

REGULATING CORPORATE PERFORMANCE AND THE MANAGERIALIZATION OF LOCAL POLITICS

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ABSTRACT

The modernization of local government in unitary constitutions such as the UK has involved a complex mixture of managerialism and public engagement agendas. The post-1997 reforms have moved on from focusing on the delivery of individual local services such as education and social services, and, through comprehensive performance assessment, are now aimed at the transformation of local government itself. Since such policies appear to challenge the classic dichotomy between politics and administration, the paper applies Luhmann's theory of autopoietic systems in order to analyze the relationship between these systems. The theory and policies are explored through a comparison between two large UK local authorities. The fieldwork suggests that nationally determined indicators and somewhat Weberian models of planning and control are prominent features New Labour modernization. Yet there are significant differences between the two authorities. In spite of the regulatory pressure, the one authority's political system, sustained by a local media, longstanding municipal traditions and potentially explosive political conflicts, remained vigorous. The other authority, in contrast, was less able to resist managerialization.

INTRODUCTION

The term the *New Public Management* (NPM) (Hood, 1995), has been used to describe the introduction of a variety of new practices and discourses in public sectors across the world in recent decades (Olson, *et al*, 1998). Essentially based on a 'generic model of management with a neo-Taylorian character' (Pollitt, 1993, 27), the NPM is sometimes seen as challenging *bureaucracy* (Osborne and Plastrik, 1997) and sometimes *government*, which may include both public administration *and* politics (Rhodes, 1997).¹ More recent policies of governmental *modernization*² have been characterized by new regulatory approaches to *both* managerial *and* political structures. The policies aimed at reviving local democracy are arguably influenced by "Third Way" thinking (Giddens, 1998; 2001; Callinicos, 2001) and respond to a perception of crisis whereby the future survival of local government has been called into existence (Stoker, 2003).

A sense of crisis in local government certainly came over in many of the interviews for the fieldwork in this paper. For example, the deputy leader of the controlling Conservative group³ in Southshire⁴ expressed it as follows:

We need to rise to the challenge of being community leaders and really get to the heart of local government. It's not about the whole series of services.... It's not just a collection of service providers. Anybody could run a care service or a library. You could outsource the whole lot. We're different because of the fundamental democratic structure, which is worth fighting for. ...Brand is hugely important. People are turned off by party politics (especially us). It just isn't interesting.

In contrast to this managerialist proposal that local government can save itself through brand-building, the Deputy Head of Education in the same authority put over a more traditional view on the demise of local democracy:

... unless you give councils real powers, people will say why vote in the local election? It's the government ... I joined Southshire in 1988/9 we could raise all our taxes by the rates. They changed it straight away. We had the business rate ... we had enough money in a good budget year. Unless you give people real powers you'll never get local democracy ... not in my lifetime. We live in a unified media world. Every time an elderly person is on a trolley for more than 24 hours, a minister has to be accountable ... ministers then create the powers for themselves to intervene ... I can't think what they can't now intervene in.

These two views represent quite different attitudes on the relationship between management and politics. The first view implies that better management can help to restore legitimacy and support for local democracy. The second view suggests that political problems of popular disengagement require political, not managerial solutions. In the UK, at least, modernization policies seem to favor a managerialist panacea as regulators have moved on from focusing on the delivery of individual local services such as education and social services, and are now aimed at the transformation of local government itself. In the recently introduced Corporate Performance Assessment (CPA), the values of performance management are now being applied not to just to the technical delivery of services but to the corporate heart of local government (Audit Commission, 2002). Such policies challenge the classic dichotomy between politics and administration and prompt an analysis of the relationship between these two spheres.

To analyze the impact of these new regulatory approaches, this article builds on the work of Brans and Rossbach (1997) and others (Jessop, 1990; Teubner, 1993; Vincent-Jones, 1999; Andersen, 2000) who have shown how Luhmann's theory of autopoietic systems⁵ can be applied to the role of management in political systems. Autopoiesis offers a productive way of evaluating the perceived problems both of unreformed local government *and* the modernization policies that have been introduced to address these problems. While parts of the modernization agenda could be evaluated in its own terms of effective and efficient service delivery, these values cannot deal with the political revival project. With this deficiency in mind, autopoiesis offers a broader theoretical framework that enables the possible tensions between the objectives of improving service delivery and other espoused aims such as preservation/nurturing of local political vigor. Just as the New Public Management (NPM) threatened to hollow out the civil service and reduce the capability of the central state (Rhodes, 1994), more recent public sector modernization (which if anything has reinforced the NPM agenda) threatens to further erode the capacity of local government as a political system.

A political system not only involves communications about power (Luhmann, 1982; Jessop, 1990) but also communications about conflict and disagreement. Thus the substitution of a managerialist system where the goals are based on consultation rather than real choice (Midwinter, 2001) is denying the possibility of disagreements and denigrates role of debate. A modernized managerialist system assumes that goals have been agreed and that the main problem is a technical matter of measuring and assessing goal attainment (Townley, 2001). Performance indicators are implicitly used as a substitute for political debate. Political goals such as targets to limit school exclusions can be expressed in numerical terms and can be specified in an educational management contract. But there is no debate as to why school exclusions take place in the first place.

The article presents further evidence from Southshire as well as empirical material from Eastmet⁶, a local authority that is subject to the same central regulatory pressures but which operates in a quite different geographical and cultural milieu. Crucially, the empirical material is interpreted through a theoretical framework in which systems do not coincide with people or even with formal organizational boundaries. The approach recognizes that actors in local government may have roles in both managerial and political systems. Furthermore, systems are not seen as designed but as self-reproducing. Indeed, efforts to impose design through regulation and inspection may damage a system's capacity to reproduce.

