

# RECLAIMING THE PUBLIC MANAGER

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*This article adds to the existing discussion regarding the NPM, and more specifically addresses the role of managerial identity that is often ignored within the existing literature. The research was conducted utilising a grounded, qualitative methodology. The data was analysed utilising the tools of critical discourse. Throughout the article a case will be made that the introduction of private sector 'business paradigms' have led the managers to seek their legitimacy and their sense of identity not from the public sector but from the private sector. In doing so they have distanced themselves from the public, the owners of the assets they manage. The research is a qualitative study that highlights the conflict between identity and community expectation. The implications suggest that managers of local government business operations need to be aware of the possible conflict that can arise through seeking identity with the private sector in that it may lead to distancing themselves from the public they serve. The practical implications lie in being able to recognise that too close an identity with "normal" business practice can conflict with provision of public services*

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## Introduction

This article is a critical assessment of the way in which managers of local government owned business operations have undertaken their duties. This critical assessment has been viewed through the prism of identity and legitimacy rather than utilising structural or organisational tools. In the past, commentators on local government management in New Zealand have tended to emphasise the organisational and structural aspects of local government. They asked questions such as: How many boroughs? How large is a town? What is the rating base? What are the required functions of local government? This approach can be seen in the writings of McLintock (1958), Sutch (1964) and Bush (1980). More recently, there have been attempts to examine not only structure and organisation, but also the actors within the structure and the inter-relationships between them that collectively make up the organisation. Recent commentators such as Pollitt (2000, 2001) and, in New Zealand, Kelsey (1993, 1994, 1997, 1999), Jesson (1999) and Martin (1988, 1991, 1994), have also turned their attention to the impact of the introduction of business paradigms on the activity of local councils, rather than concentrating on the traditional structural and organisational aspects. In so doing, they are starting to comment on entrepreneurship, innovation and ways in which council business people can be more creative. From the viewpoint of commentators such as Kelsey and Jesson, such innovation can be achieved through the adoption of alternative management practices that do not place emphasis on efficiencies.

These recent writers also appear to be borrowing heavily from the field of institutional theory and, more specifically, offering a critique of the concept of managerialism as described by Considine and Painter (1997) and Enteman (1993). For example, Pollitt (2000) and Gregory (1999) both provide a critique of the concept of managerialism and the adoption by local government actors of the language and techniques associated with it. Managerialism is often seen as a politically rationalist<sup>1</sup> and therefore “correct” approach to public business organisation, in that emotions should not be part of the business equation. It has been argued that, because local authorities from time to time undertake activities that resemble those of a private company, then that activity must be organised in accordance with accepted business practice. The New Zealand Treasury supported this line of reasoning, urging that “corporatisation of local authority trading activities’ would achieve considerable efficiency gains” (1987, p. 119). This advice from Treasury was eventually heeded and the legislation to establish Local Authority Trading Enterprises (LATEs), and to enable the privatisation and commercialisation of activities previously undertaken by government was passed through Parliament.

Such legislation was not, and is not, an exclusive New Zealand preserve. The trend towards privatisation has been spreading throughout the western democracies, fuelled by the paradigm of neo-liberal politics. However, there is an institutional basis to the emergence of such legislation in New Zealand. In an article entitled “Environmental Education, Neo-liberalism and Globalism: The New Zealand Experiment”, Michael Peters (2001) outlines the development of the neo-liberal movement in the West from the earliest beginnings of liberalism, built on “the politics of reason”, to present-day policies of free trade and globalism (p. 209). Like many commentators in this field, he sees the major tools of the neo-liberalists in supra-national organs such as the OECD, the IMF and the World Bank. Discussing the ways in which these organisations can exert their influence, Kelsey (1997) describes them as enforcing conformity with the free market model onto management (p.17). It is this isomorphic pressure to conform that gives these supra-national agencies a place in the discussion of management practice within local-government-owned business operations since they require not only the willingness of nation states, but also participant managers to embrace the policies of neo-liberalism.

Countries that collaborate with these supra-national organs, keen to be perceived as ‘mainstream’, do so in order to gain legitimacy in the international arena. Such a desire to be seen as ‘legitimate managers’ can be evidenced in New Zealand, in Treasury’s brief to the incoming government in 1987 (New Zealand Treasury, 1987, pp. 245, 390). In following such policies, however, countries may find that their national identities and culture are often subsumed in the process. Often in undertaking the steps suggested by these supra-national organs, nation states have discovered that there is a great deal of “structural adjustments” to be undertaken. For example, in the case of local government in the United States, Britain and Australia, such structural adjustments were translated into an increased emphasis on private business models, especially private business management within the government sector.

