

SECTORAL ACTIVITIES PROGRAMME

Working Paper

**Decentralization and privatization in municipal services:
The case of health services**

Dr. Stephen Bach*

Working papers are preliminary documents circulated informally in a limited number of copies mainly to stimulate discussion and obtain comments



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*Senior Lecturer, The Management Centre, King's College, Franklin-Wilkins Building, 150 Stamford Street, London SE1 8WA, e-mail: Stephen.Bach@kcl.ac.uk, Tel +44 20 7836 5454, Fax +44 20 7848 4254

Foreword

In the context of public service reforms, decentralization is regarded as an important means to achieve improved efficiency and quality of services. One of the challenges in this context is the financing of such services, since tax and fee systems are often not changed simultaneously or sufficiently. Consequently, municipalities and local government institutions opt for a variety of approaches to privatizing services provided in the public interest. Decentralization affects the terms of employment and working conditions of municipal workers, as well as labour-management relations, in a number of ways. Moreover, public employees from government agencies at district, regional and national levels are often transferred to local authorities. Such developments are common to different services that are provided in the public interest, such as education and health services as well as utilities and transport. Despite the differences between these sectors, there is a case for discussing jointly the implications of decentralization on the municipal services. Responses to the challenges arising from decentralization might be found jointly or through alliances between some of the sectors.

The ILO report on Human Resource Development in the Public Service in the Context of Structural Adjustment and Transition of 1998 and the subsequent joint meeting have already set out some direction in relation to the public service in general. A further report of the ILO will study the developments more specifically in municipal services and provide the background for the discussions at a joint meeting in 2001 on the “Impact of decentralization and privatization on municipal services”. In preparing this report the ILO Sectoral Activities Department is undertaking a wide range of research in various municipal sectors, which include health services, education, transport and utilities.

The present working paper by Stephen Bach on health services is the first of such sectoral studies which will be taken into consideration for the report of the ILO. It endeavours to set a frame for the discussion of a very complex and multifaceted theme which is at the centre of the changing role of the State and public service reforms. The focus of this survey is on labour and social issues in health services, a focus which warrants, however, to introduce the main trends and developments in municipal services in a variety of countries worldwide. As a Sectoral Working Paper, the study is meant as a preliminary document and circulated to stimulate discussion and to obtain comments. Earlier drafts of the paper were intensively discussed at the ILO, the opinions expressed are nevertheless those of the author and not necessarily those of the ILO.

Cleopatra Doumbia-Henry,
Deputy Director,
Sectoral Activities Department.

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1. Introduction

There can be little doubt that the last decade has been a momentous one for the public sector. Governments across the world have been encouraged to reform the public services and to embrace policies of privatization and decentralization. Yet just at the point when these policies have become the new orthodoxy, uncertainties have emerged about the extent to which privatization and decentralization have been adopted and the degree to which implementation has been effective. For policy-makers, the applicability of a universal set of policy prescriptions for countries with different patterns of economic development, and the extent to which privatization and decentralization can be applied to the broad spectrum of public services, remain important issues for further investigation.

Despite the importance of these questions a common concern in the growing literature on comparative human resource management (HRM) has been the absence of research on public sector employment relations. In a review of 20 years of research, Clarke et al. concluded that there was surprisingly little material on the role of the State as employer and few studies of variations in employment practices between countries (1999: 535). This gap applies to all parts of the public sector and arises from a preoccupation within comparative employment relations to explore the degree to which distinct national patterns of employment regulation are being eroded by the process of globalization and European Union integration, and within international HRM, a concern to examine the policies and practices of multinational companies. These issues have been seen as less relevant to an analysis of public services, because they have been so strongly shaped by the distinctive features of the welfare State within each country. The extent to which the public sector remains distinctive in an increasingly global economy, in which policies of privatization and the process of policy transfer has accelerated, is an important consideration for policy analysis.

This report has been commissioned by the ILO to examine the impact of privatization and decentralization on public sector labour-management relations in the municipalities, with a particular focus on health services. It forms part of the research for the ILO joint meeting on municipal services to be held in October 2001. Municipal services are commonly associated with the provision of social services, leisure services and essential functions such as refuse collection and street cleaning. In many countries this tier includes the responsibility for health and education services. Although privatization and decentralization have been near universal trends across these different services, this paper takes as its main focus the health service component of municipal services to prevent too broad a treatment of the issues, although other parts of the municipal sector and parts of the public sector will be considered as appropriate.

2. The public services: A special case?

2.1. Employment trends

Despite the rapid growth in public sector employment in the post-1945 period there has never been a straightforward means to classify it and this difficulty is reflected in the absence of comparable public sector employment data. This is despite public sector employment comprising approximately 20-25 per cent of total employment in industrialized countries, around 40 per cent in countries in transition, and between 8-30 per cent in developing economies (Hammouya, 1999: 1). The same survey revealed that the share of women in public sector employment is higher than in total employment. However, there were relatively fewer women employed in the public sector as a proportion of total employment in developing countries (approximately 31 per cent) than in the OECD nations (approximately 47 per cent). Data limitations have encouraged analysts to focus on individual country studies or specific occupations, such as nurses and teachers, although even here comparisons are not straightforward (OECD, 1998).

The process of public service restructuring has impacted on employment levels with some labour shedding. In the public utilities it has been suggested that contracting out and wholesale privatization of state assets have reduced the workforce by 30 to 50 per cent in some instances (de Luca, 1998: xii). Within Europe, for example, job losses of this scale have been reported in the United Kingdom (UK), although such extensive job losses are unusual, reflecting the scope and intensity of UK privatization (Hall, 1998: 134). In addition, reductions in employment in former public enterprises may disguise opportunities for re-employment on a contract basis, which do not appear in the public sector employment data, and other increases in employment through new entrants to the market.

