

# **Against the Trend: Public Management Reforms in Hong Kong**

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### Introduction

Public management reforms are concerned with changing the 'structure and processes of public sector organizations with the object of getting them (in some sense) to work better' (Pollitt & Bouckaert, 2000: 8). The public administration literature on reform is voluminous and addresses the subject matter from many perspectives. Much of this literature in recent times is concerned with various aspects of the advent and impact of New Public Management (NPM). It includes critical evaluations of the administrative practices associated with NPM, and their outcomes (Aucoin, 1995; Foster & Plowden, 1996); historical and comparative analysis of NPM reforms in different countries (Christensen & Lægreid, 2001); studies of patterns of continuity and change in particular national settings (Quah, 1991; Zifcak, 1994); and analysis of the 'globalization' of reform through policy transfer (Cheung, 1997; Common, 2001). Christopher Hood (1994) seeks to test alternative approaches to understanding the advent of NPM, including interest group politics and 'changes in habitat' — for example, modernization theory (Riggs, 1997) — while Michael Barzelay (2001) proposes drawing on 'process' models of public policy change. Comparative case studies would provide 'limited historical generalizations' about the 'policy making dynamics that drive public management policy innovation' (Barzelay, 2001: 170).

In addressing the extent to which a 'global trend' such as NPM has had an impact in a particular country, there are a number of pitfalls to avoid. NPM is a set of ideas that, when bundled together, make up a doctrine that many contemporary professional administrators around the globe espouse. This doctrine includes (among other things):

1. espousal of a managerialist orientation in which the preferred model is the private sector;
2. a preference for market mechanisms where they can be made to work for the public sector; and
3. a focus on efficiency as the primary driver of administrative improvement.

Behind this doctrine are some theories of generic management and, in particular, the 'new institutional economics'. However, the label 'NPM' was invented not by those who inspired or founded a school of practitioners, but by academics trying (after the event) to make sense of a broad movement of change (Barzelay, 2001; Hood, 1991; 1995). It is a terminological construct, an attempt to order and catego-

rize a bundle of contemporary administrative practices, some 'new', others with a long history. Particular NPM 'instruments' such as internal markets, contracting out, privatization, 'customerisation' and 'agencification' may appear in different mixes in particular cases. Bits and pieces may be implemented in isolation in some jurisdictions. Most academic observers of the recent history of administrative reform would argue that the NPM label fits best in a relatively small number of countries where the doctrine has pervaded a more or less systematic combination of measures. Only a few countries — the United Kingdom, New Zealand, Australia and maybe one or two others — could be said to have adopted NPM as a 'system', or as a comprehensive set of practices guided by a relatively coherent set of principles. Even there, the mix of instruments is not exactly the same in each case. In other countries, many practitioners and reformers have liked the look of particular NPM instruments, and have also been influenced by the ideas and the doctrine. For a variety of reasons, it can be argued that this combination of instruments and doctrine have achieved global reach as a set of models and templates (Sahlin-Andersson, 2001).

Michael Barzelay (2001: 161–71) proposes that we focus on developing two sorts of academic inquiry which, taken together, comprises what he calls a 'policy approach to public management'. The first involves the development and critical appraisal of a body of evidence-based policy arguments about the pros and cons of particular public management reforms (for example, when contracting out is 'appropriate' based on evidence about its consequences (cost and benefits) in different circumstances). These arguments should be developed using a variety of disciplinary tools of inquiry and modes of analysis (not just those that might have dominated the development of theory underlying practitioner doctrine, such as new institutional economics). The second is the analysis of 'public management policy' as a field of policy making and policy change. This analysis, he argues, is best conducted through a comparative case study method and would build on 'process models' of policy making. These two approaches should take analysis beyond the kind of 'trend-spotting' that has featured in some studies of NPM, which have been focused on identifying a pre-ordained dependent variable — NPM-like outcomes — to the neglect of other cause-effect relationships in a particular administrative reform process. Rather like the case of the mining company geologist who is looking for gold, even the discovery of a minute amount might be a cause for excitement, while much else may be missed or ignored in the search.

### **The Administrative Reform Game**

This paper follows the second approach suggested by Barzelay's to investigate the sources, processes and outcomes of public management reform in Hong Kong. The case study is presented as a broad historical survey of administrative reform within a framework of analysis that makes some simple assumptions about 'the administrative reform game'. A simple model of administrative reform is proposed that views it as a matter of balancing supply and demand.<sup>1</sup> Where demand is high,

what guarantees (or alternatively, blocks) supply? The demand for administrative reform may have its origin in wider societal and political demands for administrative transformation, and key interest groups such as business make their input to the process. An economic crisis is often a trigger for such external demands. Legislators may also shape the agenda, particularly through their scrutiny roles. However, the principal roles are played by members of the executive — bureaucrats and political executives respectively. In most cases, the political executive would be expected to play the most significant role in assessing and articulating the level of demand, but bureaucrats may also reflect and articulate wider currents of thinking and changing demands. They play an even more critical role in ‘demand management’, that is the shaping of tastes and preferences. What they view as ‘best practice’, or a set of goals for administrative reform, often shapes contemporary debate and public opinion. On the supply side, because administrative reform is in large measure about setting rules for determining the allocation and distribution of state positions, both bureaucrats and the political executive share in providing for the supply of administrative reform. For political executives, the supply administrative reform may be important because it is viewed as a means to achieve important program goals, such as fiscal policy or a program of policy reforms. However, there may be occasions when the subsequent supply is less important than the initial expression of demand — that is, when the ‘rhetoric of reform’ is more important than the substance. Bureaucrats are assumed to be wary of reform imposed by others because it involves their income, careers and status. The assumption does not lead to the proposition that bureaucrats resist all reform, rather that they will want to exert control over it. The bureaucrats are ‘the experts’, and their contribution to the implementation process is crucial.