The situation in New Zealand regarding local government and adoption of the free-market paradigm is not much different, with commentators reporting the benefits, or otherwise, of private ownership, and assessing the introduction of entrepreneurial business practice (read profit centre, or efficiency), into state-owned business operations (Jennings and Cameron, 1987; Martin, 1991; Kelsey, 1997; Jesson, 1999; Business Roundtable, 1994), whether supporting or critiquing the neo-

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<sup>1</sup> The term is used loosely to indicate a rejection of faith or religion, and more strictly a view that all knowledge can be expressed in the form of a system, and that, in principle, everything can be known. See *A Dictionary of Sociology*. Ed. Gordon Marshall. Oxford University Press, 1998. *Oxford Reference Online*. Oxford University Press. Massey University. 11 February 2004 <http://www.oxfordreference.com/views/ENTRY.html?subview=Main&entry=t88.e1862>

liberal approach. Here New Zealand commentators are following an international trend, in that with few exceptions (for example Kelsey, Sharp, and Jesson) they are describing these developments and, in some cases, attempting to draw prescriptions, on the basis of limited underlying theory. Despite the strong denials of Kelsey (1993, 1997, 1999) and Jesson (1999), New Zealand was seen until recently (Pollitt, 2001; Peters, 2001) as a model state where the neo-liberal policies of exclusion and privatisation had resulted in efficiency, competition and increased financial returns. These central government efficiency gains, it was argued, could easily be mirrored in the local government sector if such policies were put in place.

The reforms started in New Zealand with the fourth Labour Government in 1984. By the time the Local Government Amendment Act (1) (1989) was passed, the economic philosophies which underpinned the reforms (Boston et al, 1996; Schick, 1996; Gregory, 1999; Jesson, 1999) were well entrenched and have since been recognised as far-reaching in their implications (Schick, 1996). Further, political commentators have suggested that, in international terms, New Zealand has implemented some of the most radical aspects of “the re-invention of government” in the western world (Delercq, 1988; Hughes, 1994; Boston et al, 1996; Gregory, 1999; Palmer, 1990; Pollitt, 2000). The advocates of the reform movement in New Zealand were therefore following a prescription that quickly, in New Zealand at least, became business orthodoxy.

The major proponents of this prescriptive path believe that a public business is no different from a private business and therefore needs the same sort of management structure (Pinchot, 1985; Scheinder and Teske, 1992; Osborne and Gaebler, 1993; Zohrab, Dyer and Dwyer, 1995; Prebble, 1996). This argument, however, fails to take into account the cultural differences that exist between a publicly-owned business organisation and a private organisation. ‘Publicly-owned’ in this context refers to a business that is controlled by either a local or central government agent. In addition, the argument does not accommodate the way power is exerted within a public service environment, or the individual motivators for success that influence a public manager as opposed to a private businessperson. (Schneider and Teske, 1992).

### **Current Local Government Development in New Zealand**

The following discussion traces the development of local government reform in New Zealand, with particular attention to international trends in western local government management activity. This section will describe how neo-liberalist market-type mechanisms, with their corresponding adoption of managerialism, have affected the way local-government business managers work within New Zealand. In order to demonstrate this, developments in the local government arena will be placed within the wider context of public service reform which has been on-going in New Zealand since the fourth Labour Government. Although the root of the reforms can be traced to the State-Owned Enterprise Act (1986), it was the passing of the State Sector Act (1988), along with the Public Finance Act (1989), which in turn gave rise to the Local Government Amendment Act (1) (1989) and the Local Government Amendment Act (2) (1989), which have been of most importance in this arena.

Professor Michael Peters of Auckland University, in the 2001 article cited above, is especially critical of these developments. He suggested that New Zealand has not only successfully enacted neo-liberalist policy, but is in the process of restructuring the way New Zealand governments relate to the public domain. In Peters’ opinion, New Zealand is close to reaching the neo-liberalist pinnacle which he characterises as an almost religious devotion to the market concept. Such an emphasis, he suggests, has elevated the market from a contrived to a natural construct. In other words, the market-driven approach as practised in New Zealand is now almost beyond question. In New Zealand, government policy has placed such importance on privatisation of services and the free-market paradigm associated with it that the rationalist private sector model is the only business model to be considered within a business framework. Peters argues that these policies have had the effect of

placing the state, democracy and the community in a subservient role with respect to the market. Finally, Peters views the free-market paradigm expounded by the government, and the free trade philosophy of the WTO, IMF and World Bank, as evidence that New Zealand has “abandoned its historical ties to the community and embraced the market” (Peters, 2001, p. 209). It is this paradigm of free trade and market forces that has allowed the structures of managerialism to find legitimacy with managers of local-government-owned business operations. Such a “re-invention”, it is argued, owes more to the application of theoretical models (Gregory, 1999, pp. 67- 74) than to the mechanics of actual structural reorganisation.

