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Comparing transnational organizational innovation in state administration and local government

By

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The article explore three issues: 1) How widespread and important are various forms of transnational organizational innovation in the Danish public sector? 2) How are these organizational innovations related to each other? 3) What are the differences and similarities in transnational organizational innovation between state administration and local government and how can they be explained? By transnational organizational innovations are understood innovative forms of organization that can be found in the public sector of many countries. The focus of the analysis is in part, on differences and similarities between different forms of organizational innovation and in part, on differences and similarities between state and municipal organizations. Eleven forms of organizational innovation often related to New Public Management (NPM), are included in the empirical analyses: Privatization/Outsourcing, Purchaser-Provider models, Management by Contract, Management by Objectives, Benchmarking, Balanced scorecard, Pay-for-performance, Lean and value-based management. The empirical basis of the article is surveys conducted in the Danish municipalities in the autumn of 2008 and in the state in the spring of 2009. We find that NPM tools have had a much stronger impact in local government than in state administration. The reasons for and the implications of this finding are discussed.

Keywords: New Public Management (NPM), innovation, management, municipalities, the state, the public sector, diffusion, institutional theory, public management reform

1. Introduction

In this paper the relative impact of various transnational organizational innovations in state and in local government organizations in Denmark are analyzed. Transnational organizational innovations are innovative forms of organization that can be found in the public sector of many countries. The analysis focus on a number of concepts or tools often associated with the reform paradigm of New Public Management (NPM)(Pollitt and Bouckaert 2011a).

Within public administration research most comparative analyses of public management focus at one level of government (Mouritzen and Svara 2002; Pollitt and Bouckaert 2011b). Often a “big model” strategy is employed in which public management regimes are categorized as belonging more or less to models such as New Public Management (Hood 1991), the Neo-Weberian State, New Public Governance (Pollitt and Bouckaert 2011b) or Digital Era Governance (Dunleavy, Margetts, Bastow, and Tinkler 2006). While the lions share of postwar modern welfare state growth, as indicated by the number of employees and the size of the budget, was a regional and local phenomenon, these big models of public management reform are predominantly elaborated based on empirical evidence from state administration (Dunleavy, Margetts, Bastow, and Tinkler 2006; Pollitt and Bouckaert 2011b). Since the functions of central state administration and local government are different in a number of respects, both in terms of hierarchical authority and welfare services provided, the public management reforms enhanced at the central and local level of government are likely to vary. Thus, what may appear to be an almost clear cut Neo-Weberian model when exclusively analyzing central state administration may look somewhat differently once the local government level is included?

The analysis deals with a group of organizational innovations in the public sector that since the beginning of the 1990s have often been referred to as “New Public Management” (hereafter NPM) (Hood 1991). These innovations are characterized by being transnational standards (Røvik 2007). This means that they can be found, with slightly varying local adaptations, in the public sectors of many different countries – especially in the wealthiest OECD countries. They are concepts for organizing the public sector that travel between countries. Some of them are part of various global consultancy firms’ toolboxes. The OECD or other international organizations recommend some of them. Some of them are put on the agenda of national governments as something that is recommended or required. What they have in common is that they are about organization – that is, about new ways of planning and organizing work. In that sense, they are all about leadership and management.

Thus it is not innovations that were initially developed in the Danish public sector that are the focus of this article, even though they often (hopefully) have been translated and adapted (or reinvented) (Rogers 2003)) for the specific context in which they are used. Focus is instead on transnational ideas about organization that have achieved a certain status in the global management discourse. This also means that in a global and national sense, the ideas are not entirely new. Some of them – for example, outsourcing, privatization and Management by Objectives – were already introduced in the 1980s. Some of them – for example, Balanced Scorecard and Lean Management – were

developed in the 1990s but only gained a foothold in a Danish public context in the 2000s. The fact that the ideas are not entirely new does not mean that it is not a case of innovation. As most innovation scholars we define public sector innovation as a process in which producers of public services assimilate and use ideas, objects and practices that are new to the adopting organization.

The article examines three issues in relation to these transnational organizational innovations: 1) How widespread and important are selected transnational organizational innovations in the Danish public sector? How are these organizational innovations related to each other? Is it, for example, possible to identify coherent packages of organizational innovation? 3) What are the differences and similarities in transnational organizational innovation between state administration and local government and how can they be explained?

