. (Refer to Chapter 4).
- *Strategic direction and control*. Re-design arrangement aimed at optimising strategic direction and control in the public sector in terms of the "social contract" between government and the people they represent. The paradigm shift recommended in this Chapter included proposing a re-design of traditional *ministerial control*, in line with the demands of a knowledge-driven, sophisticated 21st century environmental and corporate reality. (Refer to Chapter 5).
- *Value created / added*. Recommending a paradigm shift in the way in which the ultimate aim of every and, collectively, all government agencies, which is to promote the general welfare. The recommendation entailed that such a paradigm shift must promote the conceptualisation of government's success or failure to

realise its ultimate aim, or reason for existence, in terms of quantifiable terminology, rather than 20th century vague expressions of government performance. This depends more on ideological and personal perspectives regarding what government is doing, rather than on tangible and measurable outcomes of the public governing and management process. Such a quantifiable expression of government's performance is to be found in the concept of *value created and/or added* throughout the public management process. (Refer to Chapter 6).

- At an organisational level, it has been reasoned that the required paradigm shifts must manifest it primarily on the three (3) identified key areas of organising and management required managing and directing organisations towards goal-achievement. These were (1) a shift from information driven, towards knowledge-based organisations, (2) a shift from hierarchical, bureaucratic modes of organising and structuring, towards circular-structured, project-based organisations, and (3) adaptation of comprehensive performance management as an appropriate approach to managing organisational performance in line with the core mandates of 21st century organisations. (Refer to Chapters 7 – 9).
- *Knowledge-based organisations.* The first paradigm shift required for the creation of flexible, responsive 21st century government organisations, is the need to acknowledge the ultimate shift in the foundation for organisational decision-making, communication, empowerment and the allocation, utilisation and measurement of organisational infrastructure. This must move away from 20th century notions of the *information-based* organisation, utilising the traditional expression of production *factors* as prerequisites to enable organisational activities, towards a *knowledge paradigm* to fulfil this role in the 21st century organisational entities. This implies the need to re-consider traditional limited notions of understanding and managing organisational resources (“production factors”), systems and processes. (Refer to Chapter 7).
- The second of these paradigm shifts required for optimal management performance by government service rendering in the 21st century, was to replace hierarchical, bureaucratic 20th century organisational modes of organising, with a *project-based* organisational mode of organising, based on a circular-structure. Such organisations must function on the paradigmatic pillars of creative destruction and an internal free market. (Chapter 8).
- *Comprehensive performance management.* The third structural/processmatic component required for successful public management in the 21st century has

been identified as *comprehensive performance management*. This issue boils down to the need for 21st century government organisations to allocate, utilise and measure organisational performance (that is, to manage organisational performance) in terms of the ultimate aims (*core functions*, derived from the organisational political mandate). (Refer to Chapter 9).

- *Corporate leadership*. The one “non-structural” component of the management process discussed in the thesis, is ironically also the least manageable one, but, simultaneously, the one that will have the biggest influence on the eventual success or failure of 21st century public sector management. This component is *corporate leadership*. The approach followed with these discussions, was to analyse the demands that a 21st century corporate reality will place on leaders, and compare these with experiences gained from analysing the identified “best practices” shared by successful corporate leaders of this, the earliest stages of the 21st century. (Refer to Chapter 10).

The recommendations made throughout the scope of the thesis could be combined in an integrated model for 21st century management by putting together the key components thereof. The structured approach followed to build the said model, was to divide the contents (and subsequent recommendations) in twelve (12) chapters. These can be categorised as follows:

- ***Introduction and conceptualisation***. Chapters 1 and 2 were conceptualising and contextualising the theme of the thesis. It dealt with a general introduction to the thesis, and a comprehensive conceptualisation of the key philosophical foundation thereof – which is an all-encompassing *paradigm divide* that needs to be crossed as the government sector moves towards a responsive model of 21st century public management. These two chapters do not feature directly in the construction of a 21st century public management model and were therefore not mentioned as pieces of the puzzle.
- ***The public sector management environment***. Chapters 3 and 4 are addressing the characteristics of a 21st century environment (or, at least the *expected* characteristics thereof, expressed in terms of environmental scenarios), and the implications thereof for government’s role in 21st century societies. The argument was that 21st century government will only be able to retain, and gain legitimacy if it could successfully mobilise its resources and infrastructure in such a way that it could satisfy the needs and meet the expectations of a 21st century environmental constituency.