This theoretical model, adopted for the reform of both central and local government, has involved an almost rigid adherence to the principles of market-type mechanisms outlined above (Schick, 1996; Wilson and Doig, 2000; Peters, 2001). Central to the philosophy of government reform in New Zealand is the importance placed on the need for government agencies to be financially and economically accountable. The authors of the Treasury briefing paper *Government Management* envisaged that the reforms be extended even into “non-commercial areas” (1987, p. 74) of government and local government activity. This aspect of accountability is met through contractual arrangements which clearly and specifically lay down outputs against which the particular operation will be measured. For example, the State-Owned Enterprises Act (1986) Part 1 s 4 reads in part: “The principal objective of every State enterprise shall be to operate as a successful business and to this end be as profitable and efficient as comparable businesses that are not owned by the Crown.” The State Sector Act (1988) s 51(6) reinforces these managerialist expectations by requiring senior management to “promote efficiency” as part of their duties. Managers need only refer to the Public Finance Act (1989) for guidance as to how efficiency should be interpreted. Further, even when conducting non-commercial activities the Act requires the enterprise to exact a fee from the receiver of the goods or services (State-owned Enterprises Act (1986) S7).

Central government’s emphasis on financial efficiency is made overt in the objectives of the Public Finance Act (1989):

An Act to amend the law governing the use of public financial resources and to that end to (a) Provide a framework for Parliamentary scrutiny of the Government’s management of the Crown’s assets and liabilities, including expenditure proposals; and (b) Establish lines of responsibility for the use of public financial resources; and (c) Establish financial management incentives to encourage effective and efficient use of financial resources in departments and [Crown entities]; and (d) Specify the minimum financial reporting obligations of the Crown, departments, and [Crown entities]; and e) Safeguard public assets by providing statutory authority and control for the raising of loans, issuing of securities, giving of guarantees, operation of bank accounts, and investment of funds.

Such demands have an inevitable effect on those charged with managing services offered to the public. The penetration of market-driven notions within both central and local government can be demonstrated by a document published by the Hillary Commission for Sport and Recreation in 1994.<sup>2</sup> Rather than suggest ways in which the public could benefit from improved access to sporting and cultural opportunities, the Hillary Commission, in their desire to be effective and efficient, attempted to entrench the ideals of managerialism within local government leisure services. For example, the Commission advocated user charges for leisure services provided by local government, going as far as reporting that “if people want it [the service] then they will pay for it” (1994, p. 7)

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<sup>2</sup> The Hillary Commission for Sport, Fitness and Leisure was replaced by Sport and Recreation New Zealand as of on 1 Jan 2003 as a result of the Sport and Recreation New Zealand Act (2002). Auckland

and “by introducing user charges, lower income groups have the option of whether they wish to use a service instead of paying for a service they don’t use.” (1994, p. 10). While superficially this can be passed off as an example of the user pays ethic, the attitudes expressed suggest that the Hillary Commission, established to give advice on, and promote participation in, sport and leisure in the community, has interpreted efficiency in terms of economic rather than social returns. The managers of the commission, it would appear, also want to be seen as promoting “responsible management” in community activities.

The services that the Hillary Commission singled out as those that lower income groups pay for but fail to use were museums, libraries and gymnasiums. By advocating a user pays regime, the Hillary Commission was in danger of abrogating the role of local government to promote the rights of different communities to access services (Local Government Act 1974, S37(k)), and of defining effectiveness and efficiency in terms of economic exclusion rather than social provision. It was clear that the managers of the commission had bought into the managerialist paradigm and were actively encouraging local council managers in charge of services to recognise the so-called market. The advocacy of such measures revealed the making for institutional identity. Managers working within a public organisation were openly advocating economic efficiency in line with the institutional management norms of the private sector. This should have raised questions regarding the very existence of the Hillary Commission. Influenced by the neo-liberal paradigm, an organisation designed to encourage leisure activity, motivated by what I have called legitimating elements, looked to the market for reasons for non-participation rather than for the *cause of low participation*. Such efforts would have been applauded by the Business Roundtable which in 1995 advocated blanket user charges on library services on the basis that only a small section of the community utilised these facilities (Zohrab et al, 1995). The Hillary Commission’s attitude was indicative of how deeply entrenched the rationalist paradigm had become within the service provision arm of local government in a very short time. In 1994, the acceptance of such neo-liberal practices appeared to be strong. However, as we have seen, so too were the gathering voices of opposition.

It is unlikely that the Hillary Commission would have acted in this way if it were not for the passing of the Public Finance Act (1989), which had a major impact on the development of business operations in both local and central government. Through the introduction of the Act, the government sought to ensure that government departments, and other Crown agencies, adopted a financial emphasis in their reporting. This is made clear in Section 34(A) of the Act. In so doing, the government attempted to hold government departments to the same “generally accepted accounting practices” (Public Finance Act, (1989)) as private business operations. The government’s action could be interpreted as looking beyond a financial return; it was also interested in ensuring that the organisational structures and management procedures of public companies and departments were a mirror of their counterparts in private industry. For example, by 1994 the requirement for government-owned operations, be they local or central government concerns, to be run as successful businesses, introduced in the State Owned Enterprise Act 1986, had also been incorporated into the Local Government Act 1974, the Port Companies Act 1988, the Energy Companies Act 1993, the Housing Restructuring Act 1992, Southland Electricity Act 1993, and the Crown Research Act 1992 (cited in Petery 1994, p. 13). Such an attitude failed to recognise that government business operations and more specifically, local-government-owned business operations, were, and in some cases still are, the sole provider of social services or, indeed, of essential goods and services such as water reticulation. Historically, it had never been envisaged that in New Zealand such entities would need to make profits.