The article is structured as follows. After considering how autopoietic theory can be used to analyze the relationship between politics and management, the theory is applied for a critical evaluation of the local government modernization agenda. Then, the theoretical framework is applied to two large local authorities in England. The strengths and weaknesses of the new regulatory regime are discussed in the light of changing accountabilities, reporting regimes and, crucially, political reactions to regulatory pressures. Finally, autopoietic criteria are applied in order to assess the effects of new regulatory approaches on the vitality of the local polity.

LOCAL GOVERNMENT MODERNIZATION: AN AUTOPOIETIC PERSPECTIVE

By 1999 the typical local polity in the UK had already been subjected to decades of reform and, although not 'modernized' in the New Labour sense, was a world of policy networks and agencies of fairly recent origin (Rhodes, 1994; 1997). In a post-NPM⁷ context, a useful distinction may be made between local *government*, which is a democratically elected multi-purpose organization and local *governance* which is a set of processes 'associated with the blurring of boundaries between public and private sectors, the increasing interdependence of different organizations between one and another, and the increasing need for the government to be based not only upon authority and sanctions but also upon consensus and co-operation between a multiplicity of organizations' (Pratchett, 1999, 733). Although directed towards specific political entities such as local councils, the spirit of the post-1997 legislation was to modernize local *governance* rather than the more narrowly conceived local government (HMSO, 1999). Thus the roles of the council in the local polity are to champion of local democracy, co-ordinate public policy-making and provide local public services (Pratchett, 1999).

Yet what is the nature of the organizations that make up the local polity and how do they relate to each other? This article visualizes the local polity as a set of self-referential/autopoietic *communication systems*. According to Jessop, an autopoietic system 'defines its own boundaries relative to its environment, develops its own unifying operational code, implements its own programs, reproduces its own elements in a closed circuit, obeys its own laws of motion' (1990, 320). For example, local government service departments may start as consciously designed organizations but, over time, evolve their own rules and norms as a by-product of functional specialization and differentiation (Luhmann, 1995). While it seems plausible to visualize that units of local government service activities such as schools or refuse collection teams or even educational administrators may develop their own forms of self-organization and self-

referentiality, it may seem harder to see the local authority itself as an autopoietic system. Yet, if the local authority is to be an effective champion local democracy and co-ordinate local public policy then these roles themselves imply the development of self-referential political and specialized administrative systems.

Political and management systems

In autopoiesis, the essence of a system is the way it deals with complexity as it 'selectively transforms problems it finds in its environment into internal – 'systemic' – problems' (Brans and Rossbach, 1997, 422). Individuals such as local government officers and elected members may have roles in all three sub-systems but they are part of the systems' environments as social systems are distinct from 'the personal conditions of its members' (Brans and Rossbach, 1997, 421). Rejecting the traditional dichotomy between 'politics' and 'administration' (Wilson, 1987), autopoietic theory views politics as a social sub-system that integrates other sub-systems such as the 'economy', 'religion' and 'science'. Politics can only fulfill this integrating role if it has its own internal differentiation (for example, into 'politically relevant public', 'government', and 'party politics') that is distinct from the other sub-systems (Brans and Rossbach, 1997).

Conflict between political and administrative rationalities may arise if, as sometimes comes over in the modernization rhetoric and auditor judgements, the political power struggle *is* regarded as a sign of decadence rather a necessary basis for collective decisions in the absence of stable criteria for evaluating values. As Brans and Rossbach explain, '...the political power struggle is not a sign of decadence, but an organizational mechanism for the consideration (and selection) of particular values in relation to other values' (1997, 429). Another NPM/modernization fallacy is that consumer responsiveness becomes confused with political accountability. In this fallacy, the reformers fail to recognize the significance of power in that 'consumer has no powers to hold a government agency to account' (Rhodes, 1994, 101).

As political systems consist of communications about power (Jessop, 1990), they are also about articulating and resolving conflict. Thus a key distinction between an NPM system and a political system is that managerialist communications assume that goals have already been agreed. In contrast, communications in a political system would be expected to reflect the possibility of disagreement, controversy and conflict. Goals have to constantly negotiated and debated through political communications. Political systems that lose these conflictual characteristics become more managerialist in character.

The autopoietic characterization of politics is clearly consistent with conventional political analysis that predicts that democratic systems that do not reflect genuine conflict will begin to display negative symptoms such as voter apathy⁸ and/or direct action.

The problem of the local welfare state: the consequences of prolonged incoherence

Self-referential evolution anticipates that systems may become progressively detached from their original social purpose as a consequence of self-referential reproduction. In particular, defined by the characteristic of political inclusion and enabled by the power of law and money, the local welfare state generates the problem of a self-perpetuating

bureaucracy where the 'success of welfare state policies is measured in terms of the bureaucratic offices dealing with welfare issues' (Brans and Rossbach, 1997, 430).

Such self-perpetuating characteristics of local government are not confined to the UK. For example, stressing the plethora of laws, decrees, circulars and regulations that deluge local government, Mussari (1997) describes the Italian model of local government as bureaucratic-administrative rather than managerial. He argues that '(L)ocal governments have traditionally found the justification for their existence within themselves: embracing an illusion of "immortality," and engaging in a slow, but ascending process of disjunction from their social and economic contexts, becoming estranged from the administered community and evolving into "quasi-closed" systems' (Mussari, 1997, 187).