This model sets out a straightforward agenda of inquiry that will guide the case study narrative:

1. What have been the origins and the substance of demands for administrative reform?
2. What roles have political executives and bureaucrats played in demand management?
3. What roles have political executives and bureaucrats played in the management of supply?
4. What have been the character, content and pace of the supply of administrative reform in response to this demand, and under these conditions of supply?

In this ‘demand and supply’ model, the supply of administrative reform (4) is viewed as the dependent variable.

A question that will be asked at the conclusion of this analysis is ‘to what extent do patterns of demand and supply take managerialist forms in Hong Kong?’ This is not just a matter of the content of the agenda of reform but also of the nature of the process and the outcomes. In terms of the earlier discussion, we are looking first for signs of NPM doctrine, then for implementation of NPM instruments (and in what

mix, if at all) and finally for the pattern and style of reform (in particular whether it was incremental or comprehensive).

On this last point, Barzelay (2001: 11) notes that the studies of adoption of NPM in New Zealand, Australia and the United Kingdom have attributed it to the 'combined effect of changes in issue image, domain and jurisdiction', namely: broad agreement that governmental organizations are inefficient; a 'unification of the public management policy domain' so that reform comes to be seen as a comprehensive change process affecting money, people and procedures; and the concerted efforts of budget-related and other central agencies (usually through expansion of one into the fields of others) to take on-going responsibility for public management policy. Here, Barzelay refers a more or less continuous, comprehensive pattern of reform driven by political executives and managed by reformist central agencies. However, other patterns of adoption and implementation of reforms that are influenced by NPM doctrine and replicate NPM instruments have been more piecemeal, incremental and uneven in impact (Hood, 1996). In this account of Hong Kong reforms, we attend not only to the content but also to the process of reform.

### **The Bureaucratic Tradition and the Administrative State in Hong Kong**

Immediately, having set out this simple model, one must enter the caveat that, in the case of Hong Kong, the categories of 'political executive' and 'bureaucrat' are unlike those applicable in most places. Political parties or electoral politics are both peripheral in the process of recruitment to the political executive. Electoral politics did not come to Hong Kong until the mid-1980s, when a small number of legislators were for the first time indirectly elected. Direct elections (for 18 of the 60 seats) were first held in 1991. The chief executive (Governor pre-1997 and Chief Executive post-1997) is neither directly elected, nor accountable in the normal way to the legislature. The Chief Executive has sweeping powers of legislative initiative and veto, while there are severe formal constraints on the legislature's powers (Ma, 2002: 351–352). In addition, the Chief Executive has wide powers of appointment of nearly all public officials. The Executive Council has been used a consultative body by the Governor and Chief Executive through his appointment of leading business and professional figures, alongside some legislators (before 1992 and since 1997) and senior public officials.

While the system is thus clearly 'executive led', only recently has a clearly defined 'political executive' been formed, distinct from the permanent civil service elite.

Hong Kong has been labelled an 'administrative state' (Harris, 1988: 70) and a 'bureaucratic polity' (Lau, 1982: 25). This inheritance remains powerful despite political changes. The civil service has traditionally been held in high regard by the Hong Kong public (Scott, 2000). Beijing, both before and after the handover, saw the civil service as a source of stability and a counter-weight to democratizing tendencies. A key condition in the agreements about handover in 1997 was the continuity

of the traditional civil service system. Post-handover, Chief Executive Tung Chee-hwa has had little option but to rely on the civil service. Any thought of using the appointed Executive Council as a quasi-ministerial body was contradicted by the resistance of the civil service elite (Scott 2000: 36-7). Tung Chee-hwa brought in a small number of non-civil servants to top positions after 1997, and in July 2002 set up a so-called 'ministerial system', appointing a triumvirate of Chief Secretaries and 11 Secretaries, or Directors of Bureaus, to sit as 'Principal Officials' above the departmental system of the civil service. In this new so-called 'accountability system', this group also effectively comprised the Chief Executive's 'cabinet', answerable politically to the media and the legislature for the administration's policies. Seven of the fourteen resigned from their civil service posts to take up the new appointments, and Tung Chee-hwa expressed his 'delight' that he could 'retain and build on the experience, professionalism and expertise of senior civil service colleagues'. The remaining seven were variously from business and professional backgrounds.