- **Mobilise for legitimacy.** Chapters 5 and 6 suggested a paradigm shift in the way in which government is applying its power to determine what will be done, by whom, how, when and where in order to effectively meeting the challenges of 21st century environmental realities, emanating in the quest for legitimacy, and (in so-doing) fulfil its ultimate mandate (which is to promote the general welfare). The basic argument was that the social contract, in terms of which government exercise all-encompassing government power (which emanates from its relationship with citizens [which, in turn, refers back to the quest for legitimacy]), needs to be applied in a transformed 21st century idiom. The model suggested in Chapter 5 was that of corporate governance. In Chapter 6, it was suggested that the ultimate aim (or mandate) of government needs to be quantified in order to bring it in line with the expectations of a 21st century expression of organisational and/or institutional performance. The approach suggested, was that of expressing government's performance in terms of the value created and/or added by it, or by its composing sub-units (systems).
- **Government's management agencies.** Chapters 7 – 9 focused on an organisational manifestation of public management structures and processes. Recommendations regarding appropriate organisational structures and processes were formulated on the hand of the writings of contemporary, internationally recognised management thinkers, futurists and pundits; by using fresh and new management models and concepts (performance management, knowledge management) as frameworks for reference. This resulted in the following recommendations:
 - A recommended paradigm shift, away from the 20th century *information-based* organisation, towards a 21st century *knowledge-based* organisation. (Chapter 7).
 - A paradigm shift away from traditional notions of hierarchical bureaucratic structuring of public sector organisations, towards circular-structured, project-based organisational units, functioning and structuring itself by utilising the principles of creative destruction and an internal free market. (Chapter 8).
 - Promoting the idea of implementing an all-encompassing performance management framework for the management and measurement of organisational performance in 21st century public sector organisations. (Chapter 9).
- **Corporate leadership.** Chapter 10 dealt with the one component of a model for public sector management that is inherent to the individual and does not really qualify for a comprehensive paradigm shift. This component is *corporate leadership in the public sector*.

The various components will subsequently be integrated by formulating a 21st century public management model, based on the models and recommendations presented throughout the thesis.

A variety of recommendations has been made during the gradual construction of the thesis regarding the distribution of government power, and principles underlying 21st century notions of the organisation and structuring of government service rendering agencies, with a view of gradually structures a model capable of successfully meeting the challenges of an unfolding 21st century reality. Having discussed, explored and analysed all these components, the one challenge that remains, is to "bind" it all together in an integrated model of 21st century management. A possible concern for the observant reader, will be that the identified components of the proposed 21st century management model have been discussed and presented individually, and questions like the following could be asked: "How will comprehensive performance management fit into a project-based organisational structure", or "how would a knowledge-based approach to the allocation, utilisation and control of organisational resources fit into a proposed model based on an internal free market, and the optimisation of outsourcing options?" In order to address this, the outstanding theme of the thesis, will subsequently be addressed by formulating a proposed integrated model for 21st century public sector management by referring to the "sub-models" (or components) discussed and formulated throughout the scope of the thesis.

11.2 AN INTEGRATED PERSPECTIVE ON 21ST CENTURY PUBLIC SECTOR MANAGEMENT

The model of public sector management, capable of responding pro-actively to the unique environmental realities of the 21st century, was progressively built up through a comprehensive discussion of the various Study Aims. When integrated into a single perspective, the following recommendations could be presented:

- **Managing government's mandate[s].** Government's ultimate response to the prevailing environment realities will be expressed in terms of its policy mandate[s]. At present the majority of government's policy promises are entrusted to existing, bureaucratic service rendering agencies. The terms of reference of such policy mandates are broad, and must often be adapted to suit the abilities of the existing service rendering agencies. Where new structures are required, it is a costly and lengthy process to get it established, because what is actually established, is a totally new bureaucracy.

Consider the practical applications of the approach suggested in this thesis: During the election process, prospective governments will outline its policy priorities to voters and after election, a number of "Policy Implementation Teams" will be established to drive the major key performance areas identified by political parties before and during the election process. As all initiatives and activities are undertaken on a project-basis, characterised by performance-based contracting, the new government will (at most) have to endure the policy priorities of the former government for the duration of those projects that are in progress. Such structuring will also illuminate the costly and lengthy processes of transforming, abandoning or establishing mandate-specific public organisations. Naturally, the first argument against such a scenario will be to ask "what about a public institution, such as a hospital, where continuous services are rendered, that must be rendered, regardless of which government is in control?" However, the underlying argument remains the same: Even if such continuous services will be rendered in terms of a project approach (even if the project is described in terms of a financial year), and the personnel would have been employed in terms of specific, project-based performance contracts. If those specific services do not fall within the broader mandatory priority framework of the new government, they will simply terminate the project at the end of its natural legal period, and transfer the resources to another project that forms part of its broader mandatory priority framework. Naturally social and political spin-off effects will take place, but these must be managed as part of the bigger political trade-off process and cannot be avoided. The important aspect here is organisational, service mandate-related flexibility – the ability to pro-actively respond to the most pressing needs in the environment.