The article is organized as follows: First the transnational organizational innovations included in the analysis are presented and theorized. Second, the data and methods are explained and third the results of the analysis are presented. Finally the results and their implications are discussed

2. Transnational organizational innovations

“World models have long been in operation as shapers of states and societies, but they have become especially important in the postwar era as the cultural and organizational development of world society has intensified ...” (Meyer, Boli, Thomas, and Ramirez 1997)

“... although particular management tools do often belong to similar families (or coherent menus) it should not be assumed that each individual tool is *exclusively* associated with one model, and cannot be fitted into any other.” (Pollitt & Bouckaert 2011, pp. 24)

As noted above, the focus of the article is on organizational innovations that can be characterized as being transnational standards – that is, standards of organization that can be found in many countries and in different organizational fields (DiMaggio and Powell 1991; Røvik 2007).

The analyses take a macro phenomenological institutional diffusion perspective as their point of departure. Macro phenomenological means that the frameworks of interpretation are developed over time in transnational global processes, which more or less have an impact on local forms of practice (Meyer, Boli, Thomas, and Ramirez 1997) through processes of diffusion and translation (Czarniawska and Sevón 1996; March 1981; Rogers 2003; Røvik 2007). An institutional diffusion model means that there are institutional conditions for diffusion rather than specific network relations that are important for understanding differences in the adoption of specific organizational models (Strang and Meyer 1993).

In the international management literature these transnational organizational innovations have since the beginning of the 1990s often been termed “New Public Management” (NPM) or, in the USA, “Reinventing Government” (Hansen 2011a; Hood 1991; Osborne and Gaebler 1992). They are often linked to the neoliberal wave of market and management reforms in the public sector that were put on the agenda in the 1980s in the wake of the economic crises of the 1970s. An extensive literature has been developed on NPM: a) What is NPM? b) What factors further and impede the

development of NPM? c) What consequences has NPM had? and d) Is NPM as widespread as most experts claim? (Dunleavy, Margetts, Bastow, and Tinkler 2006; Hansen 2011a; Hood 1991; Hood and Peters 2004).

It is not the purpose of this article to examine the NPM literature in depth but some comments related to the analyses presented in the article are relevant. For one thing, the term NPM covers such different types of organizational innovation that they represent a broader phenomenon than neoliberal ideas of marketization, where the differences between the innovations are at least as interesting as the similarities (Rhodes 1999). For another, it still makes sense to use a general term about the wave of reform that was put on the agenda in the 1980s and which still characterizes large parts of the public management discourse. Even though the differences between them are important and interesting, the innovations do have some shared characteristics. First, they are transnational and second, they are characterized by a rationalizing discourse in which the key word is efficiency, while they only peripherally relate to issues of justice and politics. They are developed as very different, more or less coherent notions of the general problem that arose in the wake of the development of the great service producing welfare states in the decades following the Second World War and which became an urgent item on the agenda after the oil crises of the 1970s: How can a more rational and effective production of welfare state services be furthered? The answers to this question may be very different but are nonetheless united by the assertion that organization, leadership and management are important. There are, however, great differences in the degree to which the answers emphasize competition and marketization as solution models.

Below, each of the eleven innovations is briefly described with focus on the differentiation between two dimensions. First, whether the organizational innovation is embedded in a market paradigm or a management paradigm (Hood 1991) and second, when the innovation was introduced in the Danish public sector context (see Table 1)(Hansen 2011b). The precise classification for each of the eleven innovations is difficult and should be understood as a rough approximation.

Market paradigm innovations

1. Privatization and outsourcing were, inspired by the neoliberal wave in Thatcher's Great Britain and Reagan's USA, introduced into the Danish public context during the first half of the 1980s. It is a special innovation on the list because it was controversial right from the start and was theorized by both the political right and left as an attack on the universal welfare state (Kristensen 1984). Today it is much less controversial and politicized than previously but can nevertheless still mobilize traditional conflicts from the classic right-left scale in Danish politics. In the Danish context it is primarily linked to ideas of breaking down public monopolies and introducing competition mechanisms in public service provision with the aim of increasing efficiency. In the 2000s it has received great hierarchical support from the government with targets of increasing the share of private service providers.

Table 1: A typology for transnational organizational innovations related to New Public Management (NPM)		
	Market paradigm	Management paradigm
Relatively old and well established in context: Institutionalized meaning and practice. Introduced in 1980ies	<ul style="list-style-type: none"> • Privatization • Free choice for users 	<ul style="list-style-type: none"> • Management by Objectives • Benchmarking
Relatively new and less established in context: Unclear meaning and practice. Introduced in 1990ies or later	<ul style="list-style-type: none"> • Purchaser-Provider split model • Management by Contract 	<ul style="list-style-type: none"> • Value-based management (organizational culture etc.) • Quality Management (e.g. TQM) • Balanced Scorecard • Lean Management • Pay-for-performance systems

2. Free choices for users: Different variants were introduced into the Danish public context in the second half of the 1980s – for example, in further education (Finansministeriet 1992; Westphalen and Jensen 2003). Was later formally established as the basic rule in most public service areas. In principle and to a certain degree in practice, citizens can freely choose between day care services, kindergartens, municipal primary and lower secondary schools, upper secondary schools, further education, hospital treatment and elder care. The basic idea is that free choice creates a competitive situation that encourages both public and private service providers to continuously improve their services. It is an innovation that to a marked degree has had formal hierarchical support in the form of legislation and normative support.

