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**Reforming Portuguese Local Government: A New Public Management Approach  
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Institutional details:

Miguel Angelo Vilela Rodrigues  
Escola Superior de Tecnologia e Gestão de Mirandela  
Instituto Politécnico de Bragança  
Rua João Maria Sarmento Pimentel  
Apartado 128  
5370-326 Mirandela  
Telef. +351 279 201 340  
Fax: + 351 278 265 733  
E-mail: [mangelo@ipb.pt](mailto:mangelo@ipb.pt)

Joaquim Filipe Ferraz Esteves de Araújo  
Professor of Public Administration  
Universidade do Minho  
Escola de Economia e Gestão  
Campus de Gualtar  
4710-057 BRAGA  
PORTUGAL  
Telef. +351 253 604 527  
Fax. +351 253 284 729  
E-mail: [jfilipe@eeg.uminho.pt](mailto:jfilipe@eeg.uminho.pt)

## **Reforming Portuguese Local Government: A New Public Management Approach**

The last decades represented a severe strike to the public management model associated to the Welfare State. Different pressures from economics, financial, politics and ideological sources motivated the appearance of the so called New Public Management (NPM). Hood (1991) and Pollitt (1990) point out that the NPM introduced market type mechanisms, the adoption of private management practices, competition among public services, all of this with the specific goal to manage a better public service for the citizens and to raise efficiency and flexibility in public management. Osborne e Gabler (1992) argue that the NPM provides similar services to that delivery by the Welfare State, but it seeks to do it with new actors. It opened the public administration to private and third sector agents and promoted public-private and public-public partnership, creating a network of organizations responsible for public services delivery.

All these changes, at government level, ended spreading themselves into the reform's agenda in the Local Government. Following the analysis made by Fenwick, Shaw and Foreman (1994), in Westminster countries the changes occurred, by the introduction of the Compulsory Competitive Tendering and the Best Value program. In Portugal, which follows a Continental Model, the political and administrative system imposed barriers that made it difficult for such management reforms to take place. Recently, however, with the creation of public local enterprises we can speak of management changes. Until then the main issue was a progressive but careful decentralization from central to local government.

This paper is a case study carried out in the Districts of Vila Real and Bragança which analyses the changes in Local Government caused by the creation of Municipal Enterprises. The main focus is to analyse how these changes can be interpreted through the bias of the New Public Management. It aims to understand and to analyze local services delivering through the Municipal Enterprises, in order to grasp how New Public Management influences a continental administrative system organised under a traditional bureaucracy (Araújo, 2002). The analysis draws on a case study undertaken on the 26 municipalities belonging to the Districts of Vila Real and Bragança. These districts, whose total population is about 367 825 habitants, are located in the North East of Portugal. Data was collected from interviews and a survey administered from August to December of 2004 to 26 City Councils and 7 Municipal Enterprises, where we asked about the use of market type mechanism, management changes, the establishment of new local structures and the new type of relationships and co-ordination with local government. The survey was directed to Mayors and top civil servants in the municipalities.

## Changes in Public Administration Management

The most recent challenges placed to Public Administration management were felt in many western countries, which lead to the introduction of a set of innovative initiatives in the field of the public administration. This movement of administrative reform, more or less global (Kettl, 2001), is known as New Public Management and intended to improve the efficiency and effectiveness of public services, as well as the satisfaction of the citizen.

The New Public Management draws on the market type mechanisms and the introduction of management tools from the private sector to solve the problems of the public administration. It intends to promote competition between suppliers of public goods and services, in the expectation that competitive sources will improve the quality of public service delivery and, at the same time, reduce production costs (Hartley, Butler and Benington, 2002:388). In the perspective of Denhardt and Denhardt (2000:550) the New Public Management intends to spread the notion that the relation between the citizen and the public service is similar to those that occur in the market, having to be lead in similar way.

There are several factors that pressured the sprouting of a new management paradigm within the public administration. The literature points out that economic, ideological and political pressures, and the failure of the welfare state to deal with the economic crisis pressured the need for a new management approach to public sector. The international economic crisis and the world-wide conjuncture of the end of the last century becomes a twist for the traditional management model. The Keynesians policies and the State's intervention in economic and social life entered a crisis (Arndt, 1998). At the time some scholars claim that fiscal regulation and the creation of public organisations and structures were an obstacle to economic growth and development (Korpi, 2000:49). The governments had to find out alternative forms for the supply of public services (Withe, 1989; Damgaard, 1997). Post-Fordism ideology, as a new regime of capital accumulation, modified the production society (Hood 1994; Rhodes 1996). Mass production, hierarchic chain of command, control and production, bureaucratic organisations and rigid technology, gave their place to a more flexible and personalised society (Rhodes 1996). At the same time, neo-liberal thinkers, such as Milton Friedman (1956) of the School of Chicago, had gained relevance among scientific thinkers. The orientation of these thinkers was towards the competition and the liberalization of markets, opposing to the exaggerated growth of functions of the State (Arndt, 1998). Politically, the New Right's ideology in Anglo-Saxon countries launched severe attacks to the options and policies followed by the Welfare State. According to Bevier and O'Brien (2001), the New Right claims that the bureaucratic model harms the natural balance of the economy through public expenses. Internationally, the construction of an European Union, with the consequent abolition of the customs' barriers and the liberalization of the market, exposed the disparity and debilities of each country. These changes facilitated the attraction of risk capital and increased competitiveness of their respective economies, leading governments to promote public administrative reforms (Araújo, 2002). These changes modify the reality of Public Administration, as it was defined by the bureaucratic model (Hood, 1994). It intends to introduce a new structure and managerial procedures in public services through the transfer of public services to the private sector.