A "Policy Implementation Team" will be chaired by a political appointee, a confidant appointed by the Head of State. However, either this chairperson, or the Head of State (or both of them) will nominate a number of functional experts to a formal team (corporate governing body). This body will collectively accept responsibility to ensure that the mandate entrusted to it is effectively implemented and executed. The members will be appointed on a performance-contract basis and will accept collective responsibility for the implementation of the mandate entrusted to it. They can implement and execute this mandate by outsourcing sub-mandates, task and/or activities, by entering into public-public, or public-private partnerships, or by contracting a specific management team to undertake mandatory projects on their behalf.

This thesis has promoted an all-encompassing shift in the paradigmatic foundation of organisational, structural and strategic infrastructure of government agencies in order to enable such agencies to successfully realise its ultimate vision (which is to promote the general welfare). The model presented was built on the around the following paradigmatic pillars:

- **The knowledge-based organization.** The soul of an organisation, its activities, and its ability to achieve its goals, is founded in the way in which organisational power, and the related organisational authority, is structured and deployed. The way in which this "soul" of the organisation is visualised, and subsequently practiced by management, will determine the kinds of decisions taken in the organisation – as well as the way in which organisation value is viewed. The soul of the 20th century, traditional bureaucratic organisation was information. In 21st century organisations, this role will be taken over by knowledge.

The absence of expensive, bureaucratic organisational infrastructure does not mean the absence of organisational resources and/or dynamic organisational interaction and processes. Even within the framework of this important prerequisite for the establishment of post-bureaucratic organisations, it must be accepted that any organisational entity would still requires a infrastructure foundation on which decision-making and resource processing management activities could be built. In the 20th century, this foundation has been identified as information. In the 21st century, it will be knowledge.

It has been reasoned that requirements for the establishment of an effective knowledge-based organisation, will be the free and willing sharing of applied information that could immediately create or add value to organisational activities and processes. This sharing must take place between members within organisational boundaries, as well as across organisational boundaries.

This perspective perfectly fits into the suggested application of the project-based organisation and specifically the accompanied principle of an internal free market, where members of the organisation are not only allowed, but indeed actively encouraged to make their skills and expertise available across organisational and sub-organisational boundaries. In the project-based organisation, knowledge must flow freely between and among project teams, supporting contractors and indeed all relevant and participatory mandatory stakeholders.

It must be accepted to the world has moved beyond the 20th century notions of information as the ultimate organisational resource (see Chapter 3 for an exposition of the paradigm shift from an information-based towards a knowledge-based era). During the information era, the organisational resources required to

effectively manage organisations (and assess organisational performance) was primarily expressed in terms of the production factors, with emphasis packed on financial performance. In the knowledge-based era, organisations must be managed in terms of their extended intellectual capital, which will also eventually have to be reflected in performance statements (see Chapter 8 for an exposition of the components of the intellectual capital of 21st century organisations).

How does this fit into the structural denominations of 21st century project-based organisations? The answer to this question is to conceptualise the organisational reality exposed in terms of organisational scenarios of the 21st century as set out in Chapter 3. The key to realising organisational excellence and optimise organisational performance, in the 21st century will be to acknowledge and deal with the virtual nature thereof. Place and time will increasingly lose its traditional importance as determinants of organisational and business activity. Fixed organisational boundaries, incorporating all organisational systems and structures, line and staff structures are not a prerequisite for identifying, managing and assessing for organisational performance. Present-day organisations are easily capable of accounting for resources utilised to outsource key performance functions – why not 21st century organisations? Changing notions of organisational structuring will influence the way (paradigm) in which organisational resources and performance will be managed – not the manageability (and measurability) thereof.

What will be different; will be the extent of outsourcing or partnership deals. The real difference will be found in the fact that 21st century organisations will have to re-define the scope of resources in terms of which organisations must be managed and corporate performance must be assessed. Twenty-first Century organisations will have to determine and account for the value added (or destroyed) by organisational structuring, the perceptions of (prospective) clients regarding the organisation and its services, the feelings, attitude and behaviour of employees (emotional capital) and other components of organisational intellectual capital.

- **The 21st century project-based organisation.** No five to eight persons (the suggested number of appointees to the corporate governing bodies of the 21st century) could ever hope to execute the comprehensive activities required for effective implementation of government's mandate. This body will have to identify a management structure (or structures) that could implement and execute sub-mandates on its behalf or could execute the activities required in terms of public-

public or public-private partnership projects. These would be project-based organisations in the true sense of the word.