3. Purchaser-Provider-Split models: Were introduced in the Danish public context in the first half of the 1990s and have in the 2000s received hierarchical support in the municipalities through legislation in the area of elder care, among others. This innovation is connected with a market paradigm as its organizational basis and thus constitutes a core idea of the market part of the NPM movement (Harrison 1991; Lewis, Bernstock, Bovell, and Wookey 1996). The basic idea is that the public sector organizations should be divided into an purchaser unit (also called an authority organization) and a provider (also called a supplier). The relation between the two organizations is formalized in written contracts and the innovation is thus in theory clearly related to Management by Contract. This division in principle makes it possible for public supplier organizations to compete with or be replaced by private supplier organization. This organizational form is thus the organizational basis for the privatization of the supply of services where the execution of the task is still ordered and controlled by the public sector.

4. Management by Contract: Was introduced into the Danish public context in the beginning of the 1990s and is found in several versions, all of which can be characterized as a formalized further development of the Management by Objectives concept of the 1980s (see below). It is the “hard” version of Management by Contract, which is directly linked to the market paradigm, while “softer”

versions may be considered variants of the goal concept that has influenced the public sector since the 1980s (Greve 2000; Greve 2005; Greve 2008; Greve and Ejersbo 2010). In the hard version of Management by Contract, binding contracts are introduced between the public sector Purchaser/authority organizations and private or public provider/supplier organizations. When the contract has been formulated for a period of two-four years it is the authority organization that must ensure that the contract is adhered to, but if it is, the authority organization cannot interfere in the supplier organization's work during the contract period. In other words, an arm's length principle is adopted, where the hierarchy is partially suspended during the contract period. The model assumes that it is possible to specify clear expectations in the contract and has required a great deal of adaptation in the public sector. In the "soft" version the contract is more in the nature of a communication tool, where mutual expectations are specified in writing in annual contracts, which can be characterized as internal management tools with varying degrees of openness.

Management paradigm innovations:

5. *Management by Objectives (MBO)*¹: Was introduced at the same time as privatization and outsourcing in the first half of the 1980s. While privatization did not win acceptance immediately and was not seriously launched until the 2000s in the Danish public sector, Management by Objectives fit in well in the hierarchy of authority that generally characterizes public management. The basic idea is that democratically elected politicians and administrative top management formulate general goals, often with specific measurable indicators as well as budget frameworks of the work within a given area (Dalsgaard 2000; Lægrend, Roness, and Rubecksen 2006; Madsen 1993). But within these goals authority and responsibility are delegated to the local leader, who has a high degree of freedom to figure out how to achieve the goals. Slogans like "let the managers manage" and "steering not rowing" characterized and continue to characterize the public sector's understanding of management. Within the goals that politicians and management set, public institutions must begin to act as independent firms, a situation that has been termed "agencification" in the international PA literature (Pollitt, Talbot, Caulfield, and Smullen 2004).

6. *Benchmarking*: Is defined in somewhat different ways in the international literature, but is basically about comparing one's own results with others on the basis of certain standards (benchmarks) – for example, what is considered "best practice" within a field. The goal is thus to improve one's own practice by comparing oneself with the best in the field and learning from them. In the Danish public context it is known from, for example, the PISA studies of primary and lower secondary schools that came in the 1990s, but already in the 1980s the standardized municipal bookkeeping system made possible the development of municipal key figures for expenditures in different areas. Since the 1980s even more municipal key figures have been developed, which make comparisons possible on even more dimensions.

7. *Value-based management (organizational culture etc.)*: Of the included management concepts, value-based management is probably the one that has been open to most interpretations. However, it is probably also the only one that can really be said to represent a "soft" management orientation

¹ Also called Management by Objectives and Results (MBOR) in the PA literature.

with a focus on frameworks of understanding and values. Internationally, work on organizational culture and values were really put on the agenda in the 1980s (Hofstede 1980; Peters and Waterman 1982; Schein 1986). The basic idea is that the employees' values, norms and basic assumptions are decisive for the success of the organization and can be influenced (albeit with difficulty) through a conscious management effort. It is unclear when this focus on culture and values became widely accepted in Danish public management, but it was brought up for discussion already in the 1980s and in the 1990s it became an essential part of the toolbox of public managers (Beyer 2006; Dahler-Larsen 1993; Gundelach and Sandager 1994; Jensen 1998; Pruzan, Johnsen, and Hildebrandt 1994). It is an approach to management that is not diffused through hierarchical support through legislation and recommendations but rather by public managers getting the message and adopting it as part of their management toolbox.