### *New Management Style*

The New Public Management has, in the use of market type mechanisms, a more advantageous solution than the use of monopolies (Hood, 1994; Osborne and Gaebler, 1992). Through its proposals bigger levels of efficiency are reached and the utility for citizens is maximized (Gray and Jenkins, 1995).

Market type mechanisms introduced competition in the public sector and changed the relationships between public services and citizens (Hartley, Butler and Benington, 2002). It also introduces more managerial freedom to public managers. Management in the public sector tends to come closer to the management in the private sector through the use of new tools of management and through the removal of political influence in management decisions criteria (Gramer and Teicher, 2000). In this type of public administration the boundaries between private and public sector management are less visible.

Public Choice theory proposes a bigger control and a public reduction of expenses with bureaucracy and public services. Hartley, Butler and Benington (2002) point out that there was a reduction of the costs in the public sector as a consequence of the new management model. Pollitt (1996) and Hood (1991) fit in this model the discipline of the costs management. According to what Ferlie, Ashburner, Fitzgerald and Pettigrew (1996) stress, in a first phase, the application of the New Public Management aimed the financial sanitation of the Public Administration. They also emphasise the use of markets mechanisms, the use of contracts, management tools, and decentralization. As a consequence, the decentralization of abilities and the liberalisation of markets demanded a new profile of public managers which stresses professionalism (Hood, 1991; Pollitt, 1998; Fenwick, Shaw and Foreman, 1994). Decisions in public services are to be made according to managerial criteria and are promoted by a clear, responsible and transparent chain of command.

### *Organizational Configuration*

One of the consequences of New Public Management was the fragmentation of the Public Administration (Hood, 1991; Pollitt, 1996). This fragmentation was a consequence of the decentralized power and control needed by public managers to perform their job according to the new managerial model, which introduced a separation of functions. On one hand the State, as the agent who defines strategic options and sets up indicators to control the performance of public services delivery; on the other hand, economic agents establishing partnerships with the State for the delivery of public services (Foster and Scott, 1998; Osborne and Gaebler, 1992).

At the same time, the state intended to improve the performance of public service delivery to improve flexibility and specialisation (Kettl, 2000; Osborne and Gaebler, 1992). Consequently, there was a concern to introduce, in the public sector, more efficiency, more adaptability to external environment and more capacity for innovation (Reh fuss, 1991). A new organizational configuration emerged allowing more control over resources and more flexibility in public services' management.

**Table 1 – NPM and traditional bureaucracy**

Traditional Bureaucracy	NPM
Focus on the fulfilment of the rules	Focus on Efficiency
Monopoly Environment	Market
Hierarchy Structures	Organic System
Focus on stability	Focus on innovation and adaptability
Little Competition	Great Competition
Focus on Politics	Focus on the production of public services

Font: Adapted from Rehfuss 1991

The ideas of NPM and the reform experience of OECD countries have influenced the administrative reform in Portugal (Araújo, 2001). Concerning local government there has been pressure to improve public services delivery and to look for innovative ways to provide services. Following the trend to decentralize public services, local authorities engaged in creating autonomous organizations responsible for the production and delivery of public services. The creation of the so-called Public Local Enterprises (PLE), which follow this trend, are an answer to the pressures to improve efficiency in local public services.

### **Changes in Local Government**

Changes in Portuguese Local Government followed the continental European model of Public Administration which emphasised the legal influence through the publication of legislation. Over the years several Laws and Decree-Laws transferred competencies from central government to local government to strengthen the powers and competencies of municipalities. Preceding this initiative was always a new law to reform local finances.

Traditionally, municipalities are organised and structured in municipal services, administrative units which report directly to the Mayor under a strong hierarchic chain of command. Municipal services, together with departments and division, are part of the municipal structure responsible to implement the City Council's decisions (Oliveira, 2001:128).