In the UK, a White paper on local government modernization has argued that 'public services can be organized too much around the structure of providers rather than users' (DETR⁹, 1998, 11). In particular, the budgeting system, which, in Luhmann's framework, may be seen as a manifestation of the medium of money, is input- rather than output-oriented. As a result, 'Ministers, departments and units have often been forced to devote much of their effort to maximizing their funding rather than considering what difference they can make in the form of actual results or outcomes' (DETR, 1998, 11).

In self-referential systems theory, a system's links with other systems is analyzed through different forms of coupling. The most radical form of system autonomy describes a situation of *blind structural coupling* in which systems have very little impact on each other's evolution (Jessop, 1990). Blind structural coupling may be illustrated by the ubiquitous tendencies towards incremental budgeting (Wildavsky, 1975). Incrementalism may be put in the category of deficient system linkage since with budget changes having only marginal impacts on the size of particular service areas, there is no inherent challenge to the *internal* organization of the service or even a requirement that they consider the impact of their decisions on other systems.

NPM and modernization: an autopoietic interpretation

The managerialist strand of modernization is embodied in the requirement that UK local councils now have a duty to provide "Best Value". Best value means that councils must 'deliver services to clear standards- covering both cost and quality - by the most effective, economic and efficient means available for local people' (DETR, 1998, ch.7, 1). The democratic aspect of local government reform is associated with 'increased engagement with local people' (Martin, 1998, 5). Local people were invited to choose new forms of democratic representation that may involve directly elected mayors, a cabinet style of governance without a mayor or, thirdly, a mayor who is elected by other councillors. The avowed aim of the new local constitutions is to replace informal systems of decision taking and move away from 'an opaque system with the real action off-stage' (DETR, 1999a, Ch. 1). The reformers' case was that the traditional committee system was neither accountable nor able to deliver on the more managerialist agenda of efficiency and effectiveness. According to the reformers, UK local government perpetuated a service-centered *status quo* with little communication either across service areas or with the local community.

If the earlier phases of post-1997 modernization followed a “twin track” approach that separated service delivery from democratic renewal, the latest policy¹⁰, comprehensive performance assessment (CPA), seems to be an attempt to combine the regulation and inspection procedures into a single regime with a single set of indicators. The CPA model extends the performance measurement and inspection regime from the service areas to the core functions of local government organization, whereby the corporate performance of the authority as a whole is given a ranking.

From an autopoietic perspective, a defining characteristic of the modernization project is that service areas apply less self-referential values or even, as is an explicit part of the Best Value policy, face the ultimate test of *fundamental review* which requires authorities to consider whether it should even be exercising a particular function. Perhaps the most dominant characteristic of NPM/modernization is the emphasis on targeting. Indeed, the binary code of the NPM could be viewed as 'on target/off target'. Overall, the NPM and more recent modernization policies may be seen as new types of regulation. Self-referential theory provides criteria for examining public policy as ‘it can reflect on the relationship between its regulatory instruments and the internal rationality of the regulatory field in question...’ (Brans and Rossbach, 1997, 433)

The danger of regulation is that the drive to integrate government will destroy the internal communication and core values of the various subsystems. In short, the regulation will breach structural coupling (Teubner, 1987; Broadbent and Laughlin, 1997). In the language of self-reference, regulation of this type breaches the structural coupling of systems by destroying their *autopoiesis* or their capacity to self-reproduce. Broadbent and Laughlin (1997) accept that the meaning of a loss of self-production may be difficult to define for social systems. Clues may be found in a system's language and norms. Thus if social autopoiesis stops when a system ceases to communicate with itself (Luhmann, 1986) then one way of recognizing the absence of internal communication is when a system can no longer describe its activities within its own terms or apply a distinctive binary code. For example, law is an autopoietic system as long it describes its activities in terms of its own legal/illegal binary (Deggau, 1988) rather than in terms of an alien language and norms based on economic efficiency.

Intuitive evocations of breaching structural coupling seem evident in the work of popular commentators such as Marr (2000). Citing Dickens famous schoolmaster, Thomas Gradgrind, Marr argues that, "(T)he danger of the audit culture is that it leaves too few other ways, too little room for inspiration" (2000, 28). Similarly, recent educational policy seems driven by responding to perceived employer needs rather than by a belief in education for its own sake. Indeed, from a self-referential perspective, some forms of *non-financial* performance measurement are actually more threatening than mere budget cuts because the PIs may clash with the internal norms of the frontline services. For example, a measure of student employability may be relevant from a wider public policy perspective but is not obviously a matter of core educational concern.

The response to the threat of breaching structural coupling may vary. In the context of education and health care sectors, Broadbent and Laughlin (1998) have focused on specialist work groups who provide leadership, reproduce core values of the organization and protect the wider work group from intrusion that interferes with the central work of teaching or treating the sick. Although calling these "absorbing groups",

Broadbent and Laughlin acknowledge that such groups may contribute to organizational colonization either through their inaction or even through adopting the regulators' values for themselves. Senior managers may identify their task not as absorption but as aligning the values of the organization with the values of external regulators *irrespective of how much the regulators goals may themselves vary through time*. In such cases, organizational self-reproduction may be observed through quite concrete phenomena such as patterns in appointment and promotion. Thus if, for example, academics who have successfully dealt with external inspection are promoted to become senior managers who, in turn, promote like-minded replacements, then the core values of the university are characterized by a strong commitment to meeting external regulatory demands. The downside of this model is that the organization does not have a set of autonomous values based on more fundamental commitment to research or education for its own sake. The organization may be said to be autopoietic in its ability to reproduce itself but "hollowed out" in terms of wider educational values.

