

Bad Translation or Double Standard? Productivity and Accountability Across the Private, Public and Voluntary Sectors

Janice Gross Stein

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INTRODUCTION

Conventional wisdom in public policy dictates that public services should be delivered as efficiently as possible. Who would want to “waste” public money, especially when resources are always scarce? This maxim is so obvious that we often slide right by it and move on to more interesting challenges. When we begin to unpack the phrase “efficiently as possible,” however, we quickly run into difficulties. It soon becomes apparent that the transfer of the concept of efficiency, understood as productivity, to public service delivery creates problems that are not obvious when private goods and services are produced and delivered through markets. What are these problems?

In the relentless drive for increased productivity in the public and voluntary sectors, a drive often fuelled by the need to secure private funding and to build public-private partnerships, these two sectors have adopted, at times unwillingly, a rhetoric and a language of productivity that is considerably narrower than that of the private sector. They are consequently far less able to provide for unex-

pected contingency, to invest seriously in the research and development (R&D) that they need to be productive, and to deal with the challenges of accountability. I argue that the language of efficiency, translated narrowly as productivity and taken to extremes in the public and voluntary sectors, can compromise social trust, our sense of social responsibility, as well as our capacity to be accountable in meaningful ways, to produce new knowledge and innovate, and even to prosper.

Efficiency, as I have argued elsewhere, is not easily applied as an organizing concept outside the context of markets (Stein 2001). In the broad public sector, it is often unclear what we want to be efficient at providing and how cost-effective services are defined. The most serious challenge comes, surprisingly, on the effectiveness side of the cost-effective equation. There is often widespread disagreement, reinforced by gaps in knowledge and feedback, about what constitutes an effective education, or effective health care, or effective environmental policies. Public-sector outputs are often multi-dimensional and the quality of public services is often very difficult to establish. They are also much

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more difficult to measure without the timely, corrective feedback that markets provide to the private sector. It is within the context of this general argument that I examine three specific challenges to the delivery of public services where the public and voluntary sectors suffer particularly badly from the unreflexive translation of private-sector language.

260 The first, one that generally receives relatively little attention, is redundancy. When we are providing public services, we need to build in some redundancy to cope with unexpected contingencies. The unexpected contingency, the shock, the “wild card” can have far graver consequences when the services are public rather than private, essential rather than optional, especially when timelines are short. We have some knowledge, but not enough, about appropriate timelines needed to gear up and deliver public services. And for reasons that I will make clear, there is far less tolerance for redundancy in the public and voluntary sectors than in the private sector.

The second challenge to increased productivity is the need for a strong base of research and innovation to improve the effectiveness, as well as the delivery, of public services. We know that significant investment in R&D is a critical requirement for improving productivity, particularly in that part of the private sector that produces capital goods. In a global “knowledge-based” economy, where knowledge has become among the most important resources, leading firms in the telecommunications sector and in computer hardware and software, for example, attach even greater significance than they did two decades ago to investment in R&D. It is not only firms that produce capital goods, however, that are significant investors. Throughout the private sector, firms invest in research to stimulate

innovation and increase productivity in their delivery of goods and services. When we look at the public sector and the voluntary sector, we find significant constraints on their capacity to invest in the production of knowledge they need to improve their cost-effectiveness. Ironically, these constraints often come from the private-sector demand for cost-containment in the other two sectors.

The third challenge is the absence of the easily available corrective feedback that markets generally provide to producers of private goods. Without feedback, it is difficult to determine how productive the public and voluntary sectors are. Public services at times seem to fall into a “black hole.” To deal with this problem, policy-makers are turning increasingly to accountability as a surrogate for market feedback. But accountability includes far more than the feedback markets generally provide. We are not clear what we mean by accountability: do we include only “upward” accountability, or “outward” accountability as well? Is accountability system-wide or individual? Some argue that personal accountability rests on a useful myth: the “social convention and construction by which political actors affirm the preeminence of intentional human control over history” (March and Olsen 1995, 157-158, 161).¹ To make matters even more complicated, constructing systems of accountability is also “expensive.” This should come as no surprise to economists who understand the costs of the structures we have built to regulate markets. It is a (relatively) straightforward matter, however, to offset the costs of market regulation against the anticipated costs of widespread cheating and destabilization of markets for private goods and services. Alas, the problem becomes far more complicated in the public and voluntary sectors.

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THE MEANING OF “EFFICIENCY”

Before considering these three challenges, I want to briefly situate productivity within the different meanings of efficiency. These differences, as we shall see, are not trivial, for they have quite different implications for the delivery of public services. We usually understand efficiency as the best possible use of scarce resources to achieve a valued end. Efficiency generally means productivity, or cost-effectiveness, where the maximum amount of output is produced from a given set of resources, or a given output is produced with fewer resources.² Productivity increases, for example, when people make better use of the resources they have, including their time, to increase the quantity of work that they can accomplish while maintaining the quality.

Embedded in the concept of productivity is an assessment of quality and effectiveness as well as quantity. As I have argued elsewhere, judgements about effectiveness — extraordinarily difficult to make and always subject to political contestation and debate — must logically precede any calculation of productivity (Stein 2001). It is no accident that productivity is often defined as cost-effectiveness. It relates cost to effectiveness.