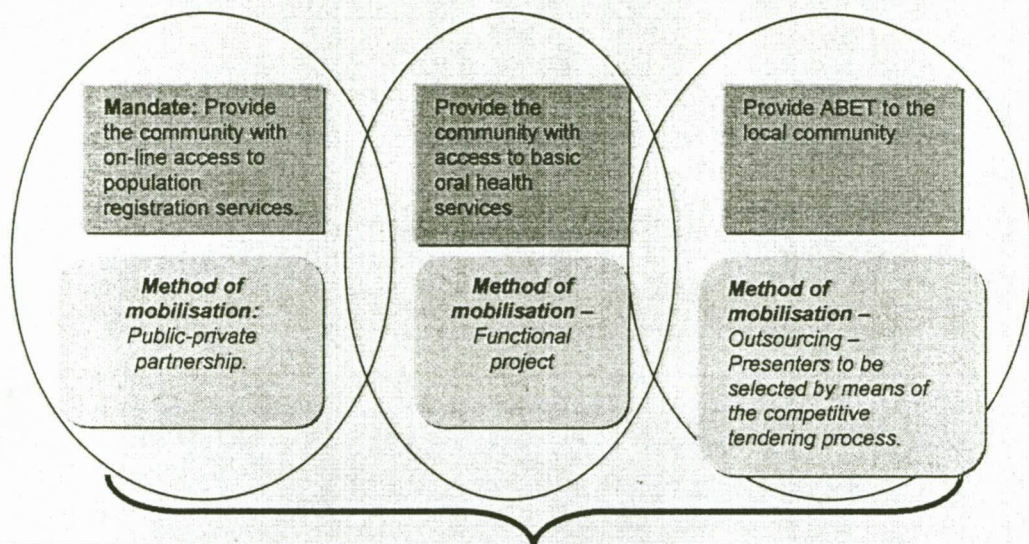
Consider the following example:

As part of its broad set of policy mandates, government has identified (1) the need to make available facilities where poorer communities could access Internet to apply on-line for ID documents, passports birth certificates; (2) to improve the accessibility of oral health services to poorer communities, and (3) establish centres for Adult Based Education and Training (ABET). During one of the monthly Cabinet meetings, it is decided among the chairpersons of the Policy Implementation Teams responsible for Population Registration, Health Promotion and Education, that a combined, integrated service point must be built in a poor rural area. This centre will integrate a computer room that would allow access to government services on the Internet, a fully equipped oral health clinic and a training room, where scheduled ABET courses will be presented to students from the region.

In terms of a post-bureaucratic, project-based organisational paradigm, functioning according to the principles of creative destruction and an internal free market, such a centre could diagrammatically be presented as follows:

Figure 49

Integrated service rendering: The service centre concept



Service rendering options		
<p>The organization will contribute a third of the construction cost of the physical facilities, and will pay the monthly licence fees. An agreement has been reached with the national telecommunication company to sponsor the computer equipment and the modems required.</p> <p>The project cycle has been planned for an initial three (3) years, after which the project would be performance assessed to determine its continuity or discontinuity.</p> <p><i>Principle at play: Public-private partnerships.</i></p>	<p>The organization will contribute a third of the construction cost, and will also fund the equipment and consumables required to deliver oral health services to the community. This will be done in terms of a project. As long as the project performs according to the pre-determined standards, it would be maintained as part of the mandatory service portfolio. However, merited members of the community will be encouraged to take up a government bursary to qualify him or herself as a dentist. If government decided to end the project, it must be taken over as a community project. The project will be assessed annually.</p> <p><i>Principle at play: Creative destruction.</i></p>	<p>The organization will contribute a third of the construction cost. The remainder of the project will be outsourced by means of a comparative public tendering process. The local organized teachers' organization, Teachers for Development (TFD) will be encouraged to put in a bid.</p> <p><i>Principles at play: Outsourcing and an internal free market. (Teachers on public payroll are allowed to compete for state tenders).</i></p>

(Source: Principles concluded from the contents of Chapter 7)

For a proper understanding of a continuous unfolding of the 21st century public sector model, as recommended during the scope of this thesis, it is important to explain an important principle at this stage; which is to contextualize the project-based organization. (1) It has been recommended in Chapter 6 that the organizational boundary must become vague, in order to optimize the responsiveness of organizational structures to the demands of the environment. Although the concept of a project-based organisation requires an all-encompassing open system approach to its environment, it does not imply that there is no boundary. However, the boundary will not be the bureaucratic expression of fixed staff establishment, a common payroll, or established

organisational unit and hierarchies. Organisational boundaries will be determined in terms of a common policy mandate.