Strategic structural coupling, regulation and responsive governance

The lack of accountability implicit in blind structural coupling and the dangers of breaching structural coupling mean that public regulators have to strike a balance between the extremes of tolerating blind structural coupling on the one hand and breaching structural coupling on the other. Calls have been made for *strategic* structural coupling (Jessop, 1990) or *responsive* regulation (Vincent-Jones, 1998). Jessop argues that '(R)egulation will work only where there is adequate understanding of the *Eigendynamik* of the system to be regulated so that measures taken will serve as system-modifying perturbations rather than provoke disintegration or prove irrelevant' (1990, 330).

The particular application of autopoietic theory to local government modernization suggests that there are three main traits to look out for: (1) values/defining differences/sources of identity (that is managerialistic values versus political values); (2) the reproduction of practices/routines; (3) the impact of regulation and relation between systems (structural coupling/blind structural coupling/breaching structural coupling). The essence of responsive regulation is based on a recognition of system differentiation and autonomy. Autonomous systems need not be totally unaccountable. Rather, responsive regulators, whether they are local government chief executives or central government ministers, should respect the core values of local systems and the limitations of their regulatory techniques.

The NPM agenda to make systems more accountable should be supplemented by the question: does the new regulation breach structural coupling? Is there a form of regulation that enhances accountability but preserves and draws on system self-organization? The operationalization of the theory involves detailed analysis of action plans and their associated performance indicators. Questions concerning whether the plans are likely to change behavior are accompanied by questions about whether they threaten core values. Policy initiatives that aim to improve system coordination ("joined-up government") are more likely to be congruent with responsive regulation than performance indicators that misrepresent a system's core activities.

LOCAL GOVERNMENT MODERNIZATION: EVIDENCE FROM EASTMET AND SOUTHSHIRE

Constitutional and organizational changes

The main services in provided by UK local government such as education, housing, and social services were until recently organized around specialist committees of elected members with their own staff of full time officials. The membership and leadership of these committees could be very stable and develop deep loyalties to their particular services. Even the most junior councillor had at least a nominal role in local government through participation in 'their' particular committees. In autopoietic terms, such structures were highly self-referential, making it difficult for local authorities to develop and implement corporate or community strategies that cut across departmental boundaries.

In Eastmet and Southshire, modernized structures have seen the introduction of small groups of elected members (or 'cabinets') holding individual portfolios. The portfolios did not reflect the old committee structures. For example, in Southshire, education and children's social services were combined in a single Children's Services Portfolio. The remaining members were placed on scrutiny committees. These new constitutional arrangements were very new and generated ambivalence amongst our interviewees. For example, the Deputy Head of Council at Eastmet argued that the constitutional changes were:

Utter waste of time and money. ...and I don't see the separation of executive and scrutiny ...[Yet, in the same interview]... what has helped with having a cabinet is that it does break up the silos .. you automatically set that going native, advocating their own service ... so it does break that down and make it easier to set priorities .. I feel like the chancellor of the exchequer ... telling colleagues you can't have the money ... I do my budget speech ... balancing ... priorities against the fact that people have to pay for it ... they get bills on their mats ... each council has invented its own set of portfolios.

A senior official with corporate strategy and monitoring responsibilities in Eastmet was (perhaps unsurprisingly) more enthusiastic about the new structures:

A lot of members miss the old days having portfolio folders is very helpful, especially when things are cross-cutting The broader picture is helpful. ... (one-path) cabinet means the decision is quite obvious.

The new structures did not suppress local political debate for as the same official went on:

.. for older people there's a strong political commitment to increase services – but the area we're under pressure is children services. For older people, the number of homes ... it was a massive political fight ... but in the press and community there was a backlash.

These pork barrel types of debate are partly sustained by the persistence of aspects of traditional political structures that have survived modernization. In particular, members still represent local wards where they are exposed to the pressures of personal lobbying from constituents. The response from officials seemed to be that it is the members themselves who need 'modernizing'. As a senior official in Eastmet put it:

[There are] also issues around political process sometimes we're still a bit old style Scrutiny is about commission of enquiry ... we're trying to change the culture of scrutiny. The members ... are still at the neighbourhood politics level.

In Southshire, officials have adapted their language in deference to the clash between the political values of a Labour government and those of a Conservative local administration. As a senior official in education explained:

We like to think that we know enough about the politics of this administration ... and their openness to arguments about targeting the formula to areas of social deprivation... we've got to get money into areas where the lower performance is... Members in the past would have said this was developing a dependency culture. Now we'd say it is to encourage self-reliance. The government's language wouldn't work here. We spent time developing a language that would work here.

Another senior education official in Southshire also talked about the difficulties of genuinely integrating education and children's social services. As he put it:

It's bringing together services from two different cultures ... languages and the way they do things are different. They're risk averse [referring to social services] ... they travel in packs and take notes ... things cost a fortune to investigate – that's their labour intensive culture. Education is more seat of the pants – charge and can-do ... different professional backgrounds ... the main problem is one is seen as taking over.

He was also concerned about a loss of expertise with the abolition of the old committee system:

... now there's only one person who understands education. Things go through rather more easily. Get your chair person¹¹ on side, and you can do what you like ... does anyone believe we have cabinet government (at central level) in this country?