An example of the way managers within local-council-owned business operations have adopted market-driven concepts, including identification with the wider institution of private sector management, can be found in Water Care. A bulk and waste water operator owned by the Auckland Regional

Council and supplier of water to Metrowater, the Auckland city owned water reticulation company. Water Care embodies both the institutional language and attitude of a private company. Managerialist phraseology is peppered throughout its 2002 Asset Management Plan – expressions that may show identification with the wider institution of the management profession but mean little to customers. Water Care assures the people of Auckland that it will “ensure negotiated customer service levels are achieved at minimum prices following rigorous risk assessment processes which meet best industry practice” (Water Care Asset Management Plan 2002, p. 2). The company’s “customers” are Auckland citizens who have no alternative supplier. The use of the term shows how Water Care’s managers see the ratepayers – not as owners in a collective sense, but as individual purchasers of a product.

This attitude is in contrast to the stance of the Auckland Regional Authority (ARA), which performed Water Care’s duties prior to the establishment of the Water Care LATE, as reflected in its annual reports. In the annual report for 1982, for example, the chairman noted “that Auckland simply could not work adequately as a metropolitan area ... without the basic services the Authority provides” (ARA Annual Report, 1982, p. 2). On the question of bulk water delivery, the annual report for 1982 notes only that bulk water is delivered to local authorities connected to the ARA dams. There is no mention of customers or consumers. It is not until 1987 that the annual reports specifically mention “consumers” in regard to water, and even then it is only the recipient councils that are termed as such (Auckland Regional Authority, 1987, p.15). However, by 1991 the Auckland Regional Authority was referring to both the councils it supplied, and the citizens using the water, as “customers”. In addition, in 1991 the ARA first used the term “market”, registering its intent to conduct “market surveys” of its newly perceived customers (ARA Annual Report 1990-91, pp. 67-68). Finally, in 2002, in a flourish of managerialist language, the Water Care LATE concludes its 2002 Asset Management Plan with the intent of producing “A triple bottom line Annual Sustainable Development report as defined by the Global Reporting Initiative.” (p. 55). Since this document is found on Water Care’s web site, it seems to have been intended for external, as well as internal, consumption. That Water Care management believed such a sentence was meaningful to the citizens of Auckland may demonstrate a distance between the two groups. More revealingly, the use of accepted business language shows it as an open appeal for legitimisation from the external management profession.

Rationalist or not, such a sentence, which is not explained or supported within the Asset Management Plan, lacks meaning for most of the organisations’ ultimate owners – the ratepayers of the Auckland region. By articulating these technical management concepts, Water Care further distances its management from the citizens on the one hand, and helps to build an internal aura of perceived professionalism on the other. Such a perception is necessary in order for the managers to believe that their entrepreneurial undertakings will be encouraged. Such encouragement, it is argued, is only possible as a result of institutional factors. Further, Water Care provides little guidance on how, or why, such measures are being taken. It can therefore be assumed that the authors produced a document, couched in management-speak, that they believed would give them legitimacy within their peer group of management professionals. This suggests that what prompts a local-government business manager to behave in such a manner is internal reinforcement based on external recognition – isomorphism.

As a result of becoming a LATE, Water Care was required to maintain a minimum price for its services while at the same time maximising the long-term viability of the asset and making a financial (rather than social) return on it to the Auckland Regional Council (Scott and Shieff, 1995). The managers were not, however, required to adopt managerialist language. The requirement for financial return is in contrast to other traditional local-council-owned business operations, such as libraries, that were established for social and educational reasons and have historically had an emphasis on process

efficiency rather than output accountability. It seems that council organisations see themselves as part of a business environment that supports the ideas of managerialism founded on the philosophy of neo-liberal rationality and that is supported, even encouraged, by the Business Roundtable.