(2) A second key recommendation was that 21st century organizations must avoid creating bureaucratic systems and processes by incorporating non-core activities and infrastructure in its boundaries.

If it is reasoned that any organisation entity requires resources to enable organisational activity (see above), the implication is that such resources are scarce, and must properly be allocated and controlled. The bureaucratic way of dealing with this requirement, was to create an expensive and loaded support bureaucracy, which consumed most, or at least a sizable percentage of scarce organisational resources. The result is that the tail starts wagging the dog. This is an irresponsible, costly and counter-productive way of structuring service rendering agencies required to be flexible and cost-effective. The challenge is to shift the focus when structuring for organisational action. The challenge is not for the Ministry of Health (for instance) to create effective structures to exercise control over financial, human resources or information technology management in the department. The challenge for this Ministry is to provide health services to the community – this is its core function. Within the structural composition of the project-based organisation, this core function will be executed in terms of identifying projects and/or outsourcing selective aspects of the service portfolio in order to gain the advantages offered by the market (see Chapter 7).

Obviously, in an intensely knowledge-based reality, functional expertise would be of vital importance to gain and maintain a satisfactory level of strategic advantage (refer to Chapter 9). However, it is important to remember that, in a 21st century organisational context, most organisations (private and public) will concentrate on managing its core functions. Functional public service rendering agencies (such as the Ministry of Health) could therefore obtain the required strategic expertise to guide decision-making in its undertakings, and conduct transaction and information processing on its behalf to an organisation (private or public) whose core function it is to deal with financial, human resource or IT management in the public sector (or the health sector). In this way, the pitfall of creating a costly and loaded organisational bureaucracy could be avoided.

Another alternative for dealing with the challenge will be to contract in the required expertise (in terms of a performance-based contracting arrangement). Such expertise will never be absorbed on any "fixed staff establishment", and neither will the entity "performance-hiring" them worried about whether they are working for other organisations (or individuals) or not – and neither about finding

expensive offices for them, or equipping them with stationery, computers and so forth, or about regulating their official office hours. As long as both parties kept to the stipulations of the pre-negotiated performance contract, which might include requirements related to availability and accessibility, everyone will be happy. If any party breaches the stipulations of the performance contract, the contract will automatically be terminated.

If such a system is properly established, and adequately functioning, entrepreneurs will increasingly make use of the opportunities presenting it to conduct support functions, such as transaction, data and information processing on behalf of public sector organisations. Public sector service rendering agencies could stipulate all the requirements (deliverables) expected from these contracted parties in the tender or contract, without worrying about the efficiency and effectiveness of operational systems.

- **Comprehensive performance-based management and assessment of 21st century organisations.** The requirement to move towards a comprehensive performance-based management and assessment of organisational performance has everything to do with the paradigm shift towards acknowledging the importance of core functions as the centre of organisational and business activity. In Chapter 7 it has been reasoned that 21st century project-based organisations must be structured around its core functions. Chapter 9 expands on this theme by conceptualising a model of 21st century management in terms of which organisational performance and all the resources required to achieve such performance, are directed at implementing and executing such core functions, which (in the public sector context) could be derived from a government organisation's political mandate. Within the context of this broad theme, the Chapter conceptualises the term "organisational performance" in terms of a 21st century environment that entails a perspective that includes the application of traditionally uniquely private sector strategic principles such as organisational longevity and a concept identified as the quest for a sustainable strategic advantage in planning and implementing service rendering strategies for public sector organisations.

Within the context of 21st century project-based organisations that function on a knowledge-based foundation, the perspective presented promotes the idea that the allocation, deployment, utilisation and measurement of all organisational resources must be done in such a way that the core functions of the organisation could be optimised. Organisational performance assessment must also be directly related to the contribution made towards sustainable value creation

and/or adding in pursuit of implementing and executing organisational core functions. Chances are good that the appraisal of personnel performance in the 21st century, project-based organisation will take place within the framework of a project-team (or a related team context). However, this does not make the principles associated with contemporary performance management less relevant for application in 21st century organisations. The same goes for performance budgeting. The principles underlying this type of multi-year budgeting, linked to strategic standards (performance targets) are appropriate for application in the 21st century team-based organisational structure. The fact that it is applied in a 21st century, post-bureaucratic organisational context, will increase, rather than reduce its applicability and application value.

One of the major challenges for 21st century public sector organisations will be to manage its intellectual capital resources effectively to contribute pro-actively towards adding value to organisational and management activities in terms of its contribution to the realisation of the organisation's political mandate. This implies that the contribution of organisational structures (structure capital), emotional capital sources (the cultural / emotional side of employee behaviour), and other intellectual capital resources will have to be managed and assessed in terms of its contribution to overall organisational behaviour.