8. *Quality management systems (e.g. TQM)*: Quality management systems are, like Lean (see below), a management concept, or a family of management concepts, inspired by Japanese experiences. They became widespread globally in the 1990s in the wake of the competitive success of the Japanese in the 1980s (Hackman and Wageman 1995; Mueller and Carter 2005; White and Wolf 1995). They constitute an organizational innovation that builds on a holistic system approach to the organization. Everything in the organization must be aimed at improving quality, and the various versions of the systems make in principle great demands on the management, employees, suppliers and customers to become engaged in the process, just as extensive quality measurement systems are constructed. In the private sector ISO9000 systems have become widespread, while the public sector's increasing use of accreditation can be seen as counterpart to this.

9. *Balanced Scorecard (BSC)*: Was formulated in the start of the 1990s (Kaplan and Norton 1992) as an alternative to the short-term focus on the bottom line of the 1980s in American firms, which had caused great problems with underinvestment in the production apparatus and other forms of more long-term business strategies. The idea was later developed from a complex measurement system to notions about how the firm can work strategically with management information systems (Kaplan and Norton 2007). In Denmark, Local Government Denmark (LGDK, in Danish: KL) has developed a proposal for a translation of the basic ideas to a Danish public context (KL 1999) and several municipalities and other public organizations have worked with the ideas (Hansen 2010). The basic idea is that many aims must be balanced in order to ensure the survival of a firm in the short and the long term – a bottom line orientation is not enough and can be destructive. In the original formulation four questions were underlined: How do shareholders and the financial markets see us? (financing) How do customers perceive us? (customers) What must we become especially good at? (internal processes) Can we continue to improve ourselves and create value? (innovation and learning). For all four areas, goals and indicators are set for how well things are going, which in many cases creates quite complex measurement systems. This, too, is not a case of an organizational innovation that has been diffused through legislation or other compulsory hierarchical processes.

10. *Lean management systems*: Like TQM, inspired by Japanese experiences from Toyota and are on this background formulated as a general management concept of American "management gurus"

(Womack and Jones 1994; Womack and Jones 1996; Womack and Jones 2003). In Denmark lean management systems did not emerge until the 2000s, when among other things, a research project at Copenhagen Business School contributed to their popularization (Melander 2009). Lean is essentially about avoiding waste through an elucidation of what creates value in organizational processes. It involves a holistic approach, in which an attempt is made to mobilize employees' knowledge and engagement in order to improve organizational processes.

11. Pay-for-performance systems: Are related to ideas that an extra effort should be rewarded tangibly with a bonus for precisely that effort. A relatively simple model is thereby created for what motivates employees, which has been widely criticized in recent motivation theory (Andersen 2009; Christensen 2007; Perry and Hondeghem 2008; Perry, Mesch, and Paarlberg 2006). In Denmark a new salary system ("ny løn") of the 1990s (Pedersen and Rennison 2002) can be seen as having been inspired by this way of thinking, just as performance contracts for managers, which reward managers for tangible results, are examples of this. It is thus an idea that has been given a great deal of hierarchical support in the agreement systems that have been established around the Danish public sector wage formation. These systems are, however, particularly familiar in the form of individual and collective piecework systems, in which a (often small) share of the salary is dependent on specific achievements.

3. Data and methods

The empirical analyses are based on surveys sent to municipal senior managers in the autumn of 2008 (Hansen 2009; Hansen, Jensen, and Pedersen 2009) and to senior managers in state organizations in the spring of 2009 (Hansen, Jensen, and Pedersen 2010). In the case of the state organizations the survey was part of the comparative COBRA program (Hansen, Lægheid, Pierre, and Salminen 2012; Verhoest 2009; Verhoest, Roness, Verschuere, Rubecksen, and MacCarthaigh 2010).

In both studies the respondents were asked to assess the importance of eleven of the management concepts and tools that have appeared in connection with the New Public Management reform wave. It is this battery of different types of organizational innovations that constitutes the dependent variable of the analyses. A frequency analysis of the responses from both the municipal and the state study is shown in Table 2 (see the results section), which also shows the frequency of the two other variables of the study – the municipal organization and the number of employees.