Other officials although more upbeat about the new constitutional arrangements emphasized the variability in quality of scrutiny and the learning aspect. For example a change manager in Southshire argued that:

There's no doubt that we have a faster slicker decision process... the total reports to old committees ... have been reduced by at least a third. From an officer perspective its much quicker ... a bonus. The scrutiny process ... depends on who's chairing It can be engaging and interesting and can keep the executive on its toes.

Members still haven't learned to keep us to account as much as they can.

Best value and corporate performance assessment

Rather than being seen as a regime imposed by central government modernizers, senior officials in both authorities stressed internal/local origins of Best Value (BV). For example, the Director of Performance and Resources in Southshire argued that '(T)he government never does anything because it's a new idea... it tries to share and codify good practice...' A change manager expressed similar views suggesting that 'BV came along and we could piggy-back ... we were going in that way ... it was a kick ... government embraced what local authorities were doing ...' Even the deputy director of education seemed receptive to best value principles and put it thus:

Best value is just a name for things good management should be doing ... it is how it should be .. or you just accumulate staff like topsy ... before 1997 there was a fundamental review by council ... the Conservatives thought we'd been living off reserves ... it was a model for best value ... why do we have an educational psychology service? .. and so on ...

In Eastmet, the Performance Management Director argued:

What's helped drive this is the chief executive – he wanted a performance culture and accountability. Its you're going to be a high performance performing authority, you need to know where you are ... the inspection should be a reality check.

Some managers were critical of Best Value not because it caused any problems but rather because it actually had relatively little impact. For example, a change manager in Southshire County Council put it as follows:

Best Value was always ok on high level reviews but it never addressed the culture of the organisations ... the way we aid business. I've worked here a long time ... I know the staff ... the Best Value reviews had sensible findings ... about service improvements. It didn't look at process improvements – or weaknesses.

Similarly, an official in adult social services emphasized the primacy of inspection related to social services rather than those concerned with Best Value:

There's more corporation dialogue, more rhetoric ... Best Value has hardly impinged on what we do as a service. It is something that happens corporately. Chief Officers and Members get very excited by it. We've had 2 or maybe 3 best value reviews that relate to Social Care. There wasn't a single £ sign in them, no references to money... sure, it's about quality. I really don't think any of us have cracked it. It's a hoop you have to jump through!

The Social Services Inspectorate are interested in Community Plans and being joined-up, and understanding what's happening strategically , ...(B)ut the Social Services Inspectorate are far more interested in things like how well individual care files are maintained, how key workers are being allocated to children in need.

Modernization and organizational routines

Just as autopoiesis focuses on the self-production, the organizational change literature also argues that it is important to identify whether new practices are reproduced as organizational routines (Burns and Scapens, 2000; Laughlin, 1991). We can distinguish

routines at different levels. At corporate level, it may be enough to identify new reporting patterns. For example, the finance director in Eastmet explained how the corporate plan was operationalized through new reporting processes as follows:

The council's corporate plan 2002-2005 has corporate priorities ... we have clear goals, say, in relation to social care of vulnerable people. This is an internal working document where we look at goals and when they're supposed to be delivered there are regular (6 monthly) monitoring reports. They'll need tweaking and tightening u ... We can look at any PI's linked to this ... pull them out separately in a bi-monthly report. We can look at the quarterly position. If they're in the bottom quartile we can ask people to look at them. People can assess this on line – service managers can see how their service is performing. The CPA (comprehensive performance assessment) inspector said this is the best (reporting system) they'd seen.

In Southshire, the most recent emphasis was on pushing the impact of new monitoring systems down into the organization. A change manager explained this embedding activity as follows:

Best Value was always ok on high level reviews but it never addressed the culture of the organisations ... the way we did business...[The council's programme] is based around customer feed back ... children's services ... parents said restructured around clients groups.

"Impact three" is about cultural change. It follows leadership programmes started 4 years ago. This is focussed on teams ... working practices ... plan/do methodology ... a bit of Balanced Score Card. It's a 12 week programme ... the aim is to support teams ... empowerment ... teaching people to be empowered Giving staff the confidence to do things but within the context of the service and the organisation ... we do a bit of process mapping ... it's a whole programme ... structured around what teams want to improve ... thing that makes sense to them.

To summarize the evidence presented in this section, both Eastmet and Southshire showed signs of systemic change. Some of the change was clearly imposed by the New Labour modernization agenda. Other changes seemed to be more self-generated by key players within the authorities. The autopoietic framework whereby complexity is resolved through system differentiation offers a way of evaluating change systems maintain or lose their self-reproductive capacities through systemic interaction.

LESSONS FOR REGULATION: BREACHED STRUCTURAL COUPLING VERSUS REFLEXIVE SELF-REGULATION IN LOCAL GOVERNMENT

Returning to our earlier theoretical discussion, autopoiesis raises the possibility of *blind* or *breached* structural coupling which are terms that describe quite opposed and generally unsatisfactory relations between self-referential systems. In blind structural coupling systems reproduce themselves satisfactorily but may or may not relate to wider social goals. In breached structural coupling, the regulation introduced to enforce adherence to social goals may damage the self-productive capacities of systems. In the specific context of local government regulation, the balance between blind and breached coupling may partly hinge on the choice and ownership of performance indicators.

Furthermore, the threat of managerialization may be based less on an explicit attempt to suppress political systems but more an unwillingness to accept that customer choice is not a substitute for real politics. Political systems are about conflict, shifting priorities

and even, the acknowledgement of limits of measurement. Thus tensions about pressures coming from central government and imposed indicators central interference are not managerialist threats. They are part of an ongoing struggle between central and local government. The more subtle problem may actually happen through local developments whereby *local* political systems are eroded by *local* managerial systems. Of course, the distinction between the central local tension and managerialist/political tension is complicated because *national* politics tend to support *local* managerialization.