- **Corporate leadership in 21st century public sector organisations.** Corporate leadership has been presented as the one inherent component of 21st century public sector management – and also the least manageable. Learning from the experiences of successful corporate leaders of the late 20th, early 21st century, Chapter 11 attempts to build a profile of the successful corporate leader of the 21st century.

11.3 FINAL REFLECTION AND ASSESSMENT

In their analysis of the book *The Future of Governing*, Ott and Goodman (1998: 544) sided with the author (Guy Peters) in suggesting that the move toward myriad and often conflicting reform models in recent years have been driven by ideology, rather than thoughtful, impartial evaluation of the models. They are of the opinion that a total move toward any one, or a combination of these services will just be too costly in terms of its social and administrative impact, and that traditional notions of public bureaucracies in terms the stability and certainty it can offer, will suffice for service

rendering in the future (refer to paragraph 2.4.2 for an exposition of the various models suggested in the book *The Future Governing*).

The authors are making a valid point; in fact, they are right – not about the adequacy of traditional models of public bureaucracies, but in terms of their assessment of the social and administrative cost of shredding the traditional model. Imagine telling a person who believed that he or she chosen a “safe” career in the public sector that he or she must now apply for a position in a specific project, and then only for a flexible period, which would coincide with the life-time of the project. It will cause chaos in terms of labour relations implications, it will have contractual implications, and it will cause immense social disturbance. The same goes for the administrative costs of such a scenario; to all of a sudden dismantle public bureaucracies on a large scale, and replace it with new, relatively unknown forms of organising, will not only be extremely costly, but impossible in terms of the continuing need to keep government's infrastructure stable and operational.

Bureaucracy has entrenched itself into the fibre of modern society. It is virtually irreplaceable. However, this fact does not take away the reality that hierarchical bureaucracy is increasingly unable to respond pro-actively to its environment, and that it is a major cause for the increasing inability of government all over the globe to performance in accordance with the expectations of its clients (the community). This reality is clear from the fact that, all over the world, and even in established democracies, “*candidates ... got elected primarily because they run against government*” (Brown, 1998: 290). Because of the inherent power-nature of bureaucracy, the mascot's regimes of the word have found it an extremely useful method of organising to entrench the influence of their regimes. Hierarchical bureaucracy tends to enslave sub-ordinates – make them dependent on gaining and retaining the goodwill of the boss.

The problem is that the hierarchical bureaucratic notions of organising and management have become entrenched in the thinking patterns of the world. This model, which originated from the Western civilisation's domination of the international political, economic and social order over the last couple of centuries, has truly become part of the thinking and acting paradigm of the average citizen of the world. People, including most intellectuals, automatically accept it as the “boundaries” of acceptable thought and reasoning.

In spite of the arguments cited above, it must be emphasised that the original argument remains, namely that hierarchical bureaucracy will not be able to deliver the outputs demanded from government in the 21st century, and that it needs to

change. And it is possible. Consider the following example (Taylor and Wacker, 1997: 11 – 12):

Of all places, the one most desperately in need of tight control, and of a carefully defined hierarchy, would possibly be an emergency medical centre. However, the R Adams Cowley Shock Trauma Centre at the University of Maryland Medical Centre succeeded not because it imposed hierarchical controls, but because it abandoned them.

R Adams Cowley was the emergency room physician who invented the concept of the Golden Hour - that is the theory that the critical first hour in the care of victims of serious injury is the time frame that holds the greatest opportunity to limit the long-term damage they suffer. To test Cowley's concept, the National Institutes of Health provided him with funds to construct a trauma centre in the mid-1980. All the latest technology was installed, including a helicopter pad on the roof and ambulance at every door. Patients – mostly the victims of blunt trauma wounds – were brought to the middle of the building, where they were immobilised with drugs and placed in bed spaces. Instead of wheeling beds through the stations of the emergency room cross all services were brought to the patient. X-ray machines circulated overhead. Each bed was broken into hundreds of micropods so that the body could be physically evaluated without risking further damage to broken bones or traumatised spinal cords. Beside each bed, four large computer screens provided information in real time to physicians and labs located in other departments throughout the hospital.

The genius of Cowley's centre, however, was not its technology - it was the fact that Dr. Cowley eliminated the cause for differences that characterised traditional organisations: Emergency room nurses and doctors regarded themselves as part of a team of equals serving the patient at the point of entry, and because they did – because bureaucratic control was surrendered in the interest of accomplishing a common objective – that objective, the chaotic business of evaluating an beginning to mend a desperately broken body within the critical Golden Hour, became accomplishable.