The concept of productivity, when it is applied to the delivery of public services, is not without its contradictions. Consider for a moment the example of hospitals that, in the last decade, have significantly increased their productivity. Their cost per weighted patient has dropped as acutely ill patients cycle through more quickly, usually without adverse consequences. Hospitals, in other words, are treating patients more efficiently than they did a decade ago and, consequently, can handle larger numbers of patients.

But absolute costs are rising, since most of the costs of treating acute illness occur at the beginning of the hospital stay. The most efficient hospitals, those with the lowest costs per weighted patients, therefore tend to run the largest deficits. The government funding formula rewards efficient hospitals only at the margin and, consequently, hospitals find themselves trapped in the “efficiency squeeze.” Within current constraints, the logic is clear: hospitals that want to increase their productivity should admit fewer patients and close beds.

We could argue that if productivity were applied to the health-care system as a whole, rather than to just one silo, and if government funding genuinely rewarded productivity, some of these contradictions would disappear. Meeting these conditions, however, would require a widespread transformation of the health-care system; the removal of existing silos among hospitals, physicians, chronic care and home care; the creation of an integrated system; and a fundamental change in government funding formulae. One would not have to be a cynic to conclude that these kinds of fundamental changes are not yet visible on the policy horizon. In their absence, hospitals will continue to struggle with the perverse consequences of the efficiency squeeze created by the use of productivity measures in their sector.

It is not only that productivity creates unintended contradictions and negative externalities when it is used within segments of public-service sectors as a measure of efficiency. As Joseph Heath argues convincingly in his chapter in this volume, productivity does not necessarily equate to welfare. On the contrary, he insists, the costs of productivity are often understated and its benefits exaggerated. This apparent paradox is less puzzling when we consider

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efficiency not as productivity but within the broader utilitarian tradition that speaks of maximizing satisfaction rather than the number of outputs for a given input. Using microeconomic models, we think of individuals as “rational” when they make choices that increase their welfare. Welfare is defined not only in material terms, but also includes the moral, psychological and spiritual satisfaction people get from the consequences of the choices they make. What matters is whether people have made the choice that best satisfies their needs, whatever their needs may be. Here, efficiency, rationality and satisfaction are all conflated.

Efficiency as the maximization of utility or satisfaction is quite different from efficiency used to describe increased productivity. The two are frequently confused. Productivity requires some external standard — how many doctoral students does a university graduate, and at what cost — while utilitarian arguments depend on internal standards like satisfaction and utility. We may increase our productivity but significantly reduce our utility. The familiar contradiction between the increased productivity of coal-burning furnaces and environmental damage is only one among a host of such examples. If the reduced quality of the air matters more to us than the gain in productivity, then we have diminished our utility. An increase in productivity would consequently be inefficient. This is precisely the compelling argument that Heath makes. The concept of efficiency defined as the pursuit of self-interest is much broader than the concept of productivity that economists use to explain economic growth. The two are not at all equivalent.

When we discuss “efficiency” in connection with public rather than private services, we need to be especially clear. We need

to be clear not only because markets generally do not provide feedback, but, even more to the point, because the collective stakes are so high. Are we discussing the productivity of the public sector, or do we mean satisfaction with public services? Is satisfaction — an inherently subjective concept — conceptually and technically equivalent to welfare? And if we mean satisfaction, is it individual satisfaction with schools, health care, public transportation and policing, or collective satisfaction? And if it is collective satisfaction — a hotly contested issue — is it satisfaction of only “citizen-consumers,” or providers as well? How do we think about those individuals and groups within the collectivity who are dissatisfied? Do the reasons for dissatisfaction matter? Should those who are dissatisfied with some public services be permitted to opt out and purchase them privately if they can afford to do so? What is the appropriate balance, to use economists’ language, between the negative and positive externalities of this kind of policy? Do those who are dissatisfied because they do not have full access to public services deserve special consideration and additional help?

Often, we are not clear in our thinking about efficiency. As we begin to peel away the layers of the concept, it becomes more and more difficult to remain strictly within the confines of economic analysis. Deciding which is the appropriate concept and criterion of efficiency when public services are at stake is often a deeply political decision. How we balance the at times contradictory imperatives of productivity and satisfaction (or welfare) is a political choice. And how we think — as citizens as well as scholars — about opportunity costs is only partly informed by economic analysis, since exter-

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nalities extend far into the future. The longer our collective time horizon, the more difficult these externalities are to estimate, especially since we rarely have the kind of baseline probability distributions that such estimates assume. As societies, in other words, we often gamble, without the probability distributions that gamblers can use in games of chance. How we calculate the odds and make our bets is as much a function of our politics and of our concept of citizenship as it is of economic analysis.