With regard to the municipal study, the responses from the Municipal Chief Executives (Kommunaldirektører (KD)), Social Directors (SD), Municipal Engineers (Tekniske direktører (TD)) and Directors in the Field of Children's Educational and Cultural Matters (Børne- og kultur direktører (BKD)) have been included in the analysis. The Municipal Chief Executive is the top unelected official in the municipal hierarchy and has as such, together with the mayor, overall responsibility for the municipality's activities. The Social Director is defined as the top administrative manager with the welfare of senior citizens as part of his or her portfolio of responsibilities. The Municipal Engineer is the same for the technical area, while the Director in the

Field of Children's Educational and Cultural Matters is responsible for the municipal primary and lower secondary school. For all four manager groups the response rate was over or close to 70 percent (see also the documentation report from the study (Hansen, Jensen, and Pedersen 2009)).

The study among the state organizations was conducted in the spring of 2009 – approximately half a year after the study in the municipalities. The state organizations in the study comprise organizational units within the ministries that have a hierarchical relation to a ministerial department. The response rate for the state survey varied from question to question but was generally over 60 percent. In relation to the municipalities the state organizations constitute a more heterogeneous group of organizations – with regard to both size and area of responsibility. The state agencies are also included in the study but in this case, too, there is a very heterogeneous portfolio of tasks. Many state culture and education institutions are included in the study (see also (Hansen, Jensen, and Pedersen 2010)).

Table 2 presents the frequencies for each of the eleven management concepts (see results section), as well as for the variables 'municipal organization' and 'number of employees', with regard to average, median value, standard deviation and minimum and maximum values.

In the results section below, the data are analysed using different statistical techniques. The first analysis presented is the frequency analysis, which can in itself tell a great deal about the diffusion of standardized organizational innovation in the Danish public sector. Then a factor analysis of the eleven innovations is presented, which results in a reduction of the eleven organization variables to five variables, of which four are a summative index. Next, a bivariate Pearson's correlation analysis is carried out on the five organizational innovation variables and the two explanatory variables. The results section concludes with a multivariate regression analysis.

4. Results

The frequency analyses reveal some interesting results in relation to the first descriptive question of the study: How widespread and important are selected forms of transnational organizational innovation in the Danish public sector?

Table 2: Frequencies of the variables included in the analysis: Survey fall 2008 to four groups of municipal top managers (kommunaldirektører og forvaltningsdirektører) and spring 2009 to managers in state administration outside ministerial departments								
	1	2	3	4	5	6	7	8
	N total	Mean total	Mean Kom.	Mean stat	Med. total	Std. total	Min total	Max total
11. Valuebased management (organizational culture etc.)	403	5,65	6,2*	4,8	6	1,6	1	7
5. Management by Objectives	403	5,38	5,7*	4,9	6	1,6	1	7
2. Purchaser-Provider Model	403	3,81	4,6*	2,5	5	2,0	1	7
6. Benchmarking	401	4,21	4,6*	3,6	5	1,7	1	7
3. Management by Contract	403	4,49	4,5	4,5	4	2,0	1	7
4. Free Choice for Users	396	3,57	4,3*	2,3	4	1,9	1	7
10. Lean Management	395	3,41	3,8*	2,7	4	1,9	1	7
1. Privatization	404	3,30	3,7*	2,7	3	1,6	1	7
7. Quality Management (TQM etc.)	400	3,03	3,2*	2,7	3	1,9	1	7
8. Balanced scorecard (BSC)	399	2,27	2,3	2,2	1	1,7	1	7
9. Pay-for-performance systems	396	1,92	2,0	1,9	1	1,5	1	7
12. Municipal organization	447	0,61	-	-	1	0,5	0	1
13. Number of employees	425	1165	1714	307	350	1775	0	13000
Question 1-11: Below is presented some of the management concepts that has been on the agenda. On a scale from 1-7 we ask you to estimate how important each of these concepts are for the work of your organization concerning leadership and work processes: 1. Not adopted; ... 7. Very large importance Question 12: A dummy variable for municipal sector. Not municipal means state sector. Question 13: Number of full time employees in the organization. * At least 0,05 % significance level difference between municipality and state average (mean)								

The average columns (columns 2-4) show first, that value-based management and Management by Objectives are assessed as the most important at both the state and the municipal level, while pay-for-performance systems and balanced scorecard (BSC) are assessed as on average the least important in both systems.

Yet second, there are in addition some significant differences in the importance ascribed to different innovations. Eight of the eleven innovations, according to the managers, are significantly more important in the municipalities than in state administration (comparison of columns 3 and 4). For example, while the Purchaser-Provider models are very important in the municipalities, they do not

seem to have had much impact in the state context. The study thus indicates that the municipalities have generally been more receptive to transnational standards than the state organizations.

Third, the standard deviations are generally higher for the state organizations (not shown in the table), which may be due to the greater heterogeneity in the state organization's size and portfolio of tasks.