However, this innovative and courageous intrapreneur has since died, and without him the centre has sank into bureaucratic haggling. Nurses have to report through the line to a head nurse; doctors have to work up the line to senior medical staff. The billing and material-controls department have gotten into the act. All of it has brought a degradation of teamwork and a substantial decline in reputation. However, while it worked in its purest form, Dr. Cowley's creation was a spectacular success and pure beauty to watch in action. To see it was to see chaos in the form of a dance, and hundreds of patients have that dance to be thankful for every day of their lives.

Reason says that it is only through the implementation of a hierarchy that control can be maintained. The Cowley Shock Trauma Centre says that surrendering control creates control.

This example also addresses the argument put to the author of this thesis during discussions with colleagues regarding his theories of a post-bureaucratic model of public sector governance and management, namely that traditional bureaucracy is necessary to maintain effective control. In this regard, it is important to again state the point made several times during the scope of the thesis, namely that public bureaucracy must not be artificially adapted – it must be replaced altogether - a point appropriately illustrated by the quoted example. Peter Drucker (as quoted in Chapter 2 [from Crane, 1995: <http://www.cato.org>]) expresses the opinion that all the initiatives aimed at re-inventing government in the United States are unlikely to add two-tenths of a percent value to the effectiveness of government agencies. This also illustrates the point made: Hierarchical bureaucracy is inherently slow and clumsy in terms of organisational decision-making and executive action, due to its very nature. When new management initiatives are introduced, it immediately falls prey to the inherent nature of the hierarchical bureaucratic organisation and its associated red-tape. The result is that the ability, or the inherent dynamics of these initiatives is suppressed in favour of maintenance of the typically bureaucratic preference for regularity and stability. Such initiatives (which include project management and performance management applications) must be introduced in a post-bureaucratic organisational framework to optimise its value.

Given, the suggestions made in this thesis were fundamental and far-reaching. The possibility that public managers will be willing to accept the paradigm shifts suggested during the scope of the thesis are very slim indeed. It is also true that, after a year of declining corporate performance, corporate scandals, and slower economic growth, post-bureaucratic sentiments are not very popular at the moment. In this regard, Kellaway (2003:118) expresses the opinion that traditional organisational and management practices are on their way back:

- Organisations will avoid unnecessary risk-taking. More senior appointments will be made from within companies that will have a good affect on morale and overall company performance. Undue job hopping harms company productivity and increases uncertainty inflates salaries and frequently means undue effort for reinvention of the wheel.
- The idea of flat and supposedly flexible management structures will appear beyond its sell-by date. Companies will argue for a partial return to a version of command and control. Recognition that people like firm guidelines and structure

will take place as people like to know to whom they are reporting. This will start to be built into company structures.

- Bureaucracy, after many years of decline, will be on the rise again. The onus of proving that a company is whiter than white will bring huge time demands and a heavy paper trail with it. The art of covering one's back will become a mainstream issue again.
- The rise in flexible home-working may prove to be a false dawn. As companies tighten up their operations and as levels of trust decline, managers will be less willing to allow staff to work from home.
- Other forms of communication, outside the virtual sphere (such as e-mail) may also revert a little.

The above-mentioned perspectives will fuel the sentiments of traditionalist corporate, and then specifically public sector, managers. It is important, however, to put these sentiments in its proper perspective, namely as originating from the shock brought about by corporate scandals in specifically the United States of America (Enron, Worldcom). Within that context, companies are trying to create certainty and to strengthen corporate control. As was shown and acknowledged throughout the scope of this thesis, bureaucracy and its accompanying elements, such as inflexible and hierarchical organisational structures, are perfectly suited to bring about such certainty and control.

However, it could be argued that, as the shock of the corporate scandals faded, so will the apparent return to bureaucratic and 20th century organisational models. The one undeniable truth remains that bureaucratic, control-based organisations are too slow and too inflexible to adapt responsively to the fast-moving 21st century environmental reality. Contrary to popular and traditional believe, this is *especially* the case in the public sector. Boeing, the large manufacturer of aeroplanes, can still afford a lengthier research and development process, because the demand for newer aeroplanes will not change in the space of six months, or even a year (except if competitive forces in the industry may force Boeing to speed up its R&D processes). In the public sector environment, however, demands related to the social needs of the community are changing constantly.

The citizen of the modern state, living in South Africa for instance, will see on the Internet today that his co-citizen in the United States can now order his or her passport from his or her government via the Internet, and will demand the same service from the South African government tomorrow. The problem is that, in the present organisational set-up, this is still not possible – not even in the best

developed countries of the world. The main reason for this "inability" is that government organisations are structured around the bureaucratic modes of organising. Bureaucracy, characterised by layer upon layer of hierarchies, and lengthy decision-making processes, is, from its very nature unable to respond proactively to the challenges of the 21st century.