To make matters simpler, for purposes of this chapter I use efficiency to mean only productivity. And, in examining the transfer of language from the private sector to public services, I look not only at the public sector — the traditional provider — but also at not-for-profit organizations in the voluntary sector that increasingly deliver public services that were once provided by the state.³ “To a large measure,” Chris Miller observes, “they are engaged in the delivery of state-defined public services, not as a supplement to state provision but as a main provider” (1998, 414). How the voluntary sector is defined, and whether it exists as a sector, is the subject of considerable controversy.⁴ Most definitions exclude unmediated acts of volunteering and focus on organizations that are not-for-profit, significantly engage volunteers and are independent of other organizations (Dreessen and Reed 2000).⁵ These criteria would include charitable organizations and other not-for-profit organizations in the voluntary sector that deliver public services and exclude hospitals, universities and schools that are heavily funded by government and have statutory status (Sharpe 1994). Conventionally, these are included in the “broader public sector.”⁶

I argue that we use the same language

across the three sectors, but the language often has very different meanings. The problem is not simply one of poor translation from the private to the other two sectors. The inconsistencies in the meaning of productivity mask a deeper problem: leaders in the private sector have exported the concept of productivity to the public and voluntary sectors, but, in their simultaneous insistence on cost-containment in the sectors that provide public services, they are generally critical of increases in spending, even when spending on R&D, for example, is an important component of improved productivity. The problem is not simply one of poor translation of concepts as they travel across sectors. It is a far deeper problem of double standards.

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REDUNDANCY, PRODUCTIVITY AND SATISFACTION

On September 11, most of the firms housed in the World Trade Center were operational again within a few hours. With only a few exceptions, data were not lost, key personnel were in place and firms were able to transmit from makeshift headquarters. That there was so little disruption is largely a function of the “redundancy” that many of the large firms had built into their operations. It was not only that they had backed up their data systems; most institutions in all three sectors do so routinely. They also backed up their most fundamental resource, their people (Coffey 2002). Essential personnel were identified, and in some cases replacement personnel were assigned in the event of an emergency. After the attack on the World Trade Center in 1993, many of the firms moved emergency command-and-

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control centres off-site as a protection against a second attack. These kinds of capacities existed not only among firms in the World Trade Center, who understandably might have taken such precautions, but more broadly throughout the financial sector. The large banks in downtown Toronto, for example, had built in similar kinds of safeguards.

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Redundancy is usually understood as excess — unproductive — capacity. Capacity may be redundant because it has no present or foreseeable productive use. When we speak of a redundant capacity to deal with contingency, however, this kind of capacity is expressly designed to duplicate in case of breakdown or to meet unanticipated needs. The first kind of redundancy is clearly a drag on productivity, with few imaginable benefits. The second kind of redundancy reflects familiar precautionary or insurance logic, where we incur costs to protect against an improbable but highly damaging contingency. Unlike other insurance problems, when “redundant” headquarters were constructed away from the World Trade Center it was impossible to estimate the likelihood that a second attack would occur, since there were no reliable baseline probabilities. It would have been impossible to calculate the costs and benefits *ex ante* of the decision to establish and maintain off-site headquarters, since the probabilities of future attacks were unknown. The costs of doing so were known, but the benefits were hypothetical. Before the fact, we could make no determination that establishing emergency headquarters off-site was efficient. We could not even conclude that the policy was instrumentally rational: if, for example, no attack had occurred for 50 years, would we think that the costs incurred were justified?

If this seems to be a frivolous question in the wake of the subsequent attack on the

World Trade Center, consider our retrospective evaluation of Y2K-related expenditure in early 2001. Billions of dollars were spent, in both the private and the public sector, to fix the anticipated problem. When significant disruption did not occur, commentators began to complain about the unnecessary expenditure and the drag of those expenditures on productivity that became apparent the following year. Some attributed malevolent motives to the computer sector; it had overblown the problem and artificially stimulated demand and unnecessary expenditure.⁷ Yet it was the elaborate preparations for Y2K and the built-in redundancy that enabled most of the large firms across the financial sector to resume operations as quickly as they did in September 2001. Even financial firms that were not physically disrupted immediately went into “Y2K mode” to protect against further disruption. As a CEO of a large financial services firm in Toronto put it to me, “As we dispersed our personnel on the morning of September 11th, Y2K saved us. We all knew exactly where to go and what to do, and had all the backup personnel and procedures in place.”

Firms in the private sector have shown little compunction in the last five years in building in redundancy to back up both their essential operating systems and human resources so that they could continue to deliver basic goods and services in the event of an unexpected contingency. In this case, they were relatively unconstrained by short-term considerations of productivity. It was this redundancy that proved extraordinarily valuable in a contingency that few could have imagined, much less predicted. Firms made these decisions to protect the part of their operations that they considered essential. Building in redundancy consequently becomes an indicator of importance and priority.

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Before September 11, few in the public sector could justify a similar kind of investment in redundancy. On the contrary, redundancy was almost always synonymous with “inefficiency.” In Canada, hospitals with “redundant” emergency and trauma capacity were considered inefficient. Public-health facilities built in almost no redundancy to cope with large-scale emergencies, as political leaders discovered to their chagrin in the wake of September 11 and accelerated fears of biological warfare.⁸ A decade ago, “surplus” nurses were dismissed wholesale; today, the shortage of nurses is one of the most severe constraints on the productivity of the health-care system. Public personnel with expertise in water safety were reduced, even though the public generally considers safe water an essential public good. Much of this was done to increase short-term productivity.⁹

One can make the argument that similar practices occurred in the private sector. Large-scale dismissal of personnel in the technology sector, for example, has followed the downturn in technology stocks over the last few years. Henry Mintzberg and his colleagues, in a trenchant analysis of the “culture of selfishness” that enables these kinds of dismissals, argues that in the last decade corporations have lost their capacity to balance the legitimate claims of all their stakeholders and now respond first and foremost to shareholders (Mintzberg 2002; Mintzberg et al. 2002). A short-term focus on market valuation of shares interferes with the capacity to invest over the long term to increase productivity and reduces the capacity of senior executives to manage effectively. The negative consequences of widespread dismissal are real, but they are only part of the story, for few large corporations engaged in widespread dismissal of core personnel in what they considered to be their essential services. Not so in the public sector.