Thus, in considering the roles of bureaucrats and the political executive respectively in affecting the demand for and supply of administrative reform, we must take account of the changing nature of these roles since 1997. For most of the period under review, the pattern of relationships was stable and weighted heavily towards bureaucratic dominance. Since 1997, the change has been introduced with the potential to shift power significantly to the political executive, but this change has been quite cautious, particularly with a view not to offend the interests or sensibilities of the bureaucratic elite (although this goal has not been achieved). This framework of stability and caution towards basic institutional arrangements is underpinned by Beijing's primary concern to maintain the legitimacy of existing institutions, among which the continuing role of an independent, permanent civil service is vital as one means of reassuring the local populace.

As a British colonial institution, Hong Kong's civil service instituted a class system in which a generalist, administrative elite was especially recruited for its intellectual skills, and nurtured in the crafts of both policy and administration. The policy roles of the administrative elite were institutionalised in a set of changes brought in following a 1973 report by management consultants McKinsey & Company. This coincided with an expansionary period in the Hong Kong Government's development, including the adoption of an increasing array of social programs (in response, in part, to the 1967 riots [Scott, 1989a]). The old Colonial Secretariat was restructured by the appointment of a new level of 'Secretaries' beneath the Chief Secretary and Financial Secretary to head the old 'branches' and take charge of policy and administration in the departments. The change was accompanied by specific delegation of responsibilities and functions. The gap left by the absence of a 'cabinet' of any sort was filled no longer by a small handful of Governor's advisers but by a larger group of civil servant heads of functional policy bureaux. These bureau heads 'were expected to behave increasingly as quasi-ministers' (Cheung, 2000: 189). The administrative elite had by now developed a strong, paternalistic sense of its special role as the permanent, neutral guardian of the Hong Kong public interest. Anson Chan, as Chief Secretary for Administration, continued to project

this mission after the handover:

We must reiterate the underlying purpose and values of the civil service... (C)ivil servants must balance the interests of the broader community, those in need, the employed, the unemployed and our business community. The civil service must therefore retain its integrity. Its advice must be impartial and apolitical... The civil service provides a force for fairness in dealing with interest groups. It provides a long-term perspective on the shorter-term preoccupations of politicians and the media (Chan, 2000: 5)

This sense of trusteeship was reinforced and encouraged by both Beijing and the British Government. In period leading up to 1997, the public viewed the commitments to continuity embodied in these attitudes as a reassuring sign, faced with the uncertainty of the handover.

The traditional administrative culture of the Hong Kong civil service is bureaucratic and hierarchical — a mixture of Confucian cultural traits, adoption of Weberian bureaucratic forms of organization and the results of administrative insulation from social or political forces. Middle managers and lower level officials were trained in the routines of operational efficiency, and a strong sense of discipline was inculcated (Huque, Lee & Cheung, 1998: 25). Top-down solutions came naturally. Ian Scott, writing in the 1980 s, argued that 'if problems do arise, the first assumption is that there is a need for structural reform to improve the span of control or refine the hierarchy' (Scott, 1989 b: 195). Efficiency and frugality were also part of the prevailing climate of administrative policy, operationalised largely through strict input controls by a powerful Finance Branch and centralised personnel management in the Civil Service Branch. The scope and reach of government in Hong Kong remain relatively small (with expenditure historically beneath 20% of GDP), but in particular sectors (such as housing) the role of government grew rapidly over a relatively short time, and entailed the development of high levels of administrative capacity. The civil service's reputation for efficiency rests in large part on its successes in such areas of specialised service provision. Cooperation with the private sector in the provision of some services was a growing trend in the 1980 s, particularly with the rapid expansion of infrastructure. Various forms of partnership with major construction companies enabled high levels of private sector involvement in large projects.

### **The Demand for Reform**

In 1989, the Finance Branch launched a 'Public Sector Reform' programme, which heralded a new departure for Hong Kong's public administration through promoting a managerialist reform strategy. It was an internal document produced by senior Branch staff (among whom seconded UK Treasury civil servants were prime movers [Common, 2001: 147]), assisted by consultants Coopers and Lybrand.

External demands for reform at the time were relatively weak and diffuse,

rather than immediately pressing. Hong Kong was experiencing neither a fiscal crisis nor an economic recession. In addition, there was no significant public pressure. Political attention was focused elsewhere — in particular, on the state of Sino-British relations (Lee, 2001). A Public Sector Reform Policy Group, chaired by the Chief Secretary, and including some private sector representatives, was set up to give guidance (such a body continues in existence as the Public Services Policy Group (Sankey, 2001). Impetus grew with the appointment of Governor Patten in 1992, who brought with him an enthusiasm for reform measures then current in the UK, and introduced a version of the Citizen's Charter under the heading of 'Performance Pledges'. In the same year, an Efficiency Unit was set up and a small number of Trading Funds were established, representing a form of quasi-commercialisation of some government services.