In order to deal with the requirements of local public services like water supply, garbage collection, sewage, and street cleaning,, which required a more flexible, autonomous and entrepreneur approach to service production and delivery, municipalities created municipalised services (*Serviços Municipalizados*) (Pereira and Almeida, 1985:214). Municipalised services, despite being under the direct control of the City Council, have a special statute which exempts them from some regulation of the municipal services.

Municipalised services are an evolution of municipal services to deal with the specific issues raised by the industrial nature of the services mentioned above. They do not have juridical personality, but they have administrative and financial autonomy. That is, their decisions do not constitute definite administrative acts, but they have autonomy to elaborate their plan of activities, the budget and to manage personnel. They also have the power to charge tariffs for the public service.

The strength of local government and the transference of competencies from central government to municipalities pressured the need to increase efficiency and the need to look for more flexible and modern model of organisations to deliver local public services. Thus, in 1998 the Law 59/98 allowed the creation of Municipal Enterprises (*Empresas Municipais*), responsible for the delivering of local services. Municipal Enterprises are agencies with juridical personality and administrative, financial and patrimonial autonomy. They are regulated by the law of public Enterprises and by the commercial society's code.

Municipal Enterprises were created with a similar approach to those of the private sector, but with the mission of developing activities under the monitoring of the Local Government. This process transfers the responsibility to produce and deliver local public services from the municipalities to such Enterprises in order to improve efficiency and quality. This option of a transfer to an external entity introduced a new institutional framework in municipal organisation, which represents a change from traditional hierarchy to a contractual relationship and raises the issues pointed out by the Principal Agent Theory Coase, 1937; Williamson, 1975). The literature points three problems which are related to the Principal/Agent theory (Horn, 1996:19; Ferris and Graddy, 19997:32; Mishara, Heide and Cort, 1998:227):

1. The interests between principal and agents are not coincident. Usually, there is opportunist behaviour by the parts;

2. The capacity of the Principal to monitor activities or to do so without costs is very difficult. Although there are the terms of the contract and the monitoring system, it is difficult to eliminate the problems of the agency.

3. Finally, the cost with the acquisition of the information and the abilities of the agent. This is an alternative to trust in an agent, hoping a non opportunist behaviour or waste time, energy and money which allows the acquisition of the same capacities.

To overcome the above opportunist behaviour Municipal Enterprises fit a hybrid solution between the market and the hierarchy (Williamson, 1996). Transactions between Municipal Enterprises and Municipalities are based on a permanent exchange of information. The relationships are characterised by the capacity of the municipalities to influence the initial agreement and to introduce changes in Municipal Enterprises. The strong connection between Municipal Enterprises and the City Council reduces the autonomy of Municipal Enterprises drastically. In fact, top managers of Municipal Enterprises are appointed and can be dismissed by the City Council. In many cases, the president or one (or more) members of the Administrative Council in the Municipal Enterprises has at the same time functions in the City Council. The control of the Administrative Council makes it easier to introduce changes in Municipal Companies operations and activities.

### The Case of the District of Bragança and Vila Real

Recent changes in local services delivery opened the opportunity for Portuguese municipalities to look for alternative models of service delivery: the in house production of public services or to transfer to external agents this responsibility. All over the country there is a widespread movement towards the transfer of local service delivery to other parties. In the districts being analysed there are seven Municipal Enterprises working in the 26 municipalities.

Respondents point out that the search for efficiency through new managerial practices and market type mechanisms were the main reason to decentralise services through the creation of Municipal Enterprises. They value the use of private management tools like strategic plans and performance indicators to introduce more discipline in management (Table 2). There is a shared concern about efficiency and the need to improve flexibility.

**Table 2 – Reason to decentralise local services delivery**

	Not Important	Not Very Important	Important	Very Important
Look for efficiency in public service delivering	0,00%	0,00%	26,92%	73,08%
Introduce flexible management	6,82%	0,00%	63,64%	29,55%
Reduce political pressures and increase managerial criteria in decision making	14,29%	14,29%	42,86%	28,57%
Reduce legal constraints over financial management and administrative procedures	0,00%	28,57%	42,86%	28,57%
Improve the capacity to reduce inefficiency	0,00%	0,00%	42,86%	57,14%
Improve the ability for market opportunities	0,00%	0,00%	42,86%	57,14%
Improve the capacity to define investments plans.	0,00%	28,57%	57,14%	14,29%
Improve flexibility to redefine objectives	0,00%	0,00%	28,57%	71,43%
Improve human resources management	0,00%	14,29%	57,14%	28,57%

Personal management was another important reason raised by respondents. Municipal Enterprises operate in a less regulated environment, which allows more freedom and flexibility to contract and dismiss personnel. The data suggests that City Councils are looking for opportunities to create alternative solutions to local services delivery. Indeed, Municipal Enterprises are structured and organised according to the model of private sector Enterprises.

New Public Management claims that managers should manage emphasizing the need to have professional managers (Hood, 1991). Management and the role of managers becomes one of the most important issues in public services. This perspective

is shared by respondents, which points out the importance of management in Municipal Enterprises (Table 3).

**Table 3 – Importance of management in decentralised service delivery**

	Of small account t	Not Very Important	Important	Very Important
The option to decentralise local services delivery increases the importance of management	5,77%	11,54%	38,46%	44,23%
The option to decentralise local services delivery increases managerial responsibility for results	16,67%	10,42%	14,58%	58,33%
The option to decentralise local service delivery increases the transparency of the management processes.	15,58%	18,67%	28,33%	37,42%

However, data collected from the Municipal Enterprises shows that only 14% of top executives have a degree in management. There is a diversity of degrees in different academic areas. Concerning professional experience there is a similar trend. Only 25% of top managers in Municipal Enterprises have managerial experience to work in the private sector. Most of top managers are politicians who belong to the City Council.

Trust on Municipal Enterprises (*Serviços Municipalizados*) is high. Respondents agree that the Municipal Enterprises are a good alternative to municipalized services and offer good quality services (Table 4). Respondents from the City Councils agree that the creation of Municipal Enterprises and the partnership established is a value for money to the citizens.

**Table 4 –Opinion about the Municipal Enterprises**

	Very Bad	Bad	Reasonable	Good	Very Good
Quality in service delivery	0,00%	3,85%	30,77%	61,54%	3,85%
Complaints Management	2,08%	10,42%	58,33%	29,17%	0,00%
Compliance with the terms of contract for service delivery	0,00%	0,00%	40,38%	51,92%	7,69%
Trust and confidence in the relationship between the City Council and the external agent	0,00%	4,17%	18,75%	60,42%	16,67%

In what concerns the complaints management, the data shows that the opinions of respondents from the City Council are sceptical about its efficacy, despite the majority of Municipal Enterprises having a complaint system.

*The Organisational Relations*

The creation of Municipal Enterprises established a new institutional framework for municipalities which raises the issues discussed by the agency theory. The option to decentralize local services and opt by an external agent represents a latent risk for Local Government. These risks are related with honesty and trust in the relationships between municipalities and Municipal Enterprises, and with the opportunism of the intervening agents in the partnership. The results of the enquiries show (Table 4) that, according to Local Government, the contracted agent discloses a reliable behaviour. On the other hand, the data suggest that external entities fulfil the agreements established and have an adequate behaviour towards Local Government. The fragmentation of the public units was the alternative pointed as a way to create new entities responsible for operational activities in an environment apparently more distant from the politicians. New organisations are oriented toward managerial issues with clear objectives and purposes which allowed the increase of efficiency, the use of market type mechanisms, focusing on citizen preference, innovation, adaptability and evaluation through performance indicators

However, despite the creation of autonomous units the data shows that there is not a clear separation between municipalities and Municipal Enterprises. Concerning management autonomy, although Table 1 points out the need to separate management from political criteria, in practical terms the Local Government influences Municipal Enterprises management through political appointments to the Administrative Councils and, in some cases, by politicians. Only one Municipal Company does not have politicians in the Administrative Council. The other Municipal Enterprises have one or more politicians, including three cases where the Mayor belongs to the Administrative Council.

Municipal Enterprises operate under an elaborated system of control which is based on external scrutiny. At local level, the City Council and the Municipal Assembly are responsible for monitoring the Municipal Enterprises activities. However, the respondents say that the role of the City Council and Municipal Assembly is reduced because of the strong relationships between the City Council and the Municipal Company (Table 5). It is worth to stress that some members of the City Council are members of the Administrative Council. This linkage strongly reduces the efficacy and the credibility of scrutinies.

**Table 5 – External Scrutiny**

	Never	Rare	Specific issues	Often
City Council	14,29%	0,00%	57,14%	28,57%
Municipal Assembly	0,00%	33,00%	33,00%	33,00%
Official Auditor	0,00%	14,29%	28,57%	57,14%

A different situation is that of the scrutiny of the Official Auditor and the Account Court. The former has a systematic and interceptive role concerning the scrutiny of Municipal Enterprises activities, particularly concerning financial issues. The latter, the Account Court, produces regular scrutiny activity.

## Conclusion

The analysis shows that the use of market mechanisms has been introduced in Portuguese municipalities. Apparently the decision to create Municipal Enterprises to deliver local services was driven by the need to improve efficiency and managerial flexibility. The ideas of New Public Management seem to have great acceptability amongst respondents, particularly the ideas from the private sector management and service delivery.

However Municipal Enterprises changed the type of control performed by the City Council over local public service production and delivery. The new model changed the traditional thinking based on the hierarchic model. The adherence to new ideas was limited by the prevailing culture which promotes political control over management.

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