The linkage between national politics and local managerialization is expressed in the leader of Southshire's view on the role of members in the new cabinet system:

Its 'professionalised' ... the councillors who run the council – we are full time substitute officers. Its much harder work... more technicalities... it rests on a much smaller group... we have to prepare [what the council approves]. We are more like officers than we ever were under the committee system ... who wants to come along to scrutinise all the time? Members want to be involved in the decisions... some find it hard to come to terms with the division....

The clash between local and national control could frustrate local officials, let alone local politicians. As we have already indicated, central interference is particularly strong on education. Eastmet's finance director put it as follows:

We've never had less freedom to set out own budget. In Education there's Ofsted¹²... a pack of rottweillers are after you if you haven't spent the money on education. We didn't have an option on half our budget.

At the same time, the local budgeting process in Eastmet has resisted the managerialism inherent in the authority's community planning process as the following account of the budgeting process in Eastmet illustrates:

...each political group did its own budget with varying degrees of vigour. All the groups did this. I even had a bun with the Greens. We prepared three different budget papers which went to Executive Committee on the 13th. The *Telegraph and Argus* [the local newspaper] did a box for each one and a bit of spin from each of the three leaders which meant there was some open public debate about the proposals.

All three budgets were very similar, though the parties made a great deal of play on the differences. But the same things were the areas for growth. It was very successful but less successful was that you couldn't take the politics out of it. The leader said "you're trying to take the politics out of it." It's policy not street level politics... The idea is to have a 3 year horizon. It was a bridge too far for the Members. They couldn't hack it... Two political groups ... they were all worrying about what the other party would say. So we've only got a 1 year budget, purely down to the politics.

Although this last quotation shows tension between the managerialist aspirations of the official and the different priorities of the local politicians, the evidence does not suggest a collapse of the political system. Although it may not have the power to raise significant proportions of local revenue or diverge dramatically from national political agendas, the vitality of local politics as a communication system supported by a local media is quite striking. Local officials evince an understanding of the need to accommodate political aspirations. Such tolerance is less evident with respect to central government regulation as the example of education will demonstrate.

Breaching structural coupling: the hollowing out of local educational management

The conflation between managerialism and centralization is most dramatic in education. The key legislation in both our authorities was not the most recent Acts on local government but the 1988 Education Act which gave extra powers to both the minister of education and to local head teachers. The local authority thus lost power upward to central government as well as facing a strengthened lobby of head teachers and school governors. More recent legislation had done nothing to reverse this change in the balance of power. Indeed, Eastmet saw its educational management compulsorily outsourced while the schools lobby was formalized in the recent establishment of a Schools forum. Self-management of schools has been accompanied by a huge switch in budget management.

The emergence of the schools lobby and the changed budgetary arrangements provoked these comments from the deputy head of education in Southshire:

They (the schools) are very powerful. They have 88% of the money. We've got secondary schools with budgets at £2M or more ... we are their servants, not their masters ... it's a bit more dynamic though, as we have statutory powers they pretend they're separate until they want money.

Members know the lobby is important ... for budgets ... MP's listen to schools ... we use them ourselves ... but they can go to elected members who will listen to them...In 1988 schools had 5% of the budget under their control ... now we only have 12% ... for things you don't want to be responsible for, like transport. Education Finance has been through radical changes in the way that [the rest] hasn't...

Even more disruptive for the development of Best Value policy is the type of central government intervention that may result from an unfavourable inspection in a particular service area. In Eastmet, the educational inspectorate produced a highly critical report on the authority's local education management. The report's criticisms were based on putting evidence of low levels of educational achievement in the schools together with the tendency of the LEA to keep funds itself rather than distribute them to the schools. The report's criticisms were supported by the local schools who argued that the LEA offered ineffective and poor quality services. As well as accusing the LEA of trying to preserve central services rather than of meeting the needs of schools, the report argued that the 'council has a history of political decision-making that has reflected departmental interests, has been competitive rather than collaborative, and has significantly reduced the council's ability to take coordinated action to tackle priorities.'¹³ Most damning of all it identified an apparent norm of the LEA that "Eastmet is different". In the inspectors view this norm was actually an excuse to accept low educational aspirations in the schools as being a inevitable by-product of deep seated economic, social deprivation and ethnic divisions.

With educational management to be provided by a public private partnership, the contractor was given a set of demanding (or 'aspirational') performance targets, which were based not only included the usual exam metrics but also involved the measurement of a range of social goals. With social inclusion and the achievement of ethnic minorities an important national priority of New Labour, the specification of the

contract ensured that schools would not be permitted to concentrate entirely on exam results. It was also acknowledged that there would be a difference between the targets that the schools proposed and those proposed by the LEA in its plan. As the plan put it:

The difference between the school targets and those of the LEA reflects a school based approach which is cautious and reflects judgements based upon prior achievement and previous patterns of performance in national tests. The LEA targets are challenging and aspirational, being based upon the desire to transform standards, whilst closing the gap on national averages.¹⁴

When Best Value was owned by local government, policy priorities did seem to reflect the views of the local community. The main innovation of the policy was a concerted attempt to improve the linkages between the various agencies whilst respecting their self-referential characteristics. Although affected by national policies and standards, the performance indicators initially were developed and reviewed by the local authority itself. Such a benign verdict did not last as Best Value was not the only strand of NPM/modernization that impacted on the multitude of service areas in the local authority.