Not until after the handover were there any further major initiatives, and most of these were in response to economic recession. The Chief Executive's first policy speech foreshadowed growing use of outsourcing and a program of privatization, with the Mass Transit Authority being singled out. In 1998, the Chief Executive announced the 'Enhancement Productivity Program' (EEP). This measure was a direct response to a growing fiscal crisis, and sought to reduce government outlays through a series of efficiency measures — cuts of 5% in departmental budgets over three years. For the first time, in 1999–2000, public sector expenditure exceeded 20% of GDP. An initiative was launched in 1998 to introduce a 'management by results' approach, under the label of 'Target-based Management' (TMP). In addition, major reviews were launched of education, healthcare and the social security systems. A report on housing advocated a shift in role from provider to purchaser, with management of public housing states being contracted out. Civil service unions protested strongly with large demonstrations (Lee, 2001). In March 1999, a consultative document was produced on civil service reform, proposing a series of measures to reduce costs and increase flexibility in employment practices. The most significant measure was to introduce fixed term agreements (contracts) for new base grade recruits. Civil service pay cuts were implemented in 2002.

In sum, the demand for reform has increased dramatically since 1997. The accession of the post-handover political executive has been one factor behind this surge of reform activity. The Chief Executive and the Financial Secretary have business backgrounds, and have a leaning towards managerialist solutions. The political executive has listened sympathetically to growing demands from business that there be cost savings in the public sector, and some of their actions have encouraged a growing climate of 'public service bashing'. An Audit Commission Report highlighted cases of shirking and slackness by lower level staff (Burns, 2002: 271).

But while the new political executive's ideological predilection for such measures is one factor, the pressure to push ahead with them has come from the economic recession and an accompanying looming fiscal crisis. Budget deficits have reached unprecedented levels — in excess of HK\$60 billion in 2002–3, leading to a downgrading in Hong Kong's Standard and Poor's credit rating. Political constraints severely restrict the options of the government, as every proposed measure to widen

the very narrow tax base is fiercely resisted by community and business groups as well as by the Legislative Council. Expenditure restraint is thus the preferred option, and within that, administrative costs are the first target.

Serious, external political demand for public sector reform is thus a recent phenomenon. Moreover, it comes from a powerful source — the business community — and seems increasingly to be backed by popular sentiment. It is coupled with another new departure — the existence of a newly constituted political executive seeking to assert policy control, and holding a view of the public sector that predisposes its members to question conventional shibboleths. This contrasts sharply with the past patterns of demand, as described by the head of the Efficiency Unit:

For the most part, past reforms have been driven by internal, rather than external, pressures for the civil service to develop a more customer and performance orientated culture. The process of change has been evolutionary rather than revolutionary which was probably the right strategy for the period of uncertainty leading up to the transition. But what we are now seeing is an escalation of public sector reform onto the political agenda, raising challenges to both the pace and content of the government's reform programme (Sankey, 2001: 4)

The continuity between incremental improvements attempted in the 1980 s, such as 'Value for Money Studies', 'Top Down Reviews' and 'Attack the Baseline' exercises, and the proposals in the 1989 Public Sector Reform paper, have been noted by the Head of the Efficiency Unit (Sankey, 1995). Anthony Cheung has described a pattern of 'bureaucratic reformism' in the 1980 s and beyond, a label he gives to a set of proposed changes that were concerned with control, as well as improvement within an efficiency paradigm. He argues that the core philosophy of the 1989 proposals, involving some decentralisation of financial control and accountability, but also an increase in central strategic policy capacity, was part of a strategy set in train earlier to deal with the incomplete and unsatisfactory nature of the McKinsey reforms that set up the policy secretaries (Cheung, 1996 a: 42–43). These reforms had created a 'Yes-secretary' problem, in that department heads remained accountable for most financial and operational matters. Finance was proposing to delegate functions in part to strengthen the role of policy secretaries (the Report also included a discussion of a restructuring of the relationships between policy secretaries and department heads with the same end in mind). Moreover, this delegation of financial accountability would ease the growing accountability demands on the Finance Branch stemming from the increasingly assertive legislature. Cheung (1996 a: 44) thus argues that the 1998 reforms are best viewed as 'an intra-bureaucratic strategy to solve the institutional problems faced by the administrative elite'.

This interpretation places the reform agenda firmly within its context of bureaucratic politics. Going further with such a political analysis, we see that the rhetorical content of that agenda from 1989 to the present has been consistently managerialist, but political dimensions of reform have run counter to producing managerialist outcomes. This is best seen from an analysis of the 'supply side'.

## Reform in Practice: the Supply Side

As stated earlier, the assumption is that the bureaucracy will seek to assert control over the reform agenda and its implementation. The manner in which this control was exercised holds the key to understanding the supply of reform, at least until 1998. Within the bureaucracy, control was contested among different groups, including civil service unions and particular agencies, as well as those charged with managing the process in the Efficiency Unit and the Public Sector Reform Policy Group.

The 1989 Public Sector Reform (PSR) document provided a broad-brush blueprint for subsequent developments and initiatives. Seven principles were enunciated:

1. regular, systematic review of public expenditure
2. a system of policy and resource management to enable systematic evaluation of effectiveness and efficiency
3. clear definition of responsibility for policy, implementation and resources at all levels
4. full managerial accountability for expenditure incurred in achieving policy objectives
5. organizational and management frameworks that are tailored to be appropriate to the nature of each service
6. those responsible for policy should also ensure that effective relationships with executive agencies are maintained
7. civil servants should become better managers