The Business Roundtable is one of the most vocal supporters of the privatisation movement that is still underway in New Zealand. A Business Roundtable document produced by Zohrab, Dyer and Dwyer in 1995 suggests that the involvement of local government in business activity is not appropriate. They suggest that such assets as parking facilities, rental property, ports, airports and forests be opened to privatisation. The views of the Business Roundtable are further advanced by Harper (1992) who argues for minimal government participation in the New Zealand economy (p. 54). Further, the Treasury authors of *Government Management* (1987) suggested that not only are markets efficient, and ensure maximisation (p. 15), but that they also provide a check on wastage (p. 38). Such views – that appear to be widely accepted within the New Zealand business community – are again indicative of how deeply entrenched in the New Zealand economic psyche is the notion that private sector models of business can be applied to public organisations without modification. A more recent example of such a notion can be found in the actions of Air New Zealand, a business 80% owned by the New Zealand taxpayer. In November 2005 Air New Zealand announced that it would be moving its heavy engineering offshore resulting in engineering job cuts. Despite a rescue package put forward by the engineering union, Air New Zealand is still going ahead with the move on the basis that the rescue package did not result in the same cost savings as moving offshore. That is, although the union package would result in profits, such profits were deemed by the airline management to be ‘not enough’. This is a situation which has arisen due to economic rationalist practice. The airline is a government controlled business organisation. That they make any profit should be seen as a benefit. The managers of the airline however wish to make maximum profit, even if that means the loss of the heavy engineering division. In their 2005 annual report Air New Zealand reports that “despite challenges we posted a good result”. That result was a Before tax profit of \$235 Million and cash reserves of 1,070 Million.

The move towards the market-type mechanism for local-government-owned business operations was seen as a way to encourage innovation and entrepreneurship by holding managers and government controllers accountable for outputs (Treasury, 1987; Public Finance Act, 1989; State-owned Enterprises Act 1986). The manager in turn is prompted by career imperatives – job security – to either adopt or adapt to the new regime, thus ensuring that the manager will see that following the neo-liberal pathway is in his or her best interests (Schick, 1996). Some commentators have argued that, in order to achieve the desired change in direction, new management personnel were needed (Prebble, 1996, pp. 75-78) – managers who could lead by example, who could operate within the rationalist mold and help form a new culture to replace the “staid” business organisations of both local and central government. In response, there was increased recruitment of private sector management into the upper echelons of both central and local government organisations (Boston et al, 1996; Schick, 1996).

The introduction of private sector managers has not however seen an increase in internal entrepreneurship within either central or local government business operations. For example, Gregory (1999) quotes a 1997 report which explained the lack of internal innovation within government departments as a reaction to the need for managers to fulfil output obligations. Although this report was concerned with central government business operations, there is a presumption that local government managers were also feeling the same pressures. They were, after all, operating under similar guiding philosophies. This is illustrated by the Local Government Act (1974) which, through its 1989 amendments, not only introduced the concept of executive officers (senior management) and chief executive officers – in itself a major nod in the direction of the rationalist managerial model – but also defines the role of both kinds of manager. The Act was amended to define the role of executive

officer as someone who “[w]ill promote efficiency in the local authority and [b]e a responsible Manager” (Local Government Act, 1974, S119C(3) (b-c)). (The terms “[financial] efficiency” and “responsible” are especially noteworthy.)

The same Act defines the role of the chief executive officer as “[e]nsuring the effective, efficient and economic management of the activities and planning of the local authority” (Local Government Act 1974, ss119(c)-(d)). This piece of legislation is a clear indication that councils are expected to be economically efficient and is in line with the emphasis on financial management. Further, by reflecting the management structures common within private business, the Act was sending an institutional signal that the management of council enterprises should not be regarded as different from the management of a business. In addition, successful businesses are seen as innovative and entrepreneurial. There is a clear path being laid that leads the manager involved with local-government-owned business operations to adopt private sector entrepreneurial ideals. The road to internal entrepreneurship through institutional influence is clear.

As we saw above, by embracing economic accountability as a management tool the manager is in danger of becoming focused on the current objective and is less inclined to consider the long-term holistic implications of his or her actions lest they interfere with meeting the agreed output targets (Gregory, 1999). It would appear that the reforms themselves, rather than the activities of the management within them, were seen as the prime example of innovation. Considine and Lewis (1999) have suggested that the application of management theory within the entities created by the reforms has placed too much emphasis on accountability and monitoring of outputs, resulting in a lack of entrepreneurial innovation and, in practice, reproducing traditional features of private-sector management.

In the case of New Zealand local government, this adherence to accountability, embracing of the neo-liberal concept of the market and contracting for specific outputs, led to the establishment of Local Authority Trading Enterprises. It is through the LATE vehicle that many local government businesses were operated in New Zealand. LATE organisations were those in which the local council controlled over 50 percent of the voting stock. The term LATE was disbanded with the introduction of the Local Government Act 2002 and such organisations became council controlled business organisation.

The specific purpose of a LATE is to operate as a successful business (see definition above). In order that this objective is met, councils operating LATEs were further instructed to draw up statements of corporate intent which would include a clear statement of objectives and how such objectives would be measured. However, the social purposes of LATEs were less clearly defined. While s594E of the Local Government Act prohibits a local authority from transferring any regulatory functions to the LATE, K. A. Palmer, writing in 1990, criticised the Act for omitting to ensure that a LATE shows a sense of social responsibility (Palmer, 1990). There is a widely held belief within the profession of management academics that any business should demonstrate a sense of social responsibility (Kuratko and Hodgetts, 2001, p. 159). That such a requirement was missing from the Local Government Act indicates a degree of rationalist influence within the legislation. This was in marked contrast to the earlier State-owned Enterprises Act which required that the activities of a SOE, in addition to giving a financial return, also show a sense of social responsibility. One of the principal purposes of a State Owned Enterprise is to be “an organisation that exhibits a sense of social responsibility by having regard to the community in which it operates...” (State-owned Enterprises Act, 1986, s4.1(c)).