With respect to changes to educational management, it could be argued that both the style of intervention, the proposed solution of contractualization and the subsequent approach to educational management through national based standards shows many of the features of juridification (Teubner, 1987; Broadbent and Laughlin, 1997). Central government was attempting to achieve specific material objectives rather than develop and support the self-regulation of sub-systems. Regulatory intervention has not only breached structural coupling in the area of education, it has sent a clear message about the interpretation of performance in other service areas across the whole country. The verdict of the education inspection did lead to intense local political debate but local solutions were over-ruled by the direct intervention by central government ministers.

From Best Value to Comprehensive Performance Assessment: An argument for reflexive regulation

Under the modernization programme for UK local government, local engagement does not just depend on traditional political forms of accountability since the attainment of Best Value is informed at all stages by a commitment to alternative forms of surveying local opinion beyond the occasional foray to the ballot box. Thus the “performance management framework” of Best Value is itself based on local consultation and checks based on user-evaluations. The framework is composed of a performance plan, an agreed program of performance reviews, the setting of targets for improved performance, an independent audit of the service reviews and performance targets.

The performance framework for Best Value involves a hierarchy of indicators. At the apex of the pyramid there are a small number of nationally standardized 'general health' indicators that 'reflect the underlying capacity and performance of local authorities as both democratic institutions and bodies responsible for managing a significant share of public expenditure' (DETR, 1998, ch.7, 5). The government also sets 'key indicators reflecting the effectiveness and quality of local services' (1998, ch.7, 5). Thus *both* the managerialist and the democratic vitality aspects of the reform program are monitored.

The gradual evolution of Best Value policy into a reflexive form of self-regulation (Vincent-Jones, 1997; Black, 1996) may be derailed by inspection regimes in other areas that operate with different cycles of inspection. These regimes may also apply different value systems with potentially greater significance for the specialist service managers. Thus while managers in the corporate core are concerned with the task of applying best value principles to strategic issues, particular services may see best value requirements as less pressing than meeting the requirements of their own specialized regulatory regimes¹⁵.

The more recent CPA regime is designed to offer authorities 'earned autonomy', that is, an autonomy granted on basis that local government has developed its own managerialist norms and on the basis that local government units are goal congruent with head office. In short, autonomy is given when local governments can be relied upon to deliver central determined targets! In the specific case of Eastmet the auditors revealed their attitude to local politics through the following verdict:

Councillors and officers describe a real willingness to put party politics aside to make progress on issues that will bring benefits to Eastmet citizens, as set out in the 2020 Vision.

The impression given by this sort of statement seems to be that local politics may be tolerated as long as it does not get in the way of central planning and managerialist systems of monitoring and control. There is an implicit assumption that collective preferences are stable and have been effectively expressed through the new mechanisms of citizen consultation rather than through the implicitly unstable processes of party politics.

From a managerialist perspective¹⁶, Eastmet seemed to be both more responsive as well as potentially able to move resources around to meet strategic aims. The new performance management framework had linked the disparate systems of local government with each other as well as to central government and to local consumer/citizens. Indeed, such potential strategic capacity was officially recognized by the CPA assessment. However, a more critical interpretation of events suggest that the problems of hollowing out especially through the abolition of the education committee and the outsourcing of educational management has eroded both accountability and collective capacity (Rhodes, 1994). The new cabinet system cannot possibly achieve the same levels of collective accountability that were potentially available in the old committee system. Although the introduction of self-managed budgets, has given the schools more autonomy (and thus the potentially more self-referentiality), the evidence from Eastmet is that not only have national criteria of performance been imposed but the schools' own targets have been superseded by levels determined by the contractor.

The question of target-setting prompts other questions about the measurement and inspection system. For example, is there a difference between local and centrally prescribed performance indicators? Second, to what extent are the performance indicators based on a "we measure what they can and we get what they measure" dilemma? Although it is difficult to generalize about the diversity of performance indicators proposed in the Department of the Environment/Audit Commission guidelines (DETR, 1999b) the initial impression is that there does seem to be a strong

element of "measuring what you can" or least "use data that you already have". Some strategic objectives seem to be a product of recent public debates. For example, the strategic objectives for social services focus on the stability of placements of children looked in care together with their educational attainment. PIs for the police draw heavily on the British Crime survey undertaken by the Home office.

Evidence of responsive regulation/strategic structural coupling

Local officials involved with Best Value in the corporate core argued that the ultimate success of the performance management framework depends on whether managers adopt a continuous improvement philosophy. The philosophy for developing performance indicators in Eastmet was to focus on *user perception* on what constitutes an improvement in service. Although this focus on measures based on user perception conformed to central government/Audit Commission thinking, the problem with such a philosophy is that it does not leave any scope for the professional values that constitute the core values of the system. For example, as educational users, students may all aspire to good exam results. An undue focus on this outcome may conflict with the ethos of educational professionals who would probably have a more abstract concept of educational standards.

These arguments suggest that responsive local governance requires either for some resistance to performance indicators and/or a management style that absorbs some of their impact. Although during earlier interviews there seems little sign of resistance, the authority did seem to have a deeper understanding of recent business philosophy and rhetoric than central government. In an attempt to avoid the league table mentality espoused by central government, the authority aimed to promote a shift towards a non-blame culture. Such a culture involves a willingness to make mistakes plus an attitude to performance indicators whereby they may simply point to apparent good performers. The approach is not to indicate success or failure but discover "who to talk to" as a first step to improving performance. Similarly, the philosophy of benchmarking is to understand processes and not simply to be members of clubs that focus purely on numbers.