The question of whether different coherent "packages" of organizational innovations can be identified is examined using an explorative factor analysis (see Table 3).

Table 3: Factor analysis of 11 transnational organizational innovations impact in local government and state administration					
	1 MBO index	2 BSC index	3 PRIV index	4 Contract	5 total index
11 Valuebased management (organizational culture etc.)	0,77	-0,058	0,131	-0,075	
5 MBO	0,643	-0,062	-0,014	0,459	
6 Benchmarking	0,594	0,252	0,252	-0,061	
10 Lean	0,511	0,327	0,002	0,056	
8 Balanced scorecard	0	0,816	-0,034	0,072	
9 Pay-for-performance	-0,173	0,793	0,182	0,078	
7 Quality management (e.g. TQM)	0,282	0,733	-0,083	-0,067	
1 Privatization/outourcing	-0,131	0,127	0,833	-0,031	
2 Purchaser-Provider-model	0,087	-0,045	0,815	0,083	
4 Free choice for users	0,234	-0,103	0,667	0,045	
3 Management by Contracts	-0,064	0,086	0,071	0,929	
Cronbachs alpha	0,72	0,74	0,73	-----	0,83
Extraction Method: Principal Component Analysis. Rotation Method: Oblimin with Kaiser Normalization. a. Rotation converged in 9 iterations.					

The factor analysis for both municipal and state organizations indicates that the eleven innovations can be divided into four groups. The analysis has furthermore been carried out for and compared with the municipal and the state organizations separately (tables not shown).

The first group of innovations includes *value-based management*, *Management by Objectives*, *benchmarking* and *lean management systems*. This is quite surprising as the management logics behind the four innovations are very different and they were introduced in the Danish public sector at different times. While Management by Objectives, for example, was introduced in the 1980s, Lean models were not known until the 2000s. When the results in Table 3 are compared with the sub-analyses for the municipalities and the state the two sectors appear somewhat different. In the municipalities, value-based management, Management by Objectives and benchmarking are in the

same group, but not Lean. In the state, Lean and value-based management appear in the same group while the two others – Management by Objectives and benchmarking – are placed separately in two other groups.

The other group of innovations includes *Balanced Score Card (BSC)*, *pay-for-performance* and *quality management systems*. If a corresponding analysis is carried out separately for municipal and state organizations the same result is obtained for both sectors. They are relatively new innovations that were not introduced in the public sector until the end of the 1990s. Furthermore, with the partial exception of pay-for-performance, they are innovations from the private sector, which have not been given special hierarchical support through legislation but have typically been introduced through management decisions in the individual organizations.

The third group of innovations includes *privatization and outsourcing*, *Purchaser-provider models (BUM)* and *free choice for users*. The corresponding analysis for the state organizations yields the same result, while the municipalities deviate slightly because free choice for users is grouped together with Management by Contract, which stands alone in the overall analysis. From the perspective of management logic this group can be considered a distinct package as all three innovations are clearly embedded in a global market paradigm from the New Public Management movement. Furthermore, they have all benefitted from a certain amount of hierarchical support through legislation.

Fourth, the analysis for both sectors places *Management by Contract* in its own group. The corresponding analysis for the state organizations groups Management by Contract together with Management by Objectives, while the one for the municipal organizations groups Management by Contract together with free choice for users.

Fifth, a reliability test (Cronbach's $\alpha = 0.83$) indicates that it is justifiable to construct an overall index for all eleven innovations. All eleven innovations thus correlated significantly positively with each other (bivariate Pearson's correlation, two-tailed, 1 % significance level – table not shown).

On the basis of the factor analysis and the reliability test a summative index has been constructed, in part for all organizational innovations and in part for the three sub-indexes (see table 3), while Management by Contract is retained as a variable.

The correlations between these five dependent variables and the variables 'number of employees' and 'municipal organization' are presented in Table 4. The five innovation variables are all positively correlated to each other. Moreover, the table shows that the municipal senior managers for three of the innovation types (index 1, 2 and 4) report significantly more organizational innovation than their state-employed colleagues employed. The exception is in part Management by Contract, for which there is no difference between state and municipal organizations – the same result that was found in the frequency analysis (Table 2). In part, it is index 3 (*Balanced Score Card (BSC)*, *pay-for-performance* and *quality management systems*), for which there is no significant difference between the state and the municipal sector.

Finally, there is a significantly greater tendency for large organizations to report these types of organizational innovation than small organizations.