The Local Government Act has subsequently been amended and the current Local Government Act (2002) omits any mention of LATEs. Instead the new Act refers to “council-controlled organisations”. The relevant section states:

“The principal objective of a council-controlled organisation is to –

- (a) Achieve the objectives of its shareholders, both commercial and non-commercial as specified in the statement of intent; and
- (b) Be a good employer; and
- (c) Exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so; and
- (d) If the council-controlled organisation is a council-controlled trading organisation, conduct its affairs in accordance with sound business practice.” (Local Government Act 2002).

The latest Act contains some striking inclusions and omissions compared to the original Local Government Act (1974). Although the Act still requires council businesses to be operated within the rationalist paradigm, there is no mention of LATEs or that the business need operate as a *successful* business – only that it needs to adhere to “sound business practice”. In an interview recorded in October 1997, the Honourable Dr Michael Bassett, an ex labour government cabinet minister, suggested that LATEs were intended to be operated as private businesses:

“They couldn’t advance any argument for being treated like a charity. That was one of the absolute principles of our reform mechanism. I mean, as soon as you gave a tax break to some organization then distortions came into the operation. You immediately gave an advantage to the local authority that a private concern which may have wanted to tender to do those jobs couldn’t match! So you’d always load the thing in favour of the LATE and you couldn’t ever contemplate going out to tender. Well, we simply made the decision that it was a level playing field.”

Thus, if success is a factor here, it will encompass economic success as measured by private-sector businesses, operating for profit. An inclusion in the new Act is the need for council businesses to have some regard to social responsibility and the needs of the community. Such comments are now expected in corporate publicity and their inclusion may point to institutional factors at work – managers of local government organisations wish to be seen as operating within the accepted norms of behaviour for mainstream corporate players. However, the changes evident in the 2002 Act reflect a managerialist paradigm when placed within the context of the wider business community. It could be argued that the 2002 Act is in fact only a reaction to requirements to draft legislation that better reflects business practice in the private sector.

The LATE system appears to have been envisaged, by Dr Bassett at least, to enable local authorities to organise their business activities along the lines of a private business, complete with C.E.O. and board. However, by the end of 1999, the LATE system was being utilised to operate such activities as entertainment and conference organisation and tourism companies, in addition to traditional council activities such as roads, water and park maintenance. An example of a LATE in this guise is The Edge, the name given to the organisation responsible for managing the Auckland City Opera house, the Town Hall and a council owned historically listed cinema. The Edge is situated in the civic precinct of Auckland, The Edge conducts its activities in the international arena; its management has suggested that, far from being a mere provider of conference facilities, the organisation is a genuine going concern that faces stiff competition from throughout the Southern Hemisphere. The Edge was established through the Auckland Aotea Enabling Act (1985) and, on its inauguration, had representatives from all five Auckland councils on its board. Despite the organisation being set up by statute, the individuals who comprise the management of The Edge do not regard themselves in any way as employees of a government organisation, whether controlled by local or central government. Such a belief is understandable given the institution with which these managers identified – an institution which encouraged the adoption of a managerialist outlook and ignored or downplayed the

role of social accountability. This attitude, it is argued, fits well with stance taken by the New Zealand Business Roundtable which, as we have seen, regarded the LATE system as laying the foundation for eventual sale to the private sector of the commercial activities they cover.

Further evidence of an institutional acceptance of managerial rationalism can be found in the Manukau City Council Works Division, which was transformed into a LATE with the trading name Excell Corporation Ltd. In 1999 Excell was sold in a management buy-out for an undisclosed sum. The run-up to the privatisation of Excell makes it clear that the council was fully supportive of the privatisation of this public asset. In a publicity blurb on their web page, Morrison Low, consultants to local councils, describe one of their directors, Doug Morrison, as someone who

“[h]as reviewed many local government operations both as the Director of Works of Manukau City Council and as a consultant. Doug headed the team that formed Manukau Works (Excell Corporation Ltd.) into a commercial and successful contracting business. He successfully negotiated directly with the work force and unions to obtain acceptance of changed work practices allowing the efficiencies necessary to compete commercially.” (<http://www.morrisonlow.com/17doug.htm>).

The kind of legitimacy to which the Manukau Works Division appealed in order to be accepted as a mainstream business is evident in this extract. It suggests that the existing council work force could not be expected to compete on a commercial basis, and nor could the existing organisation have met accepted business practice. The piece further implies that because efficiencies could not be found within the council’s traditional activities such as the maintenance of parks and roads, which add value to the community, council workers needed to change their work practices in order to run a successful business operation. Both assumptions fuel an argument that places institutional factors as precursors to internal entrepreneurship and sets up the straw man of a cold, uncaring public employer. However, such attitudes neatly fit the ideology of neo-liberalism.