There are exceptions. Arguments for redundancy are, of course, widely accepted when it comes to security and defence. We generally invest in the armed forces, intelligence agencies and policing even when perceived threats to security are low. Here, arguments for productivity do not trump all other arguments, but are balanced against others. We make these “unproductive” investments over time for several reasons. First, the state has been defined for the last three centuries by its capacity to provide security from attack. It is the priority, the “core business” of the state. We recognize the large consequences of failures of readiness in a contingency that we cannot currently predict or imagine. We also recognize the long lead time needed to develop capabilities and acknowledge that we cannot put the required capabilities in place once an emergency is upon us. Even when we anticipate a “peace dividend,” we no longer reduce our investment in these kinds of capabilities below what we consider a critical threshold.

We seem to be highly selective in our thinking about public services. We do not, for example, insure against environmental catastrophe by building in “backup” capacity the way we do against military attack, even though arguably the consequences could be as catastrophic. Globally, we do not build redundant capacity to treat multi-bacteria-resistant diseases or viral epidemics, even though the fatalities from AIDS are now anticipated to exceed those of all the wars of the last century. In other words, with the exception of the priority status we give to security and defence, we generally pay less attention to the possibility that public services will be severely disrupted than do leading private-sector firms responding to market imperatives.

I find this pattern deeply puzzling. It is especially surprising given the long lead time

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required to build up essential services in the public sector. We understand that we need trained militaries with appropriate capabilities even if they are not being currently used. Yet we do not extend this kind of thinking to nurses, for example, an essential building block of the health-care system.¹⁰

266 It is no small irony that attention to contingency and tolerance for backup is far greater in the private sector than in the public sector, which provides the private sector as well as the public with services that are essential and that the market is unlikely to provide. It is remarkable, when we stop to think about it, that “insurance-like thinking” is more acceptable in the private sector, despite its commitment to productivity. The analogy of insurance-like thinking is illuminating, for we generally insure what is most important to us and what we cannot afford to replace if it is destroyed, even if the probability of loss is low. Large firms in the private sector identify core capacities and personnel, what is essential, what they cannot afford to lose, even if the probability of loss is low, and build in redundancy without close attention to productivity measured along short-time horizons.

When the services are public, we do far less well in identifying core capacities, and succumb to thinking about short-term productivity as if it were the only criterion. In this respect, we are more extreme in the “culture of selfishness” than the private sector. The public and voluntary sectors cannot and should not back up all their programs and all the staff that deliver public services. They too need a precautionary principle that identifies public services that are essential in an environment of uncertainty where risk cannot, by definition, be calculated with confidence. They can and should make decisions about what are essential public

services and build in the critical backup they need to deal with unforeseen contingency. The criteria for these decisions need public discussion and debate, for inevitably some difficult choices will have to be made. Here, the trade-off between efficiency and welfare is clear: devoting increased resources to these kinds of public services will inevitably reduce productivity, but may well increase welfare.

Most importantly, we should not hold these two sectors to a stricter standard in terms of efficiency, a standard urged on governments by the private sector over the last decade even while it budgeted for important contingencies. Decisions about where we build in redundancy are clearly deeper signals about what we as a society consider basic and what we consider expendable. They should be read that way.

PRODUCTIVITY AND RESEARCH AND DEVELOPMENT

Research and development is one of the keys to gains in productivity. Traditionally, it has been through the innovation that grows out of R&D that the private sector improves the effectiveness of the goods and services it delivers, brings new and better products on line, and improves the cost-effectiveness of management, production and delivery systems. Leading-edge corporations have often captured market share as a result of significant investment in R&D. It would be inconceivable today for any globally competitive firm to make no serious investment of this kind. Generally, a norm of at least 5 percent of total expenditure prevails, but many of the leading firms surpass this level.

Within large firms, there is no expectation that R&D divisions be productively

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efficient within short horizon terms. Rather, they are expected to generate benefits that diffuse throughout the firm and improve performance across the organization. They are evaluated not through an "internal" measure of productivity but through their contribution to the productivity of the firm as a whole. It is well acknowledged, moreover, that investment in R&D may increase productivity only in the long term, with negative implications for short-term productivity.

In the last decade the public sector has begun to learn this lesson, but in a very limited and skewed way. Political leaders have acknowledged the lagging performance in R&D in the private sector in many countries and acted to stimulate better performance. In Canada, for example, governments have recognized the importance of innovation to economic performance and have begun to invest to promote partnerships among the corporate sector, research institutes and universities to enhance R&D. Most of this investment, however, focuses on the development from basic research of spin-off goods and services that can be taken to market. The private sector has often been a willing member of the new partnerships created and partially funded by government. Here, it has not called for a reduction in government spending.