The new CPA regime does seem to accept some of the arguments for responsive regulation especially through an implicit recognition of past regulatory excesses. Against these encouraging changes there remains a suspicion of party politics, of debate and of conflict. The regime reveals an urge to control along the lines of Weber's 'end-means' model and 'command and control' model (Brans and Rossbach, 1997). Against this regulatory threat to the vitality of the local political system, Eastmet has a strong geographically-based sense of local identity, a vibrant local media, and a heritage of magnificent buildings that reflected the proud municipal traditions of the city. There were still strong distinctions in the codes operating in the different sub-systems of the political system. The same policies were talked about in different ways in different systems. For example, the deputy head of the council attributed the start of a policy to the election of his party while the officials talked about the impact of central government regulation. Individuals were separate from the systems within which they operated (Brans and Rossbach, 1997) in the sense that could change their modes of operation according to the codes of the particular political sub-system. For example, when the council was hung with a period of minority control, the finance director

helped each party to formulate their own budget proposals even though he knew that, from a technical perspective, the room for any significant changes were very limited.

In an autopoietic system, contradiction and conflict are not necessarily a source of weakness. An autopoietic social system ends when, as a communicative system, it ceases to communicate. It stops if communication *has not been understood* or if communication has been *rejected*. Survival as an autopoietic system requires that it develop reflexive communication so that it can return to itself and communicate its own difficulties. In an autopoietic system, contradiction, conflict and controversy operate as a sort of immune system in that they can open up new modes of communication (Luhmann, 1986).

The importance of conflict and contradiction are even more important for the survival of the political system since it exists to resolve conflict. In Eastmet, the established political parties seemed to recognize a responsibility to avoid exacerbating conflicts that could lead to the rise of more extremist parties. In these important respects, it is submitted that the managerialism of the modernization agenda is more of threat in county authorities with confused allegiances between town and country, a lack of geographical identity and an absence of specifically “political” problems.

CONCLUSION

The strength of the autopoietic approach is that it can offer a consistent framework for analyzing both the problems and the proposed solutions of the expanded welfare state that UK local government is charged to administer. From an autopoietic perspective, while system differentiation is a response to complexity, the resulting self-referentiality can lead to self-serving and lack of accountability. Yet paradoxically, the regulatory reforms aimed at increasing accountability may run the risk of destroying the self-reproductive processes that services such as education and personal social services must ultimately rely on.

Autopoietic theory suggests that user satisfaction techniques are *not* a substitute for real politics. Defined through an autopoietic theoretical lens, responsive governance is concerned to preserve core values in sub-systems. Although the identification of core values may be hampered by empirical ambiguities, resistance that is articulated around such a defense should be recognized as a legitimate input to the policy debate and not automatically interpreted as special pleading by self-interested professionals. User-satisfaction surveys may be used as a weapon against special pleading but they may also erode core values. National educational policy has become defined in managerialist terms with material objectives measured by PIs of educational attainment. Not only is the preservation or even enhancement of local participation excluded from these educational indicators but managerialist mechanisms deny that there may be room for political disagreements and debate.

By enabling an analysis of the relationship between systems, autopoietic theory is an effective tool for revealing potential trends in the managerialism of politics. In this respect, the article has gone beyond the relatively well-researched service areas such as education to consider the impact of target-driven regulation on the vitality of the local

political system itself. While the episodes from the case study did suggest that nationally determined indicators and somewhat Weberian models of planning and control are prominent features New Labour modernization, Eastmet's political system was sustained by a local media, long standing municipal traditions and potentially explosive political conflicts, and, thus, remained defiantly vigorous. More work would seem to be desirable to assess whether authorities operating without a naturally strong sense of locality exhibit greater evidence for the managerialization of their political systems.

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NOTES

¹ Versions of this paper have been presented to the European Network for change in management accounting in Oslo and in Siena at a workshop on Corporate Governance and New Public Management. We would like to thank participants, especially Angelo Riccaboni, for comments and encouragement.

² For some recent interpretations of New Labour modernization and 'modern management' see Townley (2001) and Midwinter (2001).

³ We did not ask this person about her political philosophy. However, British Conservatives are not usually keen on the "Third Way"!

⁴ *Southshire* is an assumed name.

⁵ See Brans and Rossbach (1997) for an extensive review of Luhmann's work on public administration. Useful examples of English versions include Luhmann (1986; 1995).

⁶ *Eastmet* is also an assumed name.

⁷ 'Post-NPM' implies that such policies have had an impact not that they have necessarily ceased to apply!

⁸ Ironically, concern about low voter turn out in local elections has led to electoral participation becoming a managerialist target!

⁹ Department of Environment, Transport and Regions which later became the Department of Local Government, Transport and Regions.

¹⁰ Recent policy thinking is set out in the White Paper, *Strong Local Leadership – Quality Public Services*.

(DLTR, 2001).

¹¹ Name withheld.

¹² The educational inspectorate of central government.

¹³ This quotation cannot be properly referenced without revealing the identity of the authority.

¹⁴ See footnote 8.

¹⁵ One manager in the Youth Offending Team (YOT) described his working life in the YOT being his "day job" with Best Value regarded as the "night job".

¹⁶ Both local and national press have been critical of the possibility for secret cabinet meetings involving a few councillors. One unresolved issue is the role of the more inclusive scrutiny committees who are supposed to be able to review the decisions of the cabinet.

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