Changes such as those that occurred at Manukau City send clear signals that local government managers believe that many historical council activities do not belong in public hands. It would appear that Manukau City Council believed the sole purpose of a LATE was to make a profit, making it look and feel like a privately-held business focused on outputs and economic efficiency and dismissive of social accountability to the local population. The management of local councils in New Zealand have often had to counter protests against the neo-liberal, market-led approaches they have adopted. For example, the Auckland-based Water Pressure Group regularly protests against Metrowater. Such opposition suggests that, despite the support of business lobby groups, not all citizens believe that the economic rationalist path is the right one for New Zealand.

Nevertheless, many local government administrators and managers are under the impression that such decoupling is supported by the local community. The 2002/2003 debate on the sale or privatisation of Auckland City-held rental housing is a prime example. In this case, a majority of the councillors decided that the council, and by extension the ratepayers of Auckland City, should not be in the “business” of providing rental housing and voted to sell a large proportion of its pensioner housing stock. The reason given was that housing was not a core council business. However, given that Auckland City has been involved in providing housing for citizens since 1916 (Bush, 1971, p. 125), this claim is hard to support. The reality is somewhat more unpalatable – that the Auckland City Council, like Manukau before it, accepted the neo-liberalist argument that its entrepreneurial efforts were to be aimed towards market, and not social, efficiencies. The council pointed to the large interest displayed by property investors in the houses as legitimation for their privatisation efforts. Yet in so doing, it was in danger of destroying its legitimacy as a guardian of the people of Auckland City. In pursuing what it believed to be a rational approach to local government, the council was following – perhaps unwittingly – the accepted orthodoxy of privatisation in New Zealand.

However, the radical approach taken in New Zealand to public-sector management is out of step with international practice, and academic commentators are raising concerns that local government reforms have been developed along a didactic and rigidly rationalist path which is biased towards financial management rather than a social emphasis. If continued, it is argued, this path has the potential to undermine social values within the New Zealand community (Pollitt, 2000; Wilson and Doig, 2000; Gregory, 1999; Kelsey, 1999).

Despite such warnings, the trend for managers within local-government-owned business operations to favour economic and financial outputs against social outcomes continues unabated. The trend is in part a reflection of institutional factors involving international comparisons and a desire for isomorphic legitimacy. For example, the Manukau City web site features a press release, dated August 11 1999, reporting an award won by the City for its environmental report produced that year. The award, for “The Best State-of-the-Environment Report by a Local Authority”, was given not by an environmental group, but by the Accountants Society – ICANZ, and the award ceremony was attended by the council’s chief financial officer. Essentially, the accountants praised the report for its detailed breakdown of financial outputs, and its concentration on economic, rather than social outcomes. In advertising the award on a public website, the council was celebrating its success at being such an excellent *monitor* of the environment ([www.manukau.govt.nz/latest/1999/a\\_august\\_99.htm](http://www.manukau.govt.nz/latest/1999/a_august_99.htm)).

Again, it is not hard to see here the influence of the private-sector institution of management, and the ease with which the social construction of entrepreneurship, with its emphasis on rational economic efficiency, can develop within such an environment. The message to managers is clear: monitor, report, be economically efficient, and you and your council will win legitimacy from the business community. This constitutes a very strong external influence for managers to conform. Such a sentiment was also expressed at the 2000 annual local government conference held in Christchurch, where political commentator Colin James suggested that the management of local-government business operations was confused over direction and policy. He further suggested that managers of local-government-owned business operations had been captured by the ideology of the right wing and had forsaken social entrepreneurship for economic entrepreneurship (James, 2000). Many speakers at the conference, including the Prime Minister Helen Clark, echoed this theme. Their criticism echoes the views of Considine and Lewis (1999) and Vickers and Kouzmin (2001), who have suggested that neo-liberal market-type mechanisms, such as those being developed by New Zealand local-government-owned business operations, are failing to bring the social benefits that were promised. Instead, they suggest a return to the principles of regional development, social awareness and the provision of services *for* the common good rather than *to citizens seen as customers*.

This voice is not new. For some time, New Zealand academic commentators on central and local government have been calling for a critique of local government reform and urging that the direction it is taking needs to be re-assessed. A collection of essays by New Zealand academics critiquing central government reform, *Leap into the Dark* (Sharp (ed), 1994), makes the point quite strongly. In addition, critics such as Jesson (1999) argue that the reform of local government has failed to create the social capital necessary for building social rather than purely economic well-being. Jesson in particular claims that the adoption of the managerialist ideology in local government is related to international trends. Considine and Lewis (1999) also make international comparisons, regarding the New Zealand reforms as reductionist, reflecting competitive rather than co-operative norms which have had the effect of infusing management with an individualist rather than collectivist view of their duties (Considine and Lewis, 1999; Wilson and Doig, 2000).