Table 4: Pearson correlation of dependent and independent variables							
	1	2	3	4	5	6	7
1 Total Index Org. innov.	1	,851**	,707**	,776**	,537**	,428**	,268**
2 MBO Index Org. innov.	,851**	1	,463**	,522**	,338**	,416**	,226**
3 BSC Index Org. innov.	,707**	,463**	1	,305**	,276**	0,083	,127*
4 PRIV Index Org. innov.	,776**	,522**	,305**	1	,333**	,547**	,279**
5 Management by Contract	,537**	,338**	,276**	,333**	1	0	,108*
6 Local Government	,428**	,416**	0,083	,547**	0	1	,387**
7 Number of employees	,268**	,226**	,127*	,279**	,108*	,387**	1

** . Significant 0.01 level (2-tale). * . Significant 0.05 level (2-tale).

Since the municipal organizations are on average larger than the state organizations it makes sense to test whether the difference between state and municipalities is mainly due to size. This is examined in Table 5, which presents a regression analysis of how the sector and the size of the organization are related to each of the five indicators of organizational innovation.

Table 5: OLS Regression analysis of transnational organizational innovation in state and local government – impact of sector og size of organization					
	Model 1 Total index	Model 2 MBO index	Model 3 BSC index	Model 4 PRIV indexx	Model 5 Contract
Local Government	0.387***	0.389***	0.053	0,519***	-0.040
State	reference	reference	reference	reference	reference
Number of employees	0,121	0.077	0,107	0,084	0.123*
Adj R2	0.195	0.176	0.013	0.305	0.008
R2	0.20	0.180	0.019	0.309	0.013
N	365	379	383	386	394

Note: Standardized coefficients.
Significance level: *p<0.05 **p<0.01 ***p<0.001

The results of the regression analyses indicate that the municipalities have a higher degree of organizational innovation as regards the MBO index (*value-based management, Management by Objectives, benchmarking and lean management systems*) and the privatization index (*privatization and outsourcing, Purchaser-provider models (BUM) and free choice for users*), while there is no significant difference between the two sectors with regard to the diffusion of Management by Contract and the BSC index (*Balanced Score Card (BSC), pay-for-performance and quality management systems*). Furthermore, the results indicate that the size of the organization is significant only in relation to the use of Management by Contract. With regard to R2, it is first and foremost in relation to the diffusion of the privatization index, with a coefficient of determination of 30%, and the MBO index, with a coefficient of determination of 18%, that the significance of the state and municipal sector is noticeable.

5. Discussion and conclusion

The aim of this article was to examine three issues in relation to the diffusion and impact of transnational organizational innovations in the Danish public sector: 1) How widespread and important are various forms of transnational organizational innovation in the Danish public sector? 2) How are these organizational innovations related to each other? 3) What are the differences and similarities in transnational organizational innovation between state administration and local government and how can they be explained?

In the previous sections eleven organizational innovations were presented and their importance in the Danish public sector was analyzed using survey data provided by municipal and state senior managers.

From the perspective of the public manager, the first question was answered by the frequency analysis in Table 2. Value-based management and Management by Objectives are assessed in both the municipal and the state sector to be the most important organizational innovations by public senior managers. Furthermore, both innovations are assessed to be more important in the municipalities than in the state. In third place overall comes Management by Contract, which is, however, surpassed in the municipalities in terms of significance by the Purchaser-provider model and benchmarking. There is no significant difference in the managers' assessment of the importance of Management by Contract in the two sectors. In fourth place overall comes benchmarking, which, however, is far more important in the municipalities than in the state. Finally, the Purchaser-provider model comes in fifth place overall, but it is far more important in the municipalities than in the state. The two least important innovations according to the managers are Balanced Scorecard and pay-for-performance systems.

The second question dealt with how the eleven innovations are related to each other and whether it is possible to identify packages of innovations. Three groups were identified using factor analyses. Furthermore, it appeared that the eleven innovations could be analysed as a phenomenon in an overall innovation index. In other words, they are all positively correlated with one another. This result supports the notion that it is meaningful to describe NPM innovations as a phenomenon despite their obvious differences. The “purest” group is probably the group with *privatization, free choice for users and Purchaser-provider model* – the PRIV index. This is clearly a market paradigm group that is logically coherent from a management point of view. It may seem surprising that Management by Contract has not been grouped together with these three innovations in the empirical analysis. The most plausible interpretation is probably that Management by Contract in the state and its “soft” version in the municipalities does not have much to do with the market paradigm. Rather, it is a variant of Management by Objectives that has been given a contract form.

In contrast, the MBO index comprises organizational innovations with very different logics (value-based management, Management by Objectives, benchmarking and Lean management). The only characteristic they share in common in addition to the focus on rationalization that characterizes all NPM innovations is that they cannot be related to market logic but are rather about management. This characteristic is also shared by the third group – the BSC index – which comprises less

widespread recent management innovations firmly rooted in the private sector (*Balanced Scorecard, pay-for-performance and quality management systems*). In addition they are characterized by not having had broad impact in the public sector. In the case of pay-for-performance, this is despite a considerable amount of hierarchical support for the idea in the form of ideas about the new salary system.