Parts of the recommendations were taken forward more rapidly than others, and the form in which they emerged is revealing. Common (2001: 140) asserts that 'PSR quickly ground to a halt when McLeod was appointed Secretary to the Treasury in 1989'. This may be an exaggeration, but it is clear that the approach to implementation was cautious, with little sense of urgency. Among specific proposals, several seem to fall by the wayside. For example, the suggestions for fiscal decentralisation and loosening of controls were not followed through with any great vigour. A 1995 Finance Branch document again recommended the delegation of financial management to policy branches and departments (Common, 2001: 141). Similarly, proposals for delegation of aspects of staffing decisions from the Civil Service Branch were still being acted on in the second half of the 1990 s. Decentralization only went so far, in any case. For example, in 2002, the Task Force on Civil Service Pay Policy proposed that to 'allow departments greater freedom to manage pay arrangements to suit their needs' was the 'ultimate objective' but that this was 'in the long term' (Task Force on Review of Civil Service Pay Policy and System, 2002: vi).<sup>2</sup>

A number of pilot projects were initiated in the early 1990 s, such as a review of the relations between the policy secretary and departments in the education portfo-

lio and the feasibility of converting the vehicle maintenance service into a trading fund operation (Tsang, 1995). The Trading Funds Ordinance of 1993 was one of the most significant concrete outcomes of the reform process. By 1996, six organisations had been converted to Trading Funds, although one reverted to its previous status in 1998 (Huque & al., 1999). The remaining five are the Post Office, Companies Registry, Land Registry, Office of the Telecommunications Authority and Electrical and Mechanical Services Department (EMSD). Each is supposed to operate on a cost recovery basis and draw up a separate set of accounts (using accrual accounting principles). No significant changes occurred to their monopoly status as providers.

In terms of relations with government, the general manager has a greater degree of autonomy than a normal head of a vote-funded agency. Trading funds are required to meet a quantified rate of return on capital invested and operate within a 'framework agreement' that includes pricing and performance targets. Trading funds continue to be staffed by civil servants (other than non-civil service casual employees employed under the same terms as across the public sector as a whole), they do not have autonomy to set their own prices and, while they may be allowed to retain trading surpluses, this is at the discretion of the Financial Secretary. Decisions on investment of retained surpluses have to be approved by the Financial Secretary. Just before the creation of EMSD, large numbers of contract staff were granted 'permanent and pensionable' status, and the proportion of staff enjoying such status in the organisation continued to rise after their creation (Burns, 2002: 277-278). In sum, the Trading Funds were set firmly within the boundaries of the traditions of civil service employment and top-down public sector control and accountability, with relatively small additions to their operational autonomy (few of which were of the kind that could not, in principle, be implemented within the conventional departmental system). Statistics show the improved performance of Trading Funds (Sankey, 2001: 26-7), but provide no evidence of the contributory factors, nor any comparisons.

Governor Patten's emphasis on customer service as a reform focus after 1992 had the attraction of supplementing his pre-handover democratization project in a manner that was less threatening or controversial than electoral or similar institutional reform. Pragmatically, the project was likely to be popular, and hence to contribute to legitimacy in the pre-handover climate. The Efficiency Unit, set up in 1992, spent much of its effort in introducing the 'customer service program', in which the primary component was the introduction across the board of 'performance pledges'.<sup>3</sup> Thus, the programme was driven from the centre in a manner that was not typical of other reform proposals foreshadowed in 1989. Anthony Cheung describes the top-down and opaque manner in which the process of formulating performance pledges was undertaken (Cheung, 1996 b). By 1995, all 50 departments that provided services direct to the public had published their pledges. Customer service managers and customer liaison groups were set up. However, in comparison with the UK Citizen's Charter, there was no compensation scheme for broken pledges to customers, no sanctions on departments and no linked performance-related pay initiative (Common, 2001: 148).

One common feature of the context of many of the measures mentioned above was the response of civil service rank and file, represented by civil service trade unions. There is a high level of unionisation in the civil service. In 1998, there were more than 200 staff associations or unions and about 70% of civil servants were members (Burns, 2002: 268). Civil service unions were hostile to the Trading Funds initiative and have been vigilant in preserving civil service terms and conditions in departmental hiring policy. Additional concerns have been voiced over contracting out and downsizing. The political significance of the civil service unions resides not so much in their industrial militancy or any power to disrupt government services, as in their function as a barometer of the success of government efforts to maintain political consent. The support of its own employees is significant because signs of widespread dissatisfaction from within the ranks of the regime hinder its efforts to project an image of stability and consensual government, and fuel oppositional forces in the legislature and the media. At the least, there is continual pressure on the government to make concessions to dampen opposition in the ranks, providing civil service unions with considerable indirect as well as direct influence over the pace and direction of reform. In the post-handover climate of growing demand for reform, this is still a constraint on its supply.

It is too early to make a balanced assessment of the manner in which the Hong Kong bureaucracy is responding to the heightened demand for reform since 1998. Few aspects of the program of accelerated reform represent entirely new departures, rather the significance of the new climate of reform lies in the urgency with which the political executive is expressing its demand. The pace of adoption by departments of efficiency measures such as outsourcing has clearly accelerated under the pressure of fiscal scarcity. Mark Hayllar argues that 'between 1989 and 2001, outsourcing increased steadily', but that 'a more concentrated effort to outsource a much wider range of new and existing services' began after 1997 (Hayllar, 2002: 12-15). He attributes this in part to the easing of the pre-handover pressure that favoured stability and in part to the effects of the recession — 'the need to achieve significant savings without being seen to be cutting back on public services. ...' In addition, he argues that the ideological climate has changed, such that outsourcing is the 'cure-all', the first option when it comes to organising services and not just one among others, selected according to suitability and circumstances. This change in ideological climate has been driven in large part by the political executive, and given strong expression by political secretaries in a series of policy initiatives (for example, the IT Strategy announced in 1998).

With the announcement of EEP and TMP in 1998, the political executive launched a new set of instruments for driving top-down efficiency and effectiveness reforms. Head of the Efficiency Unit Colin Sankey (2001) describes how the Treasury Department, assisted by his Unit, was given responsibility for implementing the 'management by results' package. His account of the objectives echoes all the themes first outlined in the 1989 Paper.<sup>4</sup> The government's programs are articulated in terms of a 'top-down hierarchy' from Policy Objectives (POs), through Key Results Areas (KRAs) down to Initiatives and Activities. Targets and measures exist

at each level. The TMP is primarily an information system, but there are also ambitions to use it to focus on the clarification of relationships and accountabilities within the hierarchy of policy making and management — for example, Policy Secretaries 'define the outputs needed, commission these from Departments, define how success will be judged ... and report progress to the Chief Executive, Star Chamber and Policy Groups' (Sankey, 2001: 15). Managing 'across government' is also one of the objectives. In summation:

'It is early days yet to measure success or otherwise. Bedding in such a management system takes time because of the need to influence the way people have always worked. But there are some early signs of success and that the system is being used proactively ...' (Sankey, 2001: 16)

The package of measures under the EEP Programme demonstrates a greater sense of urgency. Whether or not the short-term economy and efficiency measures are part of a wider administrative reform package with lasting effects will also, however, await future observation. Short term measures taken by agencies and departments to meet the savings targets include savings on the salary bill (for example by restricting overtime) and greater use of contracting out. Fundamental reviews of particular programs are also undertaken periodically. We must await 'Phase Two' for a range of systemic level changes 'to shift the resource management culture so that managers continually review their use of resources ...' (Sankey, 2001: 17).

Civil Service Reform is an area where there has been not only articulation of objectives but also evidence of implementation progress since 1998. The Civil Service Bureau published its Consultation Document on Civil Service Reform in March (Civil Service Bureau, 1999). Steps have been taken to implement each of its major proposals. First, steps have been taken to increase the flexibility of the managers to manage staffing within the context of a permanent career service. At base grades, initial hiring is now undertaken on 'agreement terms' that is, on three year contracts. A second three year contract may be offered, and only then is permanency considered. In addition, departments have been encouraged to hire more contract, non-civil service staff. Furthermore, departments have been given greater flexibility to consider whether or not to recruit to higher ranks from within the pool of inside candidates, or to look more widely, including outside the service. A small number of positions were advertised in this way in 2001 (Burns, 2002: 283). Second, measures have been taken to make separation from the service less difficult by replacing the pension scheme with a portable provident fund for new employees. Third, a voluntary retirement scheme was put in place, resulting in about 10,000 separations, to deal with a 'staff surplus' problem. Fourth, a compulsory retirement scheme was introduced for directorate level officers where it was considered on efficiency grounds that this would 'facilitate improvement in the government organization', also allowing for 'an injection of new blood by creating space at the directorate ranks' (Civil Service Bureau, 2002: Annex A, 3). Ten directorate members were

retired under the scheme up to March 2002 (Civil Service Bureau, 2002: 4).<sup>5</sup> Fifth, starting salaries were cut in 2000, fringe benefits were revised and an across the board civil service pay cut was implemented in 2002. Sixth, 'as a first step' towards performance-based rewards, heads of department were 'encouraged to adopt performance management tools'. Six departments were selected to pilot a 'team based performance rewards' scheme. Seventh, disciplinary procedures were 'streamlined' (in effect, re-centralised after a period during which heads of department had taken responsibility). Eighth, in order to move towards performance management, from October 2000 new guidelines reinforcing existing regulations came into existence to try to tighten up on the award of increments. Finally, a set of measures to upgrade training in performance management techniques was introduced. Civil service unions protested strongly against many of these measures, and managed to win a concession to delay the introduction of three-year fixed term contracts for new recruits into the disciplined services.

A fundamental constraint on some aspects of civil service reform is the Basic Law setting up the Hong Kong SAR upon handover from Britain. Article 100 stipulates that public servants after the handover 'retain their seniority with pay, allowances benefits and conditions no less favourable than before'. A government intent on wholesale restructuring of the permanent civil service — for example, replacing permanency with contract employment — would have great difficulty getting around this obstacle, at least for civil servants employed before the handover. But the protection it affords is as much symbolic as real. It symbolises the entrenched power and security of the civil service in the Hong Kong political system and hence the political weakness of the government faced with any opposition to changes to existing conditions of employment. The provision affords a government that might otherwise be criticised by the business community for its timidity a welcome excuse not to take the political risk.

To sum up, in the period between 1989 and 1998, administrative reform in Hong Kong followed customary patterns, under which measures for improvement systematically disrupted few, if any, established patterns of authority or status relationships. Reform was, however, the opportunity for bureaucratic politics to readjust such relationships in the light of changing circumstances, such as stresses arising from growth in the span of control due to expansion of services, and strains emerging from past reforms (for example the establishment of policy secretariats). Since the handover and the advent of the recession, the pressure to increase the supply of administrative reform has heightened. Against the backdrop of gradualism that has characterised the process in the past, the changes brought in by the new political executive show a greater sense of urgency and a propensity to experiment across a wide range of options, including some that run counter to deeply entrenched traditions. The potential for radical reform that the managerialist agenda embodies is nearer to being realised. At the same time, the scope and impact of the changes is relatively modest and the pace is measured and cautious. The focus on short-term economy measures through the EEP calls on the swift mobilisation of existing bureaucratic resources in the hierarchical departmental system, resources that might

be dissipated in a more comprehensive reform effort. Major structural reform seems to be in the realm of 'Phase 2'.

### **Bureaucrats, the Political Executive and the Supply of Administrative Reform**

In the administrative reform game, outcomes are shaped by the relative power of the bureaucracy and the political executive and their capacity to cooperate in both managing demand and providing for the appropriate supply of administrative reform. In the period leading up to the handover in Hong Kong in 1997, the political executive made modest demands for administrative reform and the civil service elite provided an appropriate set of initiatives and outcomes. Internal jockeying over the pace of managerialist reform was evident, but the advocates of such reform were not able to generate sufficient momentum to move beyond normal patterns of incremental change to traditional bureaucratic forms and structures. In fact, there was not strong demand for sweeping managerialist reforms. The pre-handover political climate was a critical factor in constraining and shaping demand — stability and maintenance of bureaucratic legitimacy were paramount. This gave the bureaucracy the whip hand in determining the pace and direction of reform. Patten's customer service focus was an appropriate combination of managerialist rhetoric and political strategy, calling for no more than incremental improvement, upon which the civil service elite and the political executive could agree to cooperate.

Following 1997, the situation on the demand side changed significantly as a result of two new factors: first the recession, accompanied by a growing fiscal crisis, and second a new configuration of relationships between the political executive and the bureaucracy. The latter also affected the supply side, for the firmer and more focused set of demands for administrative reform was converted by the political leadership into a set of programs to which the bureaucracy had to respond. However, the constraints on a swift response on the supply side were considerable, arising from a combination of factors. First, sensitivity to the maintenance of stability remained a political consideration, and administrative turmoil or upheaval was to be avoided for this reason. There were a number of sources of opposition within the civil service to many of the changes that arose from the new climate of demands, in particular down-sizing, personnel policy reforms and programs of restructuring that threatened job security. Economic uncertainty heightened these sentiments. The legitimacy of the new political executive remained a live issue, with strong support for direct election. Recession produced disillusionment and a rapid decline in the popularity of the Chief Executive. Hence, the climate counselled caution, which continued to constrain the scope and pace of change within the public sector.

If we view administrative reform as a process of conflict and cooperation between bureaucrats and the political executive, and assume moreover that the primary channel for demand is through the political executive, we can depict the resulting possibilities as in Figure 1. Demand is either high or low (that is, political executives are either enthusiastic or indifferent) and the bureaucracy is either reluc-

**Figure 1** Administrative Reform in Reluctant and Compliant Bureaucracies

	High reform demand	Low reform demand
Reluctant Bureaucracy	1 Gridlock / Negotiated Reform	2 Status quo / Incremental Adaptation
Compliant Bureaucracy	3 Mandated Reform	4 Status quo / Continuous Self-Improvement

tant or compliant. The result is four types of outcome (or patterns of supply):

1. negotiated reform (or gridlock) — where there is high demand and a reluctant bureaucracy; the reform program has to be negotiated, failing which the result is an uneasy status quo
2. incremental reform (or the status quo) — where the bureaucracy and the political executive agree on the lack of urgency for reform; incremental adaptation serves to maintain satisfactory levels of performance
3. mandated reform — where there is high demand for reform and the bureaucracy is compliant; sweeping reform is imposed on the political executive's terms
4. continuous self-improvement — where there is low demand and the bureaucracy is compliant; in anticipation of the possibility of mandated reform, the bureaucracy cooperates with the political executive in supplying a continuous stream of administrative improvement

From the account given above, on this grid Hong Kong has moved in the 1990s from box (2) to box (1) — from incremental change on the bureaucracy's terms in line with a modest set of demands, to a mix of negotiated reforms and gridlock in the presence of a higher level of demand. Two things about the current reform process in Hong Kong create the potential for gridlock: first, the inherent power and status of the bureaucracy and second, the content and nature of the reform agenda. One of the determinants of the first is the relative weakness of the political executive. We discuss this below. The second factor — the content and nature of the reform agenda — is significant in the light of its managerialist character. The 'anti-bureaucratic' character of much of this agenda is a threat to many position holders in the Hong Kong civil service. We have already identified the opposition to many proposals by civil service unions in the name of the rank and file, but some managers in addition are threatened by parts of the agenda. Others will see opportunities and be less resistant (as 'bureau-shaping' theories argue) — for example in meeting centrally imposed efficiency targets, contracting out and more flexible hiring re-

gimes can result in increased managerial flexibility and power. But many aspects of the managerialist agenda face the inertia of the dominant bureaucratic culture, from the top down. The rhetoric of managerialism was attractive for the sake of legitimation (Cheung, 1996 a) but the supply of a continuous stream of substantive changes in line with the rhetoric was not evident. In explaining this we might point to two aspects of Hong Kong's administrative traditions — centralization and uniformity — which place particular obstacles in the way of managerialist reforms in Hong Kong. Highly centralized and rule-bound systems of personnel and financial management remain prevalent, for example, despite calls for more managerial autonomy and flexibility, accompanied by different sorts of central controls (via *post hoc* monitoring of performance).

This interpretation of the pace and content of administrative reform in Hong Kong is consistent with the argument put by Christoph Knill on the different 'reform capacities' of 'autonomous' and 'instrumental' bureaucracies (I have used the terms 'reluctant' and 'compliant') (Knill, 1999). Autonomous bureaucracies face relatively weak political executives, in part because the administrative system is entrenched by its own independent legal or constitutional provisions (and also because there may be other constitutional constraints on the political executive's power), and the bureaucracy has a strong and continuous role in policy formulation and implementation processes. Knill's archetypical case of an autonomous bureaucratic system is Germany, and a strong case can be made for including Hong Kong in that category as well because, despite its Westminster inheritance, the special role of the civil service in both policy and administration has become strongly institutionalised. In an instrumental system, such as the UK, political executives are strong and there is a tradition of bureaucratic subservience, while administrative norms and structures are the subject of executive discretion rather than fixed by law or the constitution. As to administrative reform capacities, in the autonomous system, there is high potential for resistance to external demands for change. In the second, patterns of control exist that enable political executives demanding change to bring about substantial transformations of existing administrative arrangements. Knill uses this distinction to help explain the success of comprehensive NPM reforms in Anglo-Saxon countries, and the lower level of acceptance in Germany.

A similar set of distinctions is echoed in Christopher Hood's analysis of different types of 'public service bargain' between administrators and political executives (Hood, 2000). These bargains may be embedded in constitutional structures, or in more 'downstream', less rigid institutional arrangements. Examples include the 'Hegelian' or 'Confucian bargain', which identifies a 'trustee' role for the bureaucracy along with a degree of legal autonomy and high status for the public servant. Again, Hong Kong's bureaucracy seems to fit this category. The principal alternative is the 'agency' type bargain, exemplified by the Westminster model of a permanent, professional civil service subservient and loyal to the government of the day. Trustee and agency bargains correspond roughly to autonomous and instrumental bureaucracies. Like Knill, Hood argues that 'agency' bureaucracies are more likely to adopt NPM reforms, with their stress on transparent principal-agent controls over per-

formance, while autonomous bureaucracies will resist them in preference for internalised, more diffuse systems of control such as peer review.

However, before consigning Hong Kong to permanent 'gridlock' (an autonomous, 'trustee' bureaucracy successfully resisting high levels of demand for managerialist reform from a weak political executive) it should be noted that the categories of 'instrumental' and 'autonomous' bureaucracies are not necessarily fixed attributes of a political system. In Hong Kong, since 1997 there are the beginnings of a constitutional shift in the nature of relations between the political executive and the bureaucracy. The 'politicization' of the positions of principal official in Tung Chee-hwa's accountability system has served to draw a clearer distinction between the political and administrative executives, and to set the conditions for the assertion of control by the former over the latter. This political transformation has met with resistance in the higher levels of the civil service for fear that it would undermine the principles of neutrality and permanency, and because it signalled a real threat to civil service power. As with any political executive facing a permanent bureaucracy, however, the former's capacity for control depends in large measure on the leadership, management and political skills of members of the political executive, and on the manner in which the collective decision making process is supported and organized. These aspects will unfold with time. If the new arrangements create a more coherent, determined and powerful political executive, then (assuming that demand for administrative reform remains high) the future trajectory for Hong Kong in Figure 1 may be to move towards box (3) (mandated reform). To return to Michael Barzelay's summation of the conditions under which NPM reforms have been implemented, further progress with a managerialist reform agenda could also depend on the 'unification' of that agenda into a continuous stream of supply that encompasses money, procedures and personnel, through the concerted strategic direction of a cooperative and determined set of central agencies within the bureaucracy itself — that is, a system of continuous self-improvement (box (4) in Figure 1).

#### Notes

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- 1 This model is a heuristic device to simplify the organization of the evidence into a simple narrative. We return in the conclusion to explore a more rounded, contextual set of explanations of the patterns that this account reveals.
- 2 See below on civil service reform.
- 3 Sankey (2001) depicts Trading Funds as a component of this program, rather than as an initiative of significance for any wider program of concerted, NPM style public sector restructuring.
- 4 The Paper can still be downloaded from the Efficiency Unit website.
- 5 Compensation for the compulsory retirement is generous. In addition to full pension rights, the 10 directorate officers between them received HK\$7.9m in ex-gratia payments and HK\$11.4m in enhanced lump sum pension gratuity.

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