In Dunedin and Christchurch there has been wide-ranging debate over the introduction of commercialisation in local authority operations (Law, 1997), and in Wellington staff at the Wellington

City Works Department threatened to appeal to the Waitangi Tribunal over the proposed sale of the department. Under the headline 'A Novel Interpretation', an editorial in *The Dominion* (27 June 2000) criticised the Maori staff of CitiOperations for claiming that the privatisation of the Works Department was in breach of the Treaty of Waitangi. The staff claimed that private enterprise did not have to consider Maori aspirations whereas the council did, and that the Crown had delegated street cleaning and rubbish disposal to the council. If the council no longer wished to carry out such functions, it should tell the Crown. The Local Government Act did not make it mandatory to privatise or set up a LATE for street cleaning.

At the heart of the privatisation debate lie the arguments in favour of market forces and economic rationalism. However, the argument for market forces seems unreasonable when there is both a monopolist situation and a need for social provision (Considine and Lewis, 2000). The reforms have set up new forces which are replacing, and in some cases conflicting with, established institutional norms within local government management. It is the very nature of the relationship between management and the purchaser (i.e., the local authority) on the one hand and the internal organisational cultures established by the new neo-liberal philosophies on the other, that have hindered rather than expedited the practice of entrepreneurship within local-government business organisations in New Zealand (Wilson and Doig, 2000).

### **Concluding remarks**

In concluding this article I present a summary of the reforms of 1989 and a sketch of how they have prompted local-government business managers to change their focus of identity away from that of the public sector and council, and towards the image of the private sector business person. Such a change in focus has caused a re alignment within council owned business operations away from provision of services for citizens and towards provision of goods and services to customers.

The management of local-government-owned business operations in New Zealand is guided by a philosophy based on the economic grounds of measurement and outputs. The New Public Management, as delivered in New Zealand, has created a new culture among managers and administrators (Pollitt, 2000; Gregory, 1999; Schick, 1996) which has collected international accolades for good government (Law, 1997). The demands of central government have pushed these managers into confusing and narrowly defined areas of operation (Gregory, 1999). Institutionally, the New Zealand manager of a local-government-owned business operation is required to ensure that precisely measured economic outputs are realised. Often this translates into ensuring that precise profit targets are met.

This article has traced the development, rise and acceptance of market-led, neo-liberal managerialist policies by western governments. In particular, it has demonstrated how in New Zealand these essentially structural changes have in practice taken on an administrative colouring. The acceptance of such practices has had the effect of placing New Zealand in a vanguard or bastion position, depending on the angle from which the reforms are viewed. Viewed from either direction, the reforms enacted have been radical and have changed the way New Zealand managers of local-government-owned business operations conduct and perceive their businesses. They have indeed had a lasting effect.

In summary, the reforms introduced the language and constructs of private enterprise into the public domain. To add to the illustrations given above, in 1996 Rodney District Council was quick to congratulate itself on its plans to reorganise around "Business Process Re-Engineering" (Petrey, 1996, pp. 5-7). As we have seen, other councils have boasted publicly after winning prizes for monitoring. Yet others have been quick to point out their ability to 'Manage by Objectives', and that adoption of rational management practices is a new and wonderful thing. The reforms have led to a change in focus by local authority managers from social outcomes and financial inputs to financial and

economic outputs. This trend is clear from the importance placed on monetary accountability and economic efficiency, and has led in turn to an emphasis on the power of market forces as an arbitrator in service provision. This adoption of a market-led approach has influenced how the managers of some local council businesses perceive their relationship with the citizens they purport to serve. In some cases, such as Metrowater, the citizens' status has been changed from that of owners to subservient consumers.

More generally, the reforms have introduced the philosophical belief that local councils should not be in the business of "business". The Local Government Amendment Act (1) and (2) 1989 was an attempt to formalise and entrench the distance between councils and their perceived business activity. Where councils find themselves in "competition" with private enterprise, the institutional influences to be entrepreneurial in a neo-liberal fashion have often proved too great. In some cases the best result appears to be complete privatisation, as in the case of Excell Corporation in Manukau. The acceptance of the theory of decoupling, and the embracing of the philosophy of managerialism – goaded by identity, legitimacy and an assumption of appropriate management activity – forms a story of how neo-liberal policies of economic exclusion have developed within the management of New Zealand local-government-owned business operations. However in recent years there has been overt failure of such a policy. Central government was forced to buy 80% of the privatised Air New Zealand because it was in danger of bankruptcy. In local government the New Zealand operation of Stagecoach has been purchased by a private investment company Infratil. Despite its status as a private company the Directors of Stagecoach insist that they need local government subsidies in order to provide the services at a profit. The saddest part is that both the regional governments in New Zealand, blinded by the commercial paradigm in which they work, and central government equally blinded by commercial imperatives – give it to them.

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