Within developing countries, programmes of structural adjustment have invariably targeted reductions in the number of public sector workers because of the perception that the public sector has been “bloated”. In the health sector, there has been a retrenchment of 50 per cent in public health staff over the last five years in Uganda (Corkery, 2000: 99). The so-called countries in transition have faced substantial employment reductions as well, a 10 per cent reduction in the case of Poland (Domagala et al, 2000: 73). Reductions in employment at central level, however, may provide scope to increase front-line staff such as physicians, nurses and dentists, as reported in Colombia (Schlette, 2000: 45). This can reduce the concentration of health services in urban areas, allowing better access for dispersed rural populations and opening the way to increased participation in planning and management at local level. The logic of decentralization is that the workforce can be distributed more equitably, with increases in rural areas. Decentralization remains a favoured means to increase efficiency and equity, although problems may arise. Political opposition has often diluted reform measures and pay bill savings from employment reductions have been smaller than anticipated because of high severance costs. The overall negative impact on the economy has also been noted, arising from the absence of alternative employment opportunities, swelling the informal sector (Hentic and Bernier, 1999: 199).

Within the industrialized countries there has also been pressure to contain public expenditure, but this has not been translated into reductions in overall employment levels in the public sector. Excluding social care, health sector employment accounts for between

4-7 per cent of employment in the European Union (EU). Between 1985 and 1995 employment has expanded in the health sector relative to the economy in most EU countries except the Netherlands, Sweden and the United Kingdom (OECD, 1998). Consequently, despite the vogue for discussion of the “new e-economy” and the “knowledge worker” there is substantial evidence that many of the largest increases in employment have occurred amongst occupational groups in the caring professions (Nolan, 2000).¹ The challenge, however, as the International Labour Office (ILO) has noted, is to encourage the creation of *decent* care work in which “those providing the care are adequately protected and remunerated” not least because “a healthier, more educated, and higher skilled population is the surest route to higher productivity and better standards of living” (ILO, 1999: 29).

2.2. Categories of employment

The public sector can be categorized into three main branches of activity:

- Core public services: Employment in public administration and publicly funded and managed services. These include central and local government, health and education services.
- Public utilities: Employment in services that are usually required by all citizens and are of general interest. Partly because these services are often natural monopolies they usually include a public service obligation to ensure that they meet defined standards of service (access, price, quality, etc.). Examples include: water, electricity and gas supply; postal and telecommunication services; and to some degree transport (especially rail and bus services).
- Public enterprises: Employment in enterprises that for a variety of reasons, including the historical patterns of industrialization and state intervention, political ideology and national interest, have been wholly or partially state owned. This is the broadest category because in these cases state ownership does not arise from precise societal obligations or economic characteristics. In contrast to other parts of the public sector it includes manufacturing as well as services. In some countries this category has included banks, insurance companies, defence suppliers, pharmaceutical companies, oil companies and airlines.

A further distinction is that employment can be located at different levels² – usually divided, depending on the political system, between national (federal) level, regional (state) level and district/local tiers of government. An examination of ILO data indicates

¹ Evidence from the UK Labour Force Survey cited by Nolan, reveals that between 1992-99 almost half of the 20 largest increases in employment by occupation were amongst welfare and public service occupations. They comprise: educational assistants (155 per cent); welfare, community and youth workers (121 per cent); nursery nurses (83 per cent); care assistants and attendants (75 per cent); university teachers (56 per cent); medical practitioners (48 per cent); other childcare occupations (23 per cent); primary and secondary teachers (17 per cent).

² Terminology, responsibilities, size and funding arrangements vary widely between countries.

that there are very substantial differences between countries in the distribution of employment. For example, whereas in countries including Costa Rica, Fiji and New Zealand more than 85 per cent of public employees are categorized as central government employees, this figure falls to below a quarter in Finland, Japan and the United States. These differences arise more from the political and social development of a country than from its size or level of economic development (Hammouya, 1999: 14-17).

These variations can have important implications for funding levels and working conditions as can be illustrated by the experience of Canada and the UK. In Canada, the responsibility for health care rests primarily with the provinces but federal funding has been a mainstay of the system. When the federal Government reduced transfers to the provinces from the 1970s, this left a funding crisis at provincial level that brought in its wake substantial retrenchment of health services (Armstrong and Armstrong, 1999: 1203). In terms of working conditions, in the UK, the health service is the responsibility of central Government whilst social services form part of local government. This division of responsibility has created tension between health and social services and different terms and conditions of employment between subsectors has impeded flexible working arrangements for the care of the elderly.

An implicit assumption of the three sub-categories is that a continuum exists from non-market to market services (box 1) and that the more organizations are located towards the “market” end of the spectrum the fewer public sector characteristics they share. In these cases it is assumed that competitive pressures guide employer behaviour and shape labour-management relations, undermining the requirement for the directing arm of the State.

Box 1. Categorizing public sector employment		
Non-market		Market
Core public services	Public utilities	Public enterprises
e.g. health/education/social services	e.g. electricity/water	e.g. banks

The threefold categorization of public sector employment has always been imperfect because of the variations between countries in the size and functions of the public sector and the sometimes ambiguous definitions of what constitutes a state employee. These limitations have been extenuated by recent trends. In particular, the division between market and non-market sectors has become less satisfactory as public services have been subject to competitive pressures in the guise of competitive tendering, outsourcing, internal markets and other forms of marketization. The division between market and non-market sectors also ignores the important role played by voluntary organizations and the cooperative movement in the provision of health and social services (see Ullrich, 2000).