The problem with traditional solutions to the deficiencies of bureaucracy was that it aim to adapt the archaic system to make it more responsive. This will never work. The only solution is to get rid of the system altogether. For instance, no use exists in attempting to incorporate a project management structure in the existing bureaucratic structures of a public sector organisation – the solution lies in getting rid of bureaucracy, and *replace it* with the project-based organisational structure. No need in trying to adapt the internal systems and processes of public bureaucracies to gear it towards core functions, as from its very nature; bureaucracies are focused on internal systems and processes, and not primarily on *functions*. It is virtually impossible for the bureaucratic organisation to focus its efforts on external functions. The interests of the bureaucracy is vested internally – that is, within the organisation. The bureaucracy rewards loyalty to the bureaucracy – not primarily to the functions that must be performed. The only legitimate alternative is to structure service rendering around core functions.

However, the prerequisite for this to be successful is to get rid of bureaucracy, and replace it with a mechanism that starts with the *function* that must be performed. If a public bureaucracy must render a specific service, the natural starting point will be to determine which unit of the bureaucracy must render the service and the second issue to be considered, will be what organisational resources will be put to the disposal of that unit to perform the functions associated with the function. This unit will most probably be responsible for a variety of functions (which implies less focus), and requires hugely expensive overheads to maintain it.

The only model that will work is a model where the starting point is the *function*. In a project-based set-up, the decisions to be made will be what functions must be performed to execute a specific mandate and what resources are required for it. The expensive, time-delaying and costly bureaucratic apparatus ("overheads") feature nowhere in the equation.

The issue is not *organisational authority*. Organisational authority is absolutely necessary to maintain discipline, focus and integration. Even within the broad structures of the project-based organisation, organisational authority will manifest itself in various ways; in structural, as well as in project context, somebody will have to take charge – and final accountability. The last thing this thesis wish to do, is to

propose the demise of organisational authority. Rather, the *crux* of the matter is the way in which organisational authority is being applied. The bureaucratic organisation and bureaucratic notions of control and management praise control, but then in such a manner that it suppresses innovation and initiative. Organisational control and command is absolutely necessary – but then in such a manner that it optimises innovation and initiative; because, in an environmental reality characterised by constant and far-reaching change and adaptation, these are the only two organisational qualities that will enable an organisation to gain and maintain a much-needed strategic advantage.

Organisational control must be exercised in terms of optimising *accountability*. It is for this reason that the concept and practice of all-encompassing performance management is so important for the effective functioning of 21st century government organisations. Managers, and in fact all workers, must be employed in terms of a pre-negotiated performance agreement, and early-warning systems must be introduced to trace poor performance timely, regardless of whether these are organisational or personal.

Bureaucracies will simply not be able to absorb and quickly, responsively transform data and information to meet the demands of the knowledge-based foundation of the 21st century corporate reality. This reality will require quick and accurate decision-making and the ability on the side of the organisational entity to adapt itself quickly to be able to implement these decisions. This will require getting rid of heavy, loaded organisational structures in favour of an internal free market. Non-core activities of organisational entities will have to be demolished, and organisations geared to handle such functions as their core activities. A practical expression of one possible implication of this statement is that the line departments must outsource the responsibility to process financial transactions and provide management in turn with reliable financial knowledge, to a competent tenderer (accounting firm). After all – it is the core function of a line department is to provide functional services – and not to conduct complicated financial management activities. The accounting firm's core business is to conduct expert financial management.

In short – what is recommended in this thesis is that government organisations functioning in an Age of Chaos must be governed and managed in accordance with principles suitable for chaotic situations (realities). In the Age of Reason, the “reasonable” organisation, structured in terms of the principles of bureaucracy, was developed to respond to the challenges of the time. However, it is impossible for an organisational and management model designed for the Age of Reason to be responsive and effective in the Age of Chaos.

If it is accepted that hierarchical bureaucracy cannot deliver the desired results in the 21st century, as argued throughout the scope of this thesis, and that it must be replaced, the only way to overcome the obvious paradigm and social barriers the system has erected around it, will be by starting at a pilot project level. The best option will be to identify one or two smaller agency, with the required leadership capacity, and transform these into post-bureaucratic, post-hierarchical organisational entities in terms of a structured, planned pilot project. Larger public organisations could identify specific organisational unit, with the proven leadership and change management capacities, to be transformed into project-based organisational units, and arrange management's interaction with such pilot structures in terms of a matrix organisational relationship.

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