Even though governments now accept the importance of investment in R&D for the economy as a whole, they have invested alarmingly little themselves in in-house research on how public services can be improved and in centres of excellence that work on innovation in the public sector. If anything, over the last two decades political leaders have reduced the capacity for policy analysis, the analogue in the public sector to R&D, in order to reduce costs.

There are, of course, important exceptions, largely within the "broader public sec-

tor." New institutes to gather information on the performance of the health-care sector have been established, and consequently we do have much better information than we had a decade ago.¹¹ We can at least map the field of health care with some confidence. There has been relatively little public investment in innovation in health care, however, despite its centrality as a public good and as a component of government spending. A parallel in the private sector would be difficult to find. It is almost inconceivable that firms would make no serious investment in innovation in an area that constituted 40 percent of the goods and services they supplied to the market.

Inside government, the reduction in capacity for research and policy analysis in the last fifteen years is striking. The most visible examples were the closing of some of the most important centres of research and analysis by provincial and federal governments; the Economic Council of Canada, the Science Council of Canada, the Law Reform Commission and the Ontario Economic Council are among the best known. Inside almost every major department of the federal government, the size of policy units was frozen or reduced, significantly reducing the capacity of government to do research and serious program evaluation. This reduction in analytical capacity occurred at the same time as governments were contracting out and downloading service delivery, leaving as their principal responsibility policy analysis and development. In short, governments strangled their capacity for policy research and development even as that became their "core business." Senior officials in central agencies now bemoan the serious erosion of R&D capacity.

If governments have reduced their capacity to generate the knowledge they need to improve the cost-effectiveness of public

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services, the voluntary sector is even more constrained. The “third” sector has become an essential component in the delivery of public services as the state has retreated from the field over the last decade (Miller 1998; Panet and Trebilcock 1996).¹² Yet it has been severely limited in its capacity to invest in the knowledge it needs to improve its performance and to assess the cost-effectiveness of the public services that it provides.

268 Responding to pressures for productivity from its funders, the voluntary sector has moved to reduce its administrative costs as a proportion of the funds it raises and spends. Agencies often compete to achieve the lowest proportion of administrative costs per dollar spent on the delivery of goods and services and then proudly claim to be the most efficient.

This kind of calculation ignores the effectiveness component of the cost-effectiveness equation that constitutes productivity. As agencies race to reduce costs — and therefore staff — in response to pressure, they are less and less able to evaluate the effectiveness of the programs they deliver. They cannot learn systematically from their failures or their successes and develop a code of best practices that is constantly updated as new research becomes available. Individual agencies delivering services, especially the smaller agencies that serve local communities by now have almost no capacity to do this kind of work, but there has been almost no central coordination of investment in research and knowledge generation. Nor is there sustained capacity to share knowledge across the sector.¹³ Research that is commissioned is currently charged as an administrative cost and treated as overhead, a drag on productivity, rather than as an investment in improving productivity. Somehow, the formula of the private

sector has been turned on its head when funders think about the voluntary sector.

The voluntary sector is largely unable to make the kind of investment in R&D that is taken for granted in the private sector. As firms within the private sector move to become “learning organizations,” leaders of many of these same firms have pressed hard for greater efficiency — translated as lower overhead — in the voluntary sector. Efficiency is translated as cost-containment rather than as improved performance in the work of agencies in the community. Consequently, the lag in the voluntary sector in R&D is stunning. It is no surprise that the pace of innovation is consequently slower and a significant impediment to improved productivity.¹⁴ It is no exaggeration to suggest that as long as investment in R&D is considered a cost, a drag on productivity, rather than a spur to innovation and cost-effectiveness, the voluntary sector will be imprisoned within a hollowed-out concept of efficiency.

ACCOUNTABILITY AND RESPONSIBILITY

Accountability in the private sector seems relatively straightforward in comparison to that in the public and voluntary sectors. The word *accountability* derives from the old French term *comptes à rendre*, or the rendering of accounts (Dubnik 1998, 68; Keohane 2002). The private sector renders accounts to markets, and markets in turn depend in large part on the release of accurate information by corporations. Markets need accurate information to know only whether firms are profitable. They do not need to know whether the goods and services that firms supply are as effective as they can be for

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the cost. Individual firms do. They need to satisfy their customers or they will go out of business, so they are constantly trying to improve the quality and value of the goods and services that they sell. The challenge is to improve quality while remaining profitable.

In the wake of the scandals surrounding Enron, Arthur Andersen and WorldCom, serious challenges to corporate concepts of accountability have begun to capture widespread public attention. Concern among scholarly observers of corporate accountability, however, has been growing for over a decade. The issue is not only the accuracy of information that firms release, but the larger problem of the increasingly narrow criteria of accountability. A culture of selfishness, Mintzberg argues, has created a narrow view of society as an aggregation of "homo economicus," and a distorted concept of accountability, where firms are principally accountable to shareholders. No longer are customers central, except as purchasers of goods and services, nor are employees critical, again except as contributors directly to the profitability of the corporation and indirectly to the value of the shares. A decade ago, Mintzberg argues, shareholders were traditionally residual claimants on the corporation, after obligations to customers and employees had been met. Now, the shareholder has become the immediate and, at times, the only locus of corporate accountability (Mintzberg 2002).