The blurring of the division between the public and the private sector ensures that even if a service continues to be provided by the State, it may be in a context in which reforms have been implemented to mimic the operation of the market in the public sector. Within the European Union, a series of EU “liberalization” directives (on telecommunications, railways, air transport, energy and postal services) has aimed at opening up protected domestic markets to competition (Eironline, 1999). This process has not been confined to Europe and successive GATT rounds and the pivotal role of supranational institutions such as the World Bank and the International Monetary Fund

(IMF) have encouraged similar processes in other regions, including Latin America and to some extent Africa (Hope and Chikulo, 2000; Welsch and Carrasquero, 2000).

Consequently the distinctive character of public sector labour-management relations is subject to increased scrutiny. The key role of the State in establishing specific employment relations institutions and employment statutes³ has provided public sector workers with benefits including job security and rights of co-determination. The State has also imposed certain restrictions on industrial action because of the essential character of public services, although in many countries these restrictions are being relaxed. Typically, some employment conditions have exceeded standards in the private sector (e.g. pensions, job security), although liberalization and privatization are reducing these differences. This process, however, is likely to vary not only between countries but also between occupational groups because of the *segmented* nature of public sector labour markets i.e. the often sharp distinction between terms and conditions for qualified/professional staff and ancillary/unqualified staff.

For predominantly low-paid occupational groups, with counterparts in the private sector, forms of marketization and privatization have exerted a downward pressure on wages and terms and conditions of employment (Bach, 1999a: 19). This “downward” convergence needs to be contrasted with occupational groups such as doctors, nurses and teachers with few equivalents in the private sector, and whose labour market position and pay determination arrangements have continued to reflect their distinct occupational identities and labour market characteristics.

2.3. Municipal services

A number of researchers have moved beyond the three broad subsector categories outlined above to examine the distinctive features of the municipal sector (also frequently termed local government sector). Lidström (1998) views the distinctive feature of *local* government as being its intermediate position between citizens and the State. This position arises from its need to be accepted by local citizens to maintain legitimacy and continuing regulation by the central State which defines local governments’ role and autonomy. This dualism leads to the elaboration of four criteria that differentiates local government from other organizations:

First local authorities have a clearly defined territory within a country or a state in a federation. Thus non-territorial forms of self-government are excluded. Second, they execute a certain amount of self-government or autonomy ... Third, local government has authoritative powers over its citizens. They may make binding decisions, issue regulations and in some cases also levy taxes. Fourth, it has directly elected decision-makers and/or makes decisions through municipal assemblies (Lidström, 1998:110).

³ Within many countries some public sector workers are not employed on a specific public sector statute (or occasionally it does not exist, e.g. the UK). In certain cases these workers are subject to worse terms and conditions of employment, but in others, e.g. Germany, few differences have been noted between *Beamte* and *non-Beamte* employment status.

This is a useful description of the core features of local government. Nonetheless because local authorities differ between countries in their size, functions, degree of autonomy and objectives, many attempts have been made to classify countries in order to understand their distinctive role within different nations. Goldsmith's (1990, 1992) typology uses a classification based on the underlying ethos or objectives of local government. He distinguishes between four ideal types:

- *Clientilistic/patronage model*: Local politics is about strong leaders that are supported by their local communities in return for the benefits they generate for their local citizens, often because these politicians are members of important networks. Local authorities tend to be small. Local government systems in southern Europe resemble this model.
- *Economic development model*: The main task of local government is to promote economic growth via partnerships with the private sector and other alliances. Australia, Canada and the United States are closest to this type.
- *Welfare state model*: The focus of local government is on the provision of welfare services. Local authorities tend to be large and professionally managed. Local government systems in the UK, Germany, the Netherlands and Scandinavia resemble this approach.
- *Market enabling*: This more recent category reflects the influence of the “new right” and the ideology of the minimal State in which local authorities coordinate a mixed economy of welfare.

Although the consequences for employment relations are not explored, the implication is that the *welfare state* model is associated with higher levels of direct employment and more developed personnel policies than the less formalized *clientilistic patronage* approach. Goldsmith suggests that these categories are not static and that local government is in a state of flux with shifts towards the *market enabling* category and signs that an emphasis on *economic development* is becoming more widespread. Many of these shifts are occurring because of the process of European integration and other aspects of globalization.

2.4. Impact of globalization for public services

This term captures a series of overlapping trends that highlight the limited capacities of nation States to control economic policy arising from the volume, speed and unpredictability of market transactions; privileging a narrow economic agenda in which change is seen as continuous and inevitable. By implication it is nation States and their labour forces that have to adapt to the demands of multinational companies for fear of capital flight and loss of jobs and investment (Dearlove, 2000). Globalization therefore reflects the fusion of the worldwide revolution in communications, the growth and dominance of global financial markets and the global reach of multinational corporations, the collapse of communism and, broader transformations in society, for example, the increased participation of women in the workforce (Hutton and Giddens, 2000: 2).