Taking a closer look at the two old innovations from the 1980s – privatization and outsourcing and Management by Objectives, there is a striking difference between the two. While Management by Objectives have become widely accepted in both the state and the municipalities, the same is true of privatization and outsourcing to a much lower degree despite considerable hierarchical support in the form of legislation and more informal pressure. One important reason for this can be the different ways in which they were theorized when they were introduced in the 1980s. While Management by Objectives was introduced as a relatively technocratic and politically uncontroversial method for striking a balance between central management and decentralized adjustment, privatization and outsourcing was at least to some extent described as an attack on the universal welfare state. Yet in addition, in Denmark as well as internationally, considerable practical problems have arisen in connection with the top-down development of a reasonably well-functioning market with private and public providers that compete with each other to provide welfare state services.

The third question of the study was about what conditions can explain differences and similarities in the diffusion of the innovations, and in particular, whether differences between state and local government are important.

When the municipal and the state sector are compared, the greater impact of the NPM inspired organizational innovations in the municipalities is striking. The study clearly indicates that the municipalities work much more with this type of innovation than the state. The study also indicates that the difference between the two sectors is not due to differences in the size of the organizations. The size of the organization is only significantly related to Management by Contract and that is one of the few innovations for which there is no significant difference between state and municipal organizations.

One implication of the analysis may prove broadly important for our understanding of public management reforms. In the Danish context the analysis indicates that NPM tools have had a much stronger impact in local government than in state administration. If this finding hold in studies of other countries our descriptions of the impact of NPM reforms may be questioned. What may appear to be an almost clear cut Neo-Weberian model when exclusively analyzing central state administration may look somewhat differently once the local government level is included?

Within public administration research most comparative analyses of public management focus at one level of government (Mouritzen and Svava 2002; Pollitt and Bouckaert 2011b). Often a “big model” strategy is employed in which public management regimes are categorized as belonging more or less to models such as New Public Management (Hood 1991), the Neo-Weberian State, New Public Governance (Pollitt and Bouckaert 2011b) or Digital Era Governance (Dunleavy,

Margetts, Bastow, and Tinkler 2006). While the lions share of the postwar modern welfare state growth, as indicated by the number of employees and the size of the budget, is a regional and local phenomenon, these big models of public management reform are predominantly elaborated based on empirical evidence from state administration (Dunleavy, Margetts, Bastow, and Tinkler 2006; Pollitt and Bouckaert 2011b). This division of labor within PA may enhance a distorted image of the actual impact of NPM tools.

Since the functions of central state administration and local government are different in a number of respects, both in terms of hierarchical authority and welfare services provided, the public management reforms enhanced at the central and local level of government are likely to vary in other countries as well.

This raises questions concerning what causes these differences between state and local government adoption of NPM tools. Unfortunately the data on which this study is based only make informed guesses possible. For some of the eleven innovations, the explanation probably lies in certain structural differences. For example, it is likely far more meaningful and practicable to do benchmarking in municipalities that provide a large number of comparable services than among state organizations with their far more heterogeneous portfolios of tasks. It is also probable that a market paradigm in which the difference between municipalities and the state is most pronounced, all other things being equal, is more meaningful and easier to put into practice in the municipal context than in the state context. Many of the state organizations have portfolios of tasks that are not easily marketized. On the other hand, this would probably also have been said a few years ago about some of the municipal services that today are to a certain degree privatized. An entirely different explanatory model could be that traditions for inter-organizational learning and dissemination of new ideas are far better developed in the municipal than in the state context. While municipal decision makers have for decades exchanged experiences on shared, fundamental problems through Local Government Denmark (LGDK, in Danish: KL), at the municipal college (den kommunale højskole), and in regional and local collaborations between municipalities, the central state administration has until relatively recently to a greater degree been characterized by ministerial silos and tactical power struggles, which are not conducive to a fairly open-minded exchange of ideas on organizational innovation.

However, the above discussion is speculative in nature and requires further studies to validate the conjectures. One path for future research would be to supplement the present study with more explanatory variables with the aim of further narrowing down what factors may explain differences between organizational innovation in the state and the municipal sector. Another approach, which it is always important to supplement research with, is to conduct some solid case studies that show in more specific terms how the innovations studied are practiced in the public sector and to clarify how they are related to one another. Finally, there are always relevant questions about what consequences the innovations in question have for the performance of the public sector. The organizational innovations studied here share a focus on increasing the efficiency of the public sector, but in general, our knowledge of the degree to which they work in this respect is for many reasons extremely limited.

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