Not only has the locus of corporate accountability shifted and narrowed, but time horizons have shrunk. Investors respond increasingly to quarterly reports, and as shareholders become the most important focus of accountability, corporate decisions respond to shrinking horizons, with less and less capacity to invest to increase productiv-

ity over the long term at the cost of short-term losses. Ironically, the hollowed-out concept of efficiency exported by the private sector to the other two sectors has now cycled back to haunt many corporate leaders and their employees. These narrowed concepts of efficiency and accountability have translated into cost-reduction when profits fall and drastic reduction of non-essential staff. It is not surprising that employees feel less and less loyal to their employers. The long-term results may well be troubling: less commitment, lower productivity over the long term and a reduced capacity to innovate, as even valuable employees have every incentive to move on when new opportunities arise.

The evolution of concepts of corporate accountability is more complex than analysis of firms alone would suggest. Even as accountability has narrowed to respond largely to investors and markets, there has been a growing emphasis on corporate "social responsibility," the responsibilities of corporations to society as a whole (Forcese 1997; Held et al. 1999; Project on Canadian Democracy and Corporate Accountability 2002). It is no accident that the language is one of social "responsibility" rather than accountability, for responsibility is both a more demanding and a less explicit concept than accountability. Responsibility derives at times from authorization by others to act, at times from representation, but more often from internalized values, which motivate people to act according to these norms and values, whether or not they are held specifically accountable.

Locally and globally, sometimes willingly and sometimes under considerable pressure, corporate leaders have begun to acknowledge their responsibility to contribute to the protection of the environment, to fairer labour prac-

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tices, to the elimination of child labour in factories around the world and to the improvement of communities where they operate (Rovere 2000). Corporate leaders have moved beyond the traditional pattern of charitable investment in culture and the arts to play important roles — for example, in sponsoring educational opportunities for disadvantaged youth and in rebuilding decaying cities. More and more, they are coming to the table with the other sectors to negotiate agreements on norms and shared practices that are “responsible.”

270 Outside the corporate sector, there is a growing demand for the “social audit” of firms.

I term this kind of accountability “outward,” in contrast to the more traditional model of “upward” accountability.¹⁵ Upward or vertical accountability encompasses traditional principal-agent relationships in which one has superior authority to the other: governments to publics, corporate executives to boards, subordinates to superiors. Outward or horizontal accountability, which is much closer to concepts of responsibility, occurs among relative equals with no formal reporting relationships: different sectors of society coming together to solve shared problems, networks that link multiple nodes together in lateral relationships. It is this kind of accountability, at times animated by shared norms, at times motivated by the prospect of sanctions, that is beginning to enter corporate discourse.

How sectors integrate and balance the at times complementary and at times competing demands of upward and outward accountability gives meaning and content to the broader concept of responsibility. Leaders in the corporate sector, for example, are often caught between demands of shareholders for constantly increasing value and their accountability to other sectors and society as a whole.

I skip over the challenges of political accountability, in large part because these challenges have been the subject of serious and sustained public and scholarly investigation. The problems are well mapped. Accountability in the public sector at first glance seems to be straightforward, at least in democratic political systems. Through representation and delegation of authority, political leaders are empowered to act, but they are responsible to those who elect them. It hardly needs saying, however, that citizens are increasingly dissatisfied with their capacity to hold their governments accountable in meaningful ways. The “democratic deficit” has been the subject of an enormous amount of investigation and discussion, and proposals for enhancing political accountability are rife. In the last two decades, as governments have moved to private-public partnerships to deliver public services, in part to become more productive, the problem of accountability has become even more acute. Governments and citizens are struggling with new kinds of outward accountability even as the traditional forms of upward accountability remain inadequate.

The challenges of accountability in the voluntary sector have received much less scholarly and public attention. Governments have devolved the delivery of public services not only to the private sector, but also to the voluntary sector, and in the process have layered new problems of accountability over already existing difficulties. In Canada, the federal government funded and created the Voluntary Sector Initiative (VSI), a partnership between the government and voluntary-sector leaders to improve service delivery, to increase the capacity of the sector and to reform its regulation. The focus is on fairer and more transparent registration of charities so that they are more accountable, and the reform of

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regulatory institutions and current restrictions on advocacy (Brock 2001; Institute for Media, Policy and Civil Society 2001, 2002; Panel on Accountability and Governance in the Voluntary Sector, 1999). Voluntary organizations are expected to be productive in the way they deliver goods and services as well as transparent and accountable.

The demand from donors, funders and government for accountability on the part of the voluntary sector is reasonable and appropriate. It is inconceivable that the voluntary sector, alone among the three sectors, would not meet the demands for productivity and upward accountability that the other sectors are required to meet. As we unpack the language of accountability in the voluntary sector and decode its meaning, however, we gradually come to see its dark side.

Accountability requires, at a minimum, performance set against a standard. The first issue is how the standard is determined. We have seen that the voluntary sector has not been able, as it has struggled to reduce its administrative costs, to make the investment in R&D proportionate to those of the other two sectors. The knowledge base for standards of performance is much thinner in this sector than it is in the other two. The loop between outcomes and performance has not received the same kind of careful investigation and research.¹⁶ This sector, moreover, has generally not had the resources to share best practices as well as the private and public sectors. Determination of an appropriate standard consequently becomes much more problematic.

In the absence of a strong knowledge base, the relevant question then becomes who sets the standard — is it the funder, the organization or agency, or the client? Internationally,

global financial institutions have moved aggressively to set uniform standards of performance to increase productivity, and often have established criteria of accountability, with little attention to the knowledge and experience of the non-governmental organizations that deliver the programs. The World Bank, for example, aggressively urged the marketization of health-care services in many poorer countries in the mid-1990s. Local NGOs were held to strict measures of outputs, despite their warnings that much of what they would accomplish was unsustainable because the necessary local infrastructure was lacking, especially in the countryside. NGOs often found themselves trapped between the standards of large institutional funders and the needs of the communities they served. In this sense, they were caught, and at times caught deeply, between upward accountability for productivity and outward responsibility. The former is in direct tension with the latter.

The same kinds of dilemmas arise within Canada, although not as acutely. As governments have stepped back from service delivery, it is the voluntary sector that has largely filled the gap, sometimes with and sometimes without government funding. When governments do fund, they set standards of performance and, sometimes in consultation with agencies and sometimes not, set the benchmarks for performance. Local agencies, with deep knowledge of their communities, find themselves caught between funder-imposed standards and their sense of responsibility to the communities they serve.

The creation of standards of accountability is complicated further by the issue of appropriate time horizons for evaluation. For programs that deliver very specific services to identifiable communities, timelines are not a

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significant issue. When programs are designed to address complex social problems and to build capacity, appropriate timelines become problematic in any scheme of accountability. If timelines are too short for a proper assessment, then upward accountability again competes directly with outward responsibility. Local agencies are forced to abandon programs and the people they serve, despite their engagement with the community and their deep knowledge of local needs.¹⁷

272 In considering accountability, there are intriguing parallels between the private and voluntary sectors. The private sector exported its language of productivity to the voluntary sector, but in the translation the concept was so narrowed that it came to mean the lowest administrative cost. The push to cut administrative costs reduces the capacity to invest in the research that is required not only to innovate but also to evaluate and to be held accountable. It also reduces the capacity to engage over longer time horizons and puts at risk community trust when agencies are forced to withdraw. In other words, responsibility is compromised by the demands of accountability. One of the pernicious consequences of a sense of compromised responsibility is an appreciable decline in satisfaction (or welfare), both within the agency and within the community. The push for accountability, using narrowly defined standards of productivity, is inefficient.

Ironically, these problems are not dissimilar to the challenges faced by corporations operating in a "culture of selfishness," where they are accountable principally to shareholders. Here too, short-term accountability to shareholders reduces the capacity to engage over longer time horizons and destroys commitment and trust among employees. Here too, corporate leaders face an increasingly intensified con-

flict between accountability and responsibility. The significant difference is their capacity to invest in R&D and protect their knowledge base for subsequent rebuilding and innovation.

CONCLUSION

When we look at the organizing language of the private sector, productivity looms large. The language of the private sector was exported to the public and voluntary sectors, but it did not travel well. Joseph Heath argues in this volume that a single-minded focus on productivity does not necessarily contribute to increased welfare. To make matters worse, as it travelled to the other two sectors, the concept of productivity was narrowed even further.

The other two sectors are constrained from making investments to deal with contingencies that may threaten or overwhelm their capacity to deliver public services, the voluntary sector even more than the public sector. They are also constrained in their capacity to invest in R&D, to build the knowledge they need and to innovate. Again, the voluntary sector is far more limited than the public sector. This knowledge gap compromises the capacity for program evaluation and for meaningful participation in the development of appropriate standards of accountability. Upwardly dictated accountability, aggravated by significant knowledge gaps, compromises responsibility.

It is not without irony that the private sector, after a decade of excess, is now beginning to confront some of the same challenges. Here too, productivity has been distorted and accountability so narrowly defined that it has been hollowed out. And here too, the sense

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of responsibility has been compromised, as have trust and commitment.

We know that trust and commitment are the social glue that holds our societies together (Putnam 1993). Those societies that have high levels of trust and commitment tend to prosper, while those that face deficits in social trust do not. The moral of this story may be that the language of productivity, narrowed and taken to extremes, can compromise social trust, our sense of social responsibility, our capacity to be accountable, our capacity to produce new knowledge, and even our capacity to prosper.

NOTES

- 1 March and Olsen (1995) conclude that the myth is useful largely as a motivator for individuals to do their best. The arguments that individual accountability is a myth and that it is useful only as a motivator are both open to challenge.
- 2 Economists usually distinguish further between allocative efficiency, or movement towards the productivity possibilities curve, and dynamic efficiency, the outward movement of the production possibilities curve.
- 3 There are an estimated 175,000 not-for-profit organizations in Canada, and estimates of their contribution to GDP range from 4 to over 12 percent, depending on how the sector is defined (Day and Devlin 1997; Sharpe 1994). The sector employs at least 9 percent of the workforce, accounting for more employment, salaries and benefits than sectors such as construction, real estate, finance and insurance (Canadian Policy Research Networks and Canadian Centre for Philanthropy [CPRN and CCP] 1998; Sharpe 1994). These data underestimate due to the way Statistics Canada has traditionally collected information. Approximately 100,000 not-for-profits are not captured by existing data (Quarter 1992).
- 4 There is little consensus on what constitutes the voluntary sector and whether indeed there is a single sector. It has been variously described as "charitable," "non-profit," "not-for-profit" and "voluntary." Generally, the voluntary sector encompasses those organizations that are neither part of the state nor private market-based organizations.

- 5 Salamon and Anheier (1997) consider not-for-profit organizations to be: (1) organized; (2) private, or institutionally separate from government; (3) self-governing; (4) non-profit-distributing — that is, they do not return profits to owners or directors; (5) voluntary — that is, their management or operation involves some degree of voluntary participation. See also CPRN and CCP (1998) and Febraro et al. (1999).
- 6 The line between the public and voluntary sectors tends to blur at the edges, and the classification of individual organizations is controversial. Some, for example, include hospitals and schools within the voluntary sector, while others classify these within what has come to be called the "broader public sector." Canadian studies have generally separated out the large "statutory" not-for-profit institutions such as hospitals and universities from the rest (Sharpe 1994). For our purposes, what matters is that both sectors deliver public services.
- 7 One of the anonymous reviewers made exactly this kind of comment.
- 8 It is interesting to note, in this context, that the increase in the fear of biowarfare was not based on any change in probabilities, since the probabilities could not be calculated. Rather, experts updated in response to a single salient event. This is a common cognitive error in judgement among experts.
- 9 The reduction in public-sector capacity in the mid-1990s in Canada was driven by an acute fiscal crisis. Irrespective of the motivation, the cuts severely reduced the capacity of the public sector to deal with unexpected contingencies. The scope of the problem became apparent in the wake of September 11 as governments assessed their capacity to respond.
- 10 Arguably, it was not productivity arguments but cost-cutting which ignored productivity issues that led to the reduction of nurses in the health-care system across Canada.
- 11 Analysts of health care, for example, are increasingly dependent on the valuable information provided by the Canadian Institute for Health Information (CIHI).
- 12 From the financial data provided by Revenue Canada, it is not possible to separate out the revenues that not-for-profits earn in relation to government contracts from their other sources of government revenue. The not-for-profits have become the government's preferred supplier for many social services where outputs are difficult to define (CPRN and CCP 1998, 24). Total federal grants to national organizations and provincial grants to not-for-profits grew 4.5 percent annually from 1994 to 1997. In Ontario, in 2000-2001, approximately \$9 billion was transferred to 10,000 not-for-profits that provided over 200 programs in 19

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ministries. These data exclude hospitals, schools and universities. In Ontario, there has been an increase of 227 percent in the past decade in the contracting of not-for-profits to deliver public services. (Interview, Ontario Public Services, 27 June 2002.)

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- 13 There are, of course, important exceptions. In Canada, the Centre for Voluntary Sector Research and Development is a partnership of the voluntary sector, the University of Ottawa and Carleton University to undertake collaborative research on governance, policy and management. The Peter F. Drucker Canadian Foundation seeks to recognize innovative work in the not-for-profit sector. The Masters of Management for National Voluntary Sector Leaders is delivered through a partnership between McGill University and the J.W. McConnell Family Foundation; it has played a leadership role in educating leaders and building capacity across the sector to share knowledge.
- 14 The American United Way Movement is now exploring the creation of a National Center of Excellence through a strategic partnership with a major university in the United States. Its mandate would be to develop new strategies, practices and products in partnership with local United Ways, conduct focused research, and publish relevant studies and reports. Such a Center, with a projected annual budget of \$15 million, would begin to speak directly to the gap in investment in R&D. Currently, the United Way of Toronto is beginning to explore the creation of a Centre for Excellence in Innovation and Knowledge (United Way of Greater Toronto 2002).
- 15 I use these concepts somewhat differently from others who write about vertical and horizontal accountability. See O'Donnell (1999), Schmitter (1999) and Keohane (2002).
- 16 The title of a recent article reviewing the sector, "What We Should Know About the Voluntary Sector but Don't," is illuminating (Dreessen 2001). Dreessen argues that the gaps in knowledge about the voluntary sector in Canada are so large that the sector cannot effectively be mapped.
- 17 A third challenge is the seemingly trivial issue of the reporting requirements established by funders. As government and other donors move increasingly to fund programs, it becomes more difficult to finance expert staff and other overhead. The reporting demands in parts of the voluntary sector have become so onerous in the last decade that many agencies do not have adequate staff to meet the demand. This is especially true for agencies that are engaged directly in service delivery. One small agency in Toronto revealed that it had to complete more than 140 reports to funders last year. The agency could not afford the professional staff required to meet the complex reporting requirements. There is a serious shortage of capacity in the voluntary

sector that delivers public services to local communities, in terms of both available staff and levels of knowledge and skills.

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