For the public sector the implication is that globalization has limited the capacity of nation States to sustain social spending because of the fear that that it could impede national competitiveness and limit investment. This process has forced governments to pursue neo-liberal policies that aim to reduce the size and scope of the public sector. Even if this “strong” version of globalization exaggerates the extent to which countries are forced to pursue restrictive macroeconomic policies, many governments use the language of globalization to reduce expectations about what is possible in terms of social expenditure (on this point for the UK see Hay, 1999). Moreover, these constraints are reinforced by other supranational institutions. In Europe, an important stimulus to the reform of public sector employment practices has arisen from the process of economic and political integration. The convergence criteria for participation in membership of the Economic and Monetary Union (EMU) specified that each member State’s deficit should not exceed 3 per cent of gross domestic product (GDP) and that total government debt should not exceed 60 per cent of GDP. These were viewed as blunt, but highly visible, policy goals which forced many governments to contain public expenditure and put public sector jobs in jeopardy.

Three other aspects of globalization have significant implications for the public sector. First, although labour mobility and migration is not a new phenomenon, and in many countries strict immigration controls exist, the term globalization reflects the increased scope for health care *professionals* to work in other countries in search of better pay and career prospects. This process has been facilitated by the development of free trade blocks (e.g. North American Free Trade Agreement (NAFTA) and MERCOSUR) and may be boosted further by the General Agreement on Trade in Services (GATS) negotiations (Buchan and O’May, 1999). Moreover, labour mobility is not confined to migration between countries but also reflects movement within countries, almost invariably from rural areas to urban ones. The corollary is that a large proportion of health care workers are low-paid female health care assistants that are excluded from the opportunities for improved employment conditions that labour mobility can offer. The importance of increased mobility of professionals can be gauged by the decision of the Department of Health in the UK to issue guidelines to hospitals on recruitment of overseas nurses. This guidance explicitly discouraged recruitment from countries such as South Africa that already confront severe staff shortages (Department of Health, 1999: 12). Nonetheless it is doubtful whether this guidance will stem the flow of nurses and other professional staff. UK hospitals continue to recruit actively abroad, oversupply exists in some countries and deterioration in employment in Africa and elsewhere as a result of structural adjustment programmes stimulates mobility (Waghorne, 1999: 559).

Second, increased labour mobility raises broader questions about the regulation of public services. As the influence of nation States has waned other forms of governance and regulation have emerged, albeit in partial and uneven forms. In the European Union as part of the creation of a single economic space considerable efforts have been invested in ensuring mutual recognition of professional qualifications for nurses and other occupational groups. This process is much more difficult on a global basis when there is little agreement on the definition of many occupations and existing national systems of regulation are often weak or non-existent (Brykczynska, 2000). Finally, the increased private provision of public services, which may elude existing forms of national public service regulation, requires policy guidelines to monitor service standards. This has encouraged the growth of accreditation systems for hospitals and other public services.

Third, multinational companies, with their increasing global reach, play a central role in developing a more integrated world economy in which similar employment practices are diffused across borders. The endorsement of privatization by the World Bank and other influential policy-makers has enabled multinational companies to become established in

many countries in which they previously had only a limited presence. A by-product of the process of letting contracts, an integral part of contracting out services, has been increased opportunities for corruption. The OECD and the World Bank have focused on rooting out corrupt practices in developing countries, but industrialized countries are not immune from these problems with multinational companies implicated for encouraging corruption (Hall, 1999). These costs, and the potentially corrosive effect on public service values and systems of accountability, are rarely included in an analysis of privatization.

Lee (1998) examines in more detail at a sectoral level the potential impact of globalization on health services. As table 1 indicates these developments have important, if variable implications for patterns of labour regulation, state policy and human resource management. First, the pace and character of reform has varied between countries, despite the common pressures identified above, and these differences are related to the historical development and particular configuration of state, employer and trade union relations within individual nation States (for Europe see Bach, 1999a). For example, the World Bank cites Argentina, the UK, Chile, Mexico, New Zealand and former Eastern European block countries as the most active privatizers (Kikeri, 1999).

Second, there are marked differences in the reform process between subsectors irrespective of the overall pace of reform within each nation State. Within the core public services the health sector has been subject to the most intensive reform process (Altenstetter and Bjorkman, 1997; Saltman et al. 1998; Mossialos and Le Grand, 1999). This reflects governments concerns about the difficulties of controlling health expenditure which has intensified the search for solutions that curb expenditure and alters the incentive structures within health care. Although all public services have been subject to budgetary pressures, the strong growth in health expenditure arising from demographic and technological pressures has been very marked. In addition, the political sensitivity of health care provision and the existence of a large private sector in many countries that is not directly controlled by government, has made it more difficult for governments to control health care expenditure in comparison to other public services. This is reflected in the particular problems associated with the reform of health service employment conditions. The Director-General of the WHO commented that “dealing with issues such as pay and incentives in the public sector ... constitute some of the most challenging items on the international health agenda” (Brundtland, 1999: x).

Table 1. Potential impact of privatization
Dimensions: Changes in experience of

Spheres	Spatial Physical space	Temporal Speed/frequency of human interaction	Cognitive Creation/exchange of knowledge and cultures
Economic	Global production and trade in services: <ul style="list-style-type: none"> - impact of mergers and restructuring, relocation of production 	Faster spread of diseases and resistance to antibiotics: <ul style="list-style-type: none"> - hazards for workers and service users 	Global mindset of policy-makers <ul style="list-style-type: none"> - spread of new public management/role of management consultants
Political	Transnational networks– WHO, World Bank, IMF: <ul style="list-style-type: none"> - impact of debt reduction measures 	Deterioration of health status due to political instability: <ul style="list-style-type: none"> - unemployment/ labour migration 	Expectations towards role of State in health financing/ provision: <ul style="list-style-type: none"> - privatization and decentralization
Socio/cultural	Transnational social movements: <ul style="list-style-type: none"> - campaigns/boycotts to end child labour, third world debt 	Changes in training needs: <ul style="list-style-type: none"> - flexible routes into occupations - requirements for continuous learning 	Changing role of women: <ul style="list-style-type: none"> - shortages in “traditional” female occupations (nursing) - increased care work
Technological and environmental	Ability to exploit low-wage labour markets e.g. typing of US doctors’ case notes by typists resident in India	Change in production of information: <ul style="list-style-type: none"> - impact of changed citizen expectations and the internet on location/availability of service provision 	Increased self-diagnosis/prescribing: <ul style="list-style-type: none"> - impact on health professionals - role of user involvement

Source: Adapted from Lee, 1998. Information also derived from Waddington, 1999.

3. Privatization

3.1. Definitions and trends

Privatization is a term that has been associated with the transfer from the public to the private sector of assets in terms of ownership, management, finance or control. In its narrowest sense it has been used to describe the sale of public assets to the private sector, but it has also been associated with a reduced regulatory role for government linked to policies of liberalization and deregulation. Within the core welfare services, privatization has been used to refer to an increase in the individual's responsibility for their own welfare, which arises from the State's attempts to delineate more explicitly its commitment to its citizens' welfare and may also reflect individuals own demands for alternatives (e.g. occupational pensions, complementary medicine). The phrase "privatization of employment relations" indicates that the legal framework of employment has been altered to resemble the forms of employment regulation in the private sector (e.g. Bordogna et al. 1999: 95).

Privatization has been linked to a range of techniques which include: *asset sales*, in which government sells all or part of state-owned enterprises or property; *contracting-out* services, in which public officials act as service arrangers; *internal market* arrangements, in which the purchasing of services is separated from their provision; *user fees*, in which government levies charges for services that are still provided by the public sector; *public-private partnerships*, in which government finances, manages and risk shares with the private sector on a joint project; and *liberalization*, which involves the relaxation or removal of statutory provisions which prevent private sector firms entering public sector markets. An overview of the extent of these trends is shown in table 2.

The range of approaches indicates that privatization is increasingly defined broadly to include all efforts to encourage private sector participation in the delivery of public services (Rondinelli and Iacona, 1996). In this broader sense privatization does not necessarily lead to all ownership and control of the service being transferred to the private sector and in these cases the term marketization is often used interchangeably with privatization (Braddon and Foster, 1996: 2). The breadth and ambiguous nature of the term privatization has complicated interpretation because it is not always clear that the same phenomenon is being compared across countries. For policy purposes, a number of factors can be identified that facilitate understanding of the consequences of privatization.

3.2. Ownership and competition

As product market competition and technological change have been viewed as the primary engine of employment relations change, the most substantive changes in working practices can be expected to arise in sectors that have been most subject to competitive pressures. Within the public services the threat of competition can impact on labour management practice even if ownership does not alter as can be seen from the experience of competitive tendering (see below). Consequently, an important distinction needs to be made between the issues of *ownership* and *competition*. It is often assumed that private ownership can be equated with increased competition, but this is misleading as

privatization may convert a public monopoly into a private one with limited consequences for employment practices.

Table 2. Trends in privatization in selected industrialized countries

Country	Trend
Austria	Partial/complete sales of companies in banking, oil and gas. Railways, post and electricity being restructured
Belgium	Privatization of companies in banking and insurance. Public utilities have become "autonomous public enterprises" (telecommunications, post, rail)
Canada	Privatization of firms in transport (rail, air) and telecommunications. Contracting out of catering, building maintenance and specialist functions in health care (e.g. computer services)
Denmark	Privatization of firms in banking and transport. Corporatization of Copenhagen airport, post and state shipping lines. Limited contracting out of municipal services (e.g. care of the elderly)
Finland	Corporatization of railways, post, air traffic, banking. Privatization/partial privatization of power generation, telecommunications and air traffic. Contracting-out is common in local welfare services
France	Extensive privatization of companies in banking, etc. Partial sales of France Telecom and Air France. Long tradition of contracting out in the water industry and being extended to hospitals (catering, cleaning, pathology)
Germany	Privatization of firms in automobiles, chemicals and of former East Germany state-owned enterprises. Partial privatization in telecommunications. Liberalization of energy and post. Contracting out of rubbish collection and street cleaning at federal state and municipal levels. Plans to outsource aspects of defence procurement
Greece	Some privatization in competitive sectors. Privatization of public utilities under debate
Ireland	Privatization of Telecom Eireann. Further privatization under discussion
Italy	Privatization of banks and insurance companies. Some contracting out of welfare services at local level
Netherlands	Privatization of banking, chemicals, steel companies and public utilities (post, telecommunications, regional transport companies, energy)
New Zealand	Privatization of many state enterprises, purchaser/provider split in health and corporatization of hospitals (Crown Health Enterprises), decentralized bargaining via Employment Contracts Act
Portugal	Privatization in competitive sectors and utilities (e.g. telecommunications) and some privatization of welfare services (hospitals under private management)
Spain	Privatization of iron and steel, textiles and chemicals and public utilities (electricity, transport, telecommunications). Contracting out has spread to highway maintenance and in the hospital sector
Sweden	Corporatization of state-owned enterprises and some privatization of care for the elderly at municipal level
United Kingdom	Almost complete privatization of state enterprises and utilities (except post). Extensive contracting out of cleaning, catering and refuse collection across the public sector and obligation on local authorities to achieve "best value"
United States	Limited sales of state assets due to small size of state sector. Contracting out at municipal level

Sources: Bach and Della Rocca, 2000; Eironline, 1999; Financial Times, 2000; Thompson, 1998.

The emphasis on competition should not be taken to imply that ownership is unimportant. There is a widespread view about the distinctiveness of management in the public domain in terms of objectives, the context in which it operates, the forms of accountability and the constraints upon performance (Ranson and Stewart, 1994). These characteristics of the organizational environment have been associated with particular work values termed a "public service ethos". Three-quarters of local government officers in a UK survey believed that such an ethos existed in the UK. These values incorporated: acceptance of accountability through the political process; intrinsic staff motivation; loyalty to a profession or service; and adherence to norms of integrity and impartiality (Pratchett and Wingfield, 1996). A widely voiced concern is these values are jeopardized by changes in patterns of ownership and increased marketization, especially if organizations are headed by private sector figures brought in to manage public services on a more commercial basis. It is no coincidence that in countries which have enthusiastically embraced market style reforms, including the UK and New Zealand, attempts to formalize

public service values and ethical standards of behaviour have proceeded furthest, to protect these traditional work values being undermined by the pressures of marketization (see Kernaghan, 2000).

The consequences of a change of ownership is also affected by the regulatory regime in which the nation State or supranational institutions can continue to exert an important indirect effect on employment practices by shaping the structure of privatized industries. For example, in postal services, liberalization has led Sweden Post to shed one-quarter of its workforce since the early 1990s whilst in more protected markets employment levels have remained more stable (Economist, 2000: 97). Similarly, in France, a long tradition of state intervention to define and safeguard the general interest obligations of public services, has ensured that proposed regulation of the public utilities are motivated by commitment to public service obligations as much as by an emphasis on competition (Eironline, 2000a). This is in sharp contrast to the environment in the UK, as was evident in the 1980s. The regulatory regime for competitive tendering in local government and the health service required service managers to accept the lowest cost tender, with substantial consequences for employment levels and working conditions (Bach, 1989).

Table 3. Contrasting approaches to privatization (Feigenbaum et al. 1999)

	Managerial	Economic	Political
Goals and orientation	"Good governance" Socially defined goals	Economic efficiency; reduce role/scope of the public sector; promote competition	Redistribution of power and influence, often for short-term advantage
Unit of analysis	<i>Pragmatic</i> Discrete social problem	<i>Systemic</i> Individual/firm	<i>Tactical</i> Group/class
Concept of privatization	"Tool box" resolve specific technical problems	Preferred mechanism	Tactical weapon: Attract voters and reward allies
Conceptual frameworks	New public management	Public choice analysis	Political economy
Illustrations			
<i>Contracting out</i>	Competitive tendering to ensure value for money	Contracting out to "shrink the State" and create pressure for further privatization via increased private sector influence	Award "sweetheart" contract to campaign contributor
<i>Deregulation</i>	Deregulating sectors that are not natural monopolies, coupled with protection of consumer interests	Wholesale deligitimization of government regulation	Reduced enforcement of regulations that fall heavily on political supporters
Country	United States	United Kingdom and New Zealand	France

Finally, whilst recognizing that budgetary pressures have been a common pressure fostering privatization, examining the underlying aims of privatization and the motives of its advocates in different contexts provides important clues as to the likely outcomes of the policy (see table 3). This type of approach has been used to explain the different experience of privatization in the UK, France and the United States (Feigenbaum et al. 1999).

Four preliminary conclusions can be stated. First, the assumption that there is an international policy convergence towards privatization is misleading because it disguises the extent to which the pace, form and scope of privatization has varied between countries and sectors. Nation States, and the actors within them, continue to shape the character of privatization, even as globalization continues apace.

Second, the experience of privatization confounds analysis that suggests there is a hollowing out of the State and a process of depoliticization⁴ occurring in which political problems are converted into technical decisions. This can be illustrated by the case of health care reform in Sweden in which the shift away from market-orientated reforms in the mid-1990s reflected the resistance of municipal politicians and health professionals to proposals that would have reduced governmental intervention in the health system (Harrison and Calltorp, 1999).

Third, a related point is that whilst privatization undoubtedly changes the role of the State, it does not reduce the scope of state intervention because it requires new forms of regulation and accountability to ensure that private interests adhere to state policies. This is particularly the case when in the absence of real competition companies are in a position to use their market power against the interests of consumers. In comparison to the analysis of privatization, there is little examination of how altered regulatory regimes have impacted on the public sector, or the extent to which worker representatives and service users are involved in the regulatory process. This important issue requires further analysis because whereas the 1990s could be characterized as the decade of privatization, in the first decade of the new millennium issues of regulation and re-regulation are uppermost in the management of the public services.

Finally, there has been a search for alternatives to contracting out and privatization as an awareness of their shortcomings has increased. In Tasmania, in the hospital sector, more cooperative forms of tendering have been developed in which elements of contestability and benchmarking rather than competition have been used to improve efficiency and service quality. This approach, which shares features of the UK Labour Government's policy of "best value", has involved developing shared beliefs between staff, trade unions and employers on the desired outcomes of the process rather than letting these be established by default in the marketplace. In particular, technical efficiency has not been elevated over social policy outcomes, such as continuity of care and the maintenance of local employment. This service agreement included targets for staff, defined against benchmark standards, and more flexible use of labour, although the cost of providing the service remained higher than if social obligations had been removed (Adams and Hess, 2000). Other initiatives to improve efficiency and quality in municipal services without recourse to privatization have been pioneered by the Swedish trade union Kommunal and the German public sector union ÖTV (Waghorne, 1999: 562), although many other trade unions have been slow to follow these examples.

⁴ An increasingly influential line of argument is that processes of privatization have hollowed out the State, and in conjunction with the new public management, contributed to a process of depoliticization in which political decisions are converted into technical ones and passed from politicians to managers, reducing accountability and allowing politicians to shirk responsibility for budgetary reductions (for example on Australia see Fairbrother and Macdonald, 1999).

4. Decentralization and health services

4.1. Origins of decentralization

One of the most prominent criticisms of the public sector, which has been applied especially to human resource management, has been that public services are too centralized and remote from their users (OECD, 1995). These problems, it is suggested, have been compounded by centralized and inflexible pay and grading structures that are insensitive to local labour market variations. This criticism is invariably contrasted with practice in the private sector in which it is suggested that decentralization of human resource management practice to enterprise level accompanied by the “empowerment” of line managers has facilitated improved human resource management (for a review, see Bach and Sisson, 2000).

The importance of decentralization for effective public sector reform is widely recognized (Fukasaku and Hausmann, 1998; ILO, 1998). Many countries have decentralized government to lower tiers and have signed either the European Charter of Local Self-Government or its global equivalent (IULA World Wide Declaration of Local Self Government). Decentralization is not, however, a panacea. In a period of public sector retrenchment there is often a tension between central government that establishes the policy and financial framework and local government tiers which complain that the level of resourcing is insufficient, policy guidance too prescriptive, and performance targets too ambitious to fulfil the role expected of them. Such tensions have been noted in many countries (for example, on Canada and Sweden see Armstrong and Armstrong, 1999: 1202; Micheletti, 2000: 272).

The extent of decentralization varies considerably and is related to historical and political development. In Latin America and many developing countries, a tradition of centralization stems in part from the long period of colonial administration (Stein, 1998: 95). The withdrawal of colonial regimes in itself did not overturn this pattern of governance. Confronted with poor infrastructure, an underdeveloped private sector and widespread poverty, the State in large parts of Africa and elsewhere needed to take on the important task of guiding the economy and establishing public service provision. By the 1980s, powerful voices in the World Bank and the International Monetary Fund (IMF) suggested that the existence of poor management and corruption was encouraged by policies of centralization which concentrated power in the hands of a small urban élite. These criticisms marked the start of an era of “structural adjustment” in which financial support was linked to market reforms and managerial changes in the public sector. A central theme of many of these changes was an emphasis on decentralization that aimed to transfer political power to local governments. Hentic and Bernier (1999: 202) estimate that more than three-quarters of the countries in transition and developing countries, with a sizeable population (over 5 million inhabitants), have endorsed programmes of decentralization.

In the health sector decentralization been a prominent trend, a process that can be dated from the Alma Ata declaration of 1978 and the aspiration to move to a more primary care led health service. A further impetus was provided by the process of democratization in Latin America and Africa in the early 1990s and the transfer of political authority to lower tiers of government. As Hentic and Bernier (1999: 202) highlight, however, the

process of political decentralization is rarely guided by objectives of administrative effectiveness, even if subsequently justified in such terms, but rather may reflect the necessity to make concessions to maintain political stability. Consequently the implications for health policy and the management of human resources may not be fully appreciated when decentralization occurs. In the industrialized countries, decentralization has been more focused on devolution of managerial responsibilities and increasing the role of users in service delivery. In general in larger countries with dispersed centres of population (e.g. Canada) an important role for sub-national government has emerged. This pattern is also prevalent in countries with a federal structure of governance and mature political institutions where the risk of corruption – although universal to some extent – is tempered, despite the greater opportunities that may arise from fiscal decentralization.

4.2. Forms of decentralization

Decentralization can take a number of different forms (Pollitt et al., 1997: 6-9). Primarily at the level of the nation state, a first distinction can be drawn between *political* decentralization, where authority is delegated to lower levels of government, usually elected municipalities, and *administrative* decentralization where greater managerial authority is delegated to managers or appointed bodies, the latter being a defining feature of the *new public management*. An important component of this increased managerial autonomy is increased financial discretion accompanied by increased accountability. Spain illustrative of the political decentralization with substantial political authority and responsibility for health and education services transferred to the autonomous communities in the 1990s (Jódar et al. 1999: 167). Political objectives in terms of the re-democratization of society were also central to decentralized health reforms in Brazil (Collins, et al., 2000: 115).

In contrast, a striking feature of the UK public sector reforms of 1979-97 was the emphasis on administrative, rather than political, decentralization that resulted in a fragmentation of the public sector into its constituent “business units” (similarly for New Zealand, see Lawrence, 1999). The Conservative government invoked the model of the multi-divisional company in which the centre (“head office”) makes most of the strategic policy decisions and monitors the financial performance and service standards of separate organizational units whose senior managers are responsible for operational efficiency.

This process of administrative decentralization ensured that local managers had little legitimacy to develop policies independent of central Government. This reinforced a top-down style of centralized government, but, it also fostered an adversarial relationship with local health and municipal services which encouraged forms of tacit resistance and the emergence of an “implementation gap” between policy and practice.

A second distinction can be drawn between *internal* forms of decentralization in which authority is delegated to existing tiers in the hierarchy, and *external* decentralization in which authority is transferred to newly established units that may have a separate legal status. In Sweden, the county councils and municipalities have been delegated responsibility for a major part of welfare provision but they are part of an integrated central-local government system. By contrast in the UK and New Zealand the public sector has been fragmented into separate organizational units, for example in the health sector, NHS trust hospitals and Crown Health Enterprises, with a distinct legal identity (see Walsh et al. 1998). These forms of *external* decentralization are potentially more radical and harder to reverse.

A third, qualitatively different, form of decentralization does not focus necessarily on the level of decision-making but concerns the lines of accountability and devolution of responsibility from functional specialists to line managers. This trend has been associated with increasing the managerial responsibilities of professionals (nurses on hospital wards, senior teachers, etc.) and shifting responsibilities for aspects of human resource management from personnel specialists to line managers. Personnel specialists have suggested that this process allows them to concentrate on more strategic activities whilst empowering line managers to take more responsibility for personnel practice.

4.3. Implications for human resource management

The advantages of decentralization which include allowing more participation in the process of governance, enabling local priorities to be more fully taken account of in planning service provision and facilitating greater local ownership and participation have been well documented (Belshaw, 2000: 94). The implications of decentralization for human resource management, however, and the extent to which HR issues impact on the effectiveness of decentralization initiatives has received far less attention. A number of issues have recently been highlighted (for a detailed discussion see Kolehmainen-Aitken, 1998).

First, decentralization by shifting responsibilities and resources to lower tiers of authority confronts complex issues of existing power relations. These difficulties often manifest themselves in staffing problems, such as reluctance to allow staff to move or ambiguous definitions of responsibilities between different tiers of government (for example in Brazil, see Collins et al. 2000: 121). They also appear as financial problems in terms of equitable resource allocation. There is often a temptation for central authorities to retain resources at central level where existing resources are heavily concentrated. This can result in the decentralization of responsibilities without the accompanying resources to undertake the new roles expected of staff. Moreover, a reluctance to decentralize staff management, especially recruitment and selection, can leave decentralized authorities with an inappropriate mix of staff with which to meet their policy objectives.

Second, there is a general issue of personnel capacity and capability. The lack of adequately trained personnel to take on the financial and personnel responsibilities of decentralization is a common cause of concern (e.g. on Uganda see Corkery, 2000: 87) and the scope for corruption and nepotism can increase unless transparency and accountability mechanisms are robust. In addition, the evidence base for decision-making is frequently far less developed at decentralized level in comparison to national level. This problem is not confined to developing countries. In the UK the radical market style hospital reforms of the 1990s, which aimed to foster hospital autonomy, legitimated both the downgrading of national data collection and allowed individual hospitals to argue that they couldn't share hospital data because it was commercially sensitive.

Third, there have been concerns that extreme forms of decentralization, associated with internal market reforms that place emphasis on autonomous hospital units, can duplicate effort and contribute to high levels of transactions costs. These concerns have frequently surfaced in the criticisms of health reform in the UK and Sweden and contributed to modification of these forms of decentralization in favour of increased coordination and in some cases *recentralization*. For example, in Canada at the same time as provincial ministries decentralized authority to regional authorities, these regions centralized control at the expense of individual hospitals. This enabled the regional

authorities to plan and rationalize hospital provision in a manner that would have been impossible at more decentralized levels (Naylor, 1999: 14). Similar arguments apply to the management of human resources. Increasingly the integration of human resource policies across organizations and the scope to shift people in a flexible manner between organizational units is the means to build organizational capability, discouraging the extreme forms of decentralization and business autonomy that were fashionable in the 1990s. Recentralization in the sense of coordination and encouraging productive links between organizational units is a more effective way to manage human resources than focusing exclusively on unit autonomy (Sisson and Storey, 2000: 35).

Finally in terms of devolution to line managers the experience in the UK has been that line managers are not opposed to devolution in principle but because of increased workload pressures are reluctant to take on further responsibilities (Bach, 1999b). They are concerned that a “downsized” central personnel function attempted to offload responsibilities on to them without providing the necessary training and support, fostering cynicism and distrust. More positively line managers suggested that the contribution of personnel specialists has been enhanced when they are more focused on the requirements of individual business units.

4.4. Decentralization of pay determination

Within the private sector there has been a shift towards the decentralization of pay bargaining in many countries, so it is not surprising that governments have examined the scope for more decentralized public sector pay determination to increase pay flexibility within the public sector. There are wide variations between countries – and to some extent subsectors – in the experience of decentralization in the public services, but countries in Europe will be used to illustrate more general trends and issues (for a fuller discussion see Bordogna and Winchester, 1998).

France, and to some extent Germany and Spain, share many of the characteristics associated with traditional highly centralized systems of pay determination. In France the legacy of a strong and highly interventionist State has resulted in an uncertain status for collective bargaining because of the capacity of the Government to unilaterally decide terms and conditions of employment (Marsden, 1997: 64). In Germany, despite its federal character, there is a uniform and centralized system of employment regulation with few differences in terms and conditions of employment between individual subsectors (Keller, 1999: 59). At the other end of the spectrum in the UK and Sweden there is a stronger emphasis on decentralization enabling greater differentiation between individual components of the public sector. In Sweden the large degree of decentralization, in which the county councils are responsible for the provision of health care, is replicated in the collective bargaining structure with separate negotiations for each subsector (Berg, 1999).

In Denmark and Italy the focus has been on supplementing national agreements with local negotiations at the workplace. In Italy, for the first time, negotiations are taking place at the local health service or hospital level with pay increases related to performance (EIRR, 1999). In Denmark, in April 1998, a far-reaching pay reform was introduced with basic pay decided at central level supplemented by local allowances which