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Effective leadership in managing NPM-based change in the public sector

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Abstract

Purpose – The purpose of this paper is to find underlying causes of leadership failure in NPM-based reforms in the public service, and propose leadership principles to guard against such failure as leaders meet the demands of a changing, complex public service environment.

Design/methodology/approach – An analysis of the managerial philosophy of Dr Berwick and its effects on CMS overall performance and employee morale.

Findings – NPM-based reforms create an environment in which administrative wrongdoing can occur. The principles of leadership found in NPLT, which advocates values-based, relationship-based distributed leadership provide a template for effective leadership that can reverse and possibly prevent leadership failure due to NPM-based reforms.

Research limitations/implications – The authors used a single case to demonstrate NPLT leadership principles can reverse leadership failure in a Federal Agency. No quantitative analysis is attempted in this paper. The authors choice of papers to use in the literature review was subjective.

Originality/value – This paper identifies NPM-based reforms as a partial explanation for leadership failure in the public service, and also identifies the leadership principles needed to address and prevent such failures. It provides support for the use of NPLT as a template for effective public service leadership.

Keywords Change, Leadership, Values, New public management, Public service

Paper type Research paper

Introduction

The public service has endured recurrent episodes of leadership failure over the past decade which undermines its effectiveness in representing the core values and expectations of US citizens. While scandals might be reasonably expected in any large and diverse organization, the scope, and nature of recent events represent a disturbing trend in the public service away from a longstanding tradition of service to American citizens based on core American values. It is incumbent on those studying public leadership to evaluate these systemic leadership shortcomings, identify their causes, and propose remedies.

We use an extensive review of the past decade of public service leadership literature along with an analysis of the leadership of a Federal agency that experienced a dramatic recovery from failed leadership to propose both the likely causes of these difficulties and a roadmap for their remediation. Both an explanation of the underlying causes as well as the potential solutions for failed leadership can be found in the tenets of the New Public Leadership Theory, which we discuss below.

Leadership failure in the public service: causes and opportunities

A number of troubling examples of leadership failure in the public service have occurred over the past several years, suggesting a systemic leadership deficiency. For instance, an

investigation of the Immigration and Naturalization Service's (INS) response to complaints of sexual and physical abuse was recently released. It found widespread accusations of murder, rape and other sexual assaults, and physical abuse of up to 10 percent of detainees by INS officials. Investigation of these accusations was found to be delayed and often resulted in little if any accountability (Foley, 2014; GAO, 2013; Eichelberger, 2014; Martinez *et al.*, 2013; Morton, 2012).

The Internal Revenue Service is under investigation for abusing its considerable administrative discretionary powers to inappropriately target certain political groups for increased scrutiny. Despite finding no evidence of agency-wide policy or decisions supporting this practice, the failure to provide adequate oversight of regional offices allowed at least some staff to engage in what appears to be politically motivated wrongdoing (Kahng, 2013).

The Federal and State responses to Hurricane Katrina are well known examples of incompetence and disorganization (Birkstand and Waterman, 2009; Landy, 2008). More troubling were the actions of Federal, State, and Local law enforcement and military personnel and their mistreatment of hurricane survivors who remained in the city during and following the storm (Ridgeway, 2009; Shankman *et al.*, 2012). Reports of illegal detentions, abuse, and extra-judicial killing of US citizens by police, national guardsmen, federally contracted para-military organizations, or others in the aftermath of the storm have surfaced, ultimately leading to questions regarding leadership, oversight, and training of personnel and agencies involved (Garrett and Tetlow, 2006; Lee, 2010).

The creation of false pretenses for the US-led invasion of Iraq, and the subsequent attempts to manipulate media reports and punish those who questioned the Bush administration's justification of its decisions have also been thoroughly investigated and documented. Although much of this fraud was perpetrated by elected politicians and their aids, possibly for political and/or economic gain (Isikoff and Corn, 2006; Record, 2010), numerous Federal agencies were active participants in this monumental scandal, including the Department of State, the Department of Defense, the CIA, and the National Security Council (Isikoff and Corn, 2006) that resulted in a half-million excess deaths (Hagopian *et al.*, 2013) and cost the USA three trillion dollars (Stiglitz and Bilmes, 2008) in addition to unmeasured emotional and physical sequelae suffered by those involved in the conflict.

The Veterans' Health Administration, a division of the US Department of Veterans' Affairs is undergoing a criminal investigation by the FBI over allegations of fraud and mismanagement resulting in the deaths of veterans awaiting care at VA hospitals around the country (CBS, 2014; Devine, 2014). An initial White House investigation showed evidence of a "corrosive culture" marked by mismanagement, retaliation, and a lack of accountability (Andrews, 2014), accompanied by the falsification of VA records of veterans expiring while awaiting care at locations around the country (Jelinek, 2014; Troyan, 2014; Zoroya, 2014).

An exhaustive list of public service wrongdoing would require many pages, and it is not the purpose of this paper to catalogue such abuses of power. Nevertheless, these examples of systemic misadventures by major Federal agencies force consideration of how segments of the public service have come to tolerate a culture that allows or even condones immoral behavior, and create an imperative to search for potential remedies for this leadership crisis. Ignoring or treating these episodes as isolated instances of individual misconduct as opposed to symptoms of a systemic leadership deficit of the public service may consign the service to repeated bouts of scandal, citizens to preventable fiscal,

physical and emotional injury, and the country to the possibility of further deterioration of its moral and economic foundations. This paper will explore the causes of leadership failure in the public service, and suggest ways in which these may be remedies.

Methods

To extract lessons from the public service leadership literature regarding leadership failures and their potential remedies, we performed a literature search of the Proquest Database using the terms "leader," "leadership," and "leaderism" associated with the terms "public" and "administration" in articles published in scholarly, peer-reviewed journals since 2004. We carefully examined the 1,293 articles produced by this search and selected those that dealt specifically with leadership as an entity in the public service. A total of 41 articles were chosen for further in-depth review based on their focus on examining characteristics and types of leadership in public agencies. These articles were analyzed for clues as to the shift in leadership effectiveness in the public service, and suggestions for reversing these trends.

Following this extensive review of the literature, the Federal Human Capital Survey results were examined for survey years 2010 and 2012 to find an agency that exhibited significant turnaround in survey results for employees' perceptions of leadership over this time period. This review led to the selection of the Centers for Medicare and Medicaid Services (CMS) as an agency that experienced dramatic improvement in employee survey results over this time period. We then investigated the leadership approaches of this agency's leader, and compared them to the findings from the literature review. These comparisons were analyzed using New Public Leadership Theory as a means of testing the theory in the specific instance of CMS at this particular juncture. The results of this analysis are reported, and used to develop conclusions about the applicability of the theory in public leadership settings.

Current status of leadership and opportunities to improve its effectiveness

Five of the 41 articles investigated the trend toward ineffective or dysfunctional leadership leading to or facilitating leadership failures such as those outlined earlier. The core message we derive from these papers is that NPM-like reforms in the civil service have resulted in leadership approaches that are a mismatch for the unique organizational structure, the complexity of challenges, and the access to power and authority that characterize the public service.

Much of the wrongdoing referenced previously fits under the rubric of administrative evil (Adams and Balfour, 2009). Reed (2012, p. 188) discusses the prevalence of "administrative evil" in the public service, which he describes as systems in which well-intentioned people participate in organizational activities that cause harm to people. He attributes the presence of administrative evil in organizations to the diffusion of information, division of labor, role specialization, and compartmentalization that separate individuals from the consequences of their actions. He points out that leadership environments in which evil occurs are often built upon a technical rationality which underlies much of traditional leadership theory, and is particularly characteristic of NPM (Adams, 2011). The technical-rational philosophy of leadership includes a focus on hierarchical leader-centric and value-neutral leadership, outcomes-based measurement of leadership efforts, and an organizational as opposed to an individual leader orientation (Newman *et al.*, 2009), allowing evil to occur as subordinates learn not to apply values to leaders' directives, justify means by the ends they achieve, and see themselves as simply a cog in an organizational wheel.

NPM is based on the application of business-management principles to the public service which predisposes to administrative evil on three counts. The first is that business leadership is profit-focussed, a dynamic absent from the public service, and one for which public values have not been substituted; the second is the increasing prevalence in the public sector of complex, non-hierarchical coalitions of public and private organizations sharing power and resources, situations which do not lend themselves to hierarchical leadership structures; and the third is the substitution of administrative prerogative for values-based decision making in situations in which values are prominent if not pre-eminent parts of problem(s) and solution(s) (Bao *et al.*, 2013).

A corollary to the discussion of technical rationality as the basis for leadership theory are the assumptions built around the perception of humans as *Homo economicus*, that is, that individuals are self-serving entities who base decisions on a fully informed consideration of available information (Pirson and Turnbull, 2011). Values and long-term relationships lie outside of this conception (Tetlock *et al.*, 2000), which holds that individuals see others as a means to an end, and act as amoral agents (Pirson and Turnbull, 2011). Transferal of this philosophical underpinning from business to the public service via NPM-based reforms, which lack a strong relationship to core values (Bao *et al.*, 2013), provides a pathway by which public leaders may reach decisions outside the norms of public values.

Denhardt and Campbell (2006) further elucidate the deterioration of public leadership practices so as to allow for unacceptable behavior by Federal agencies. Transformational leadership, as originally conceptualized by Burns (1978) focussed on raising followers and leaders to a higher level of morality and stimulation, as opposed to transactional leadership, which Burns described as an exchange between two self-interested participants. Modern applications of transformational leadership are now focussed primarily on change, often to the exclusion of values and ethical considerations (Van Wart, 2003).

Transformational leadership has been shown repeatedly to be a successful tool for change in the public service and elsewhere. Seven of the 42 articles selected for review from the last decade of public administration leadership literature focussed on the benefits of transformational leadership. These include subordinates' increased commitment to the organizational mission (Wright *et al.*, 2012), their increased organizational commitment (Chaoping *et al.*, 2007; Srithongrung, 2011), improved organizational change (Van Wart, 2013), strengthened organizational citizenship (Chaoping *et al.*, 2006), and increased collective efficacy (Dussault *et al.*, 2008). As Denhardt and Campbell (2006) point out, however, in each of these instances, transformational leadership was described and/or measured on the basis of change, often as an adjunct to or mediator of transactional leadership and in none was it defined in terms of its moral or ethical effects on the organization, leader, or followers. While these are undeniably valuable organizational dynamics in terms of overall organizational effectiveness, they may fail to preserve the integrity of the public service.

Lager (2010) discusses the importance of an ethical and values-based focus of leadership, pointing out the failure of rules, regulations, and codes of conduct promoted by NPM to provide adequate guardrails for leaders' behavior. Effective leadership, measured in terms of followers' commitment and capacity for change creates risk if divorced from ethical and values-based standards (Orazi *et al.*, 2013). Traditional, value-neutral hierarchical leadership theories will become more problematic for the public service as a sizeable population of baby boomer public employees is replaced by "Gen-Xers" and "Millenials" for whom values play an important role in career decisions

(Green and Roberts, 2012). The conclusion from these articles is that relationship-based leadership theories, such transformational leadership, are a necessary but not sufficient basis for leadership in the public service. Leaders must also use values-based leadership to supplement and support their relationships.

In addition to transformational leadership, recent literature cites other examples of relationship-based leadership that had positive effects on organizational outcomes. Servant leadership and its components overcome the weaknesses of traditional hierarchical leadership by establishing stronger bonds between leaders and followers (Fridell *et al.*, 2009). For instance, mindfulness has been used as a means of enhancing mutual trust between leaders and members of an organization, facilitating inclusiveness in organizational decisions, and increasing creativity (Raney, 2014). Similarly, emotional intelligence, a component of servant leadership (Fridell *et al.*, 2009) is predictive of leadership effectiveness in public leadership settings (Kotze and Venter, 2011). Empowering leadership, in which leaders empower subordinates to make decisions and pursue objectives on their own, was found to facilitate employee performance and satisfaction, and to suppress dysfunctional employee resistance (Vecchio *et al.*, 2010). Although some question the utility of empowerment in public service settings, suggesting that it merely reflects the ability of leaders to effectively engage followers (Pitts, 2005), the Vecchio *et al.* (2010) study found clear evidence of empowerment's positive effects in hierarchical leadership dyadic relationships. Likewise, providing meaningful work to subordinates was found to mediate the effect of leadership on worker commitment, effort, and work-life enrichment (Tummers and Knies, 2013) using leader-member exchange theory as a basis for describing the relationship between leaders and their subordinates.

A third stream in the literature review dealt with forms of shared or integrated leadership captured under the term "collaborative governance." Silva (2007) notes that traditional hierarchical, leader-centric leadership theories differ significantly from collaborative theories, and are less adaptable to the emerging needs of public leadership settings in which resources, personnel, authority, and mission are shared between multiple entities at different levels of government, as well as by an increasing number of non-governmental organizations that participate in public initiatives. Crosby and Bryson (2010) describe the essential nature of integrative leadership in addressing cross-organizational challenges throughout the public sector, and prescribe trust, joint commitment, vision, and stakeholder support as hallmarks of successful collaborative leadership. Waugh and Streib (2006) apply this concept to the management of emergency and disaster situations, noting that the imposition of a hierarchical, top-down leadership model on the complex management environment during Katrina may have contributed to the poor outcomes and disposition of some agencies to engage in wrongdoing. Collaborative or integrated leadership overcomes the fragmentation brought about by NPM-based reform, replacing leader-centric hierarchical outcomes-based leadership foci with collaborative, trust, and vision-based approaches. In addition, by sharing authority and power among multiple agencies, leaders develop a mutual oversight function, making it less likely that any one agency will be able to stray outside of acceptable norms of behavior.

In summary, three key streams of leadership understanding emerge from the last decade of public service leadership literature. The first suggests that NPM-inspired leadership reforms, divorced from values and focussed on outcomes and hierarchical authority have created an environment in which administrative evil can occur. The second stream establishes the need for close interpersonal relationships between

leaders and those for whom they have accountability. Transformational leadership and servant leadership using empowerment, meaningful work, emotional intelligence, and mindfulness can be used as tools to enhance worker engagement, productivity, and commitment, as well as to effectively communicate goals, vision, and culture. These relationship-based approaches must be coupled with values-based leadership in order to avoid drifting toward a culture that allows wrongdoing to occur. The third stream focuses on integrated, collaborative leadership shared between various levels of governmental and non-governmental partners. Distributed leadership provides an effective prophylaxis against administrative wrongdoing by creating interagency monitoring and reporting.

The combination of these three essential components of public service leadership was captured by Kellis and Ran (2013) in their "New Public Leadership Theory" which combines the components of authentic values-based leadership, relationship-based transformational leadership, and inter-organizational distributed leadership into a single leadership theory. The theory was tested using the Human Capital Survey results and found to provide a robust basis for effective leadership in the public service (Kellis and Ran, 2013).

Federal Human Capital Surveys: searching for transformed leadership in the public service

We examined data from the Federal Human Viewpoint Surveys conducted by the Office of Personnel Management in 2009 and 2012 to find a public agency that experienced both leadership failure and recovery. The leadership focus and the extensive nature of this survey in terms of the number of federal employees and the number of public organizations that participated in it makes this survey an ideal source of information to examine different aspects of public leadership in managing NPM-inspired changes.

After review of more than 200 Federal agencies with results in the surveys, we determined that the CMS would be an appropriate choice for this investigation. In the 2009 survey, CMS ranked among the lowest of all Federal agencies in terms of employee satisfaction in general, and employee satisfaction with its leaders in particular, ranking in the lowest decile of leadership rankings for agencies participating in that year's survey (OPM, 2010; PPS, 2009). By the 2012 survey, however, the agency's results had improved remarkably, achieving one of the highest levels of overall improvement in the Federal Government, as well as breaking into the top quartile of agencies in three of the five categories of leadership ranking. This improvement occurred at a time in which the average score on the satisfaction surveys decreased 5 percent over the same period, reaching its lowest point since 2003 (PFPS, 2012). These results are shown in Table I.

Having chosen CMS as the target agency for our evaluation of the tenets of the New Public Leadership Theory proposed by Kellis and Ran (2013) to address leadership

2009 ranking out of 216 agencies	2012 ranking out of 290 agencies	Leadership area	
199	66	Leadership effectiveness	
202	86	Leadership empowerment	
198	115	Leadership fairness	
188	63	Senior leaders' effectiveness	
197	51	Supervisors' effectiveness	

Table I.
Improvement of
CMS employee
satisfaction scores
for leadership,
2009-2012

failure in the public service, we searched public documents for insights as to the causes of CMS' plight in 2010, as well as for its dramatic turnaround in the ensuing two years. The causes of leadership failure at CMS in the years leading up to the 2009 survey can largely be traced to NPM-based reforms. A focus on achieving specific results to the exclusion of establishing stable leadership resulted in frequent turnover at the director position, leaving the agency with unresolved concerns regarding its values, focus, vision, and strategy during a period of dramatically increasing workload and waning public support. CMS was led by 29 directors or acting directors between its formation in 1978 and the 2009 survey, each serving an average of 1.1 years (CMS, 2009). Many of these individuals had an academic or lobbyist background with variable administrative skills (Berkowitz, 1995). Among the directors, academicians were often perceived as lacking leadership and executive skills, while lobbyists were seen as "too Machiavellian" (Piper, 2006). Thus, as predicted by the New Public Leadership theory, lack of leadership skills and/or lack of values by leaders resulted in leadership failure and a subsequent demoralized workforce.

A second NPM-based reform contributing to failed leadership and poor morale was the extreme "hollowing out" of the agency through contracting with thousands of different provider organizations, placing the agency in the position of channeling large amounts of federal funds to many providers, but having little capacity or ability to influence the actual provision of care. For instance, in 2011, CMS administered a budget of $540 billion distributed to a network of 4,900 hospitals (KFF, 2011), and 834,000 physicians (KFF, 2012) providing services to over 111 million beneficiaries (Frizzera, 2011), with a staff of only 5,400 employees (Tavenner, 2013), leaving the agency accountable for healthcare which it had very little ability to impact.

Don Berwick, a pediatrician and healthcare scientist was appointed as the director of CMS in early 2010 and provided leadership for the agency during its remarkable period of transformation. Despite his short tenure of only 19 months, Berwick was able to achieve a marked improvement in the agency's morale through his commitment to leadership based upon a core set of values and a constructive leadership philosophy of inclusion and networking. Berwick's advocacy for effective values-based, shared, and inclusive leadership as a tool for effective change was instrumental in achieving a rapid reversal of the agency's abysmal level of employee satisfaction (Reinertsen *et al.*, 2008).

An example of this leadership philosophy is reflected in Berwick's comments on using shared leadership with empowered workers to overcome quality issues in healthcare:

"At present, prevailing strategies rely largely on outmoded theories of control and standardization of work. More modern and much more effective theories of production seek to harness the imagination and participation of the workforce in reinventing the system. This requires a workforce capable of setting bold aims, measuring progress, finding alternative designs for the work itself, and testing changes rapidly and informatively" (Berwick, 2003, p. 448).

He discussed the philosophy of Frederick Taylor, and explains how healthcare, though "late to the Taylorist party" (Berwick, 2003, p. 449), continues to embrace its precepts of production-oriented bureaucratic control. He advocates for transition to a relationship-based, inclusive approach to leadership, expressing a "post-Taylorist view that good ideas for process improvement can come from anyone, and that the more ideas that are available, the easier it will be to find ways to improve processes" and "for the post-Taylorist leader, a key question is, 'How can the workforce be helped to help?'" (Berwick, 2003, p. 450). He describes the optimal organization as one in which the

workforce is "imaginative, inspired, capable, and joyous, invited to use their minds and their wills to cooperate in reinventing the system itself" (Berwick, 2003, p. 451).

This statement foreshadowed his use of shared leadership principles as director of CMS. He accurately predicted that CMS' leaders and staff needed to work together with healthcare providers rather than trying to force them to adapt to changes by administrative fiat. Berwick also encouraged providers to exercise these same principles of shared leadership as they implemented reforms of their particular systems of care. "To accomplish each of these improvements, the heroic image of individualist physicians each doing the best he or she can and each bearing full and personal responsibility for the care of the patient cannot possibly suffice. These aims reflect the performance of systems of interdependency, not of individuals acting alone" (Berwick, 1994, p. 801).

Dr Berwick also emphasized his support for the concept of shared leadership at the organizational level with his writings concerning "integrator" organizations (Berwick et al., 2008). He defines such an organization as one that accepts responsibility for the care, health, and cost of caring for a given population. Importantly to our discussion, however, is his belief that integrator organizations, rather than controlling the care of these populations of patients themselves, serve to facilitate the involvement of multiple healthcare organizations, including public health, and social service organizations in providing care. "The important function of linking organizations across the continuum requires that the integrator be a single organization that can induce coordinative behavior among health service suppliers to work as a system" (Berwick et al., 2008, p. 763).

In summary, Berwick was a strong advocate of values-based, shared, and inclusive relationship-based leadership, and used these principles as director of CMS to effectively address the culture of failed leadership present at CMS prior to his arrival, thereby achieving a successful turnaround in agency morale and effectiveness.

Conclusion and lessons learned
Despite Berwick's success, political exigencies resulted in a foreshortened tenure of his directorship, and thus an ultimately unsuccessful attempt to move the agency permanently away from so-called "hard NPM" with its focus on performance and outcomes measures (Broadbent and Laughlin, 2001) toward a governance model of administration with its emphasis on a more pluralistic values-based approach to administration through coalition building and the inclusion of professional groups in the governance structure (Osborne, 2010). As Berwick demonstrated, governance gives credibility to and depends upon the presence of effective values-based leadership as a means of coordinating and integrating the influence and inputs from the various network members (Crosby et al., 2010), while NPM encourages audits of outcomes measures and performance as a surrogate for leadership oversight of contracted services (Hoggett, 1996).

Berwick's administration of CMS demonstrated that effective leadership, using the principles of values-based authentic leadership, relationship-based transformational leadership, and shared or distributed leadership as espoused by New Public Leadership Theory creates opportunities for enhanced agency morale, which in turn facilitates improved agency effectiveness and performance. The positive relationship between the use of these principles of effective leadership and employee morale, particularly in the case of knowledge workers in healthcare, is well documented in the leadership literature (Clapp-Smith et al., 2009; Kellis and Ran, 2013; Vie, 2012; Walumbwa et al., 2011). Employee morale, in turn, as manifest by such traits as optimism, resilience, efficacy, and hope, is strongly related to organizational performance (Luthans et al., 2007). New Public Management-inspired administrative reforms, on the other hand,

despite being founded on principles of entrepreneurialism and business-oriented reforms of the public service (Pollitt, 1990), often undermine employee morale as a result of increased public scrutiny, increased workload, and by the addition of an increased administrative burden to many public employees' responsibilities in order to fulfill audit requirements (Diefenbach, 2009). The net result is a decrease in performance resulting from NPM-based performance-focussed tactics compared to opportunities for improved organizational performance generated by a leadership-based focus on employees, values, and networks. The markedly improved morale of CMS employees suggests the potential capacity of NPLT-based leadership to address leadership deficits resulting from NPM reforms.

Contributions to the literature
This paper uses recent examples of scandals in the public service and a review of the literature to identify systemic leadership deficiencies resulting in leadership failure in the public service, and relates them to NPM-based reforms. These include a shift away from values-centered leadership to a primary focus on change, a lack of integrated and shared leadership, and an over-reliance on hierarchical top-down leadership at the expense of inclusive, relationship-based leadership. We also provide an example of a public service leader using the tenets encapsulated in New Public Leadership Theory to successfully effect a dramatic turnaround in an agency experiencing leadership failure. We propose this tri-partite approach to leadership, using the principles of values-based authentic leadership, relationship-based transformational leadership, and shared or distributed leadership to guide leaders in the public service as they address challenges in complex, multi-organizational, values-conflicted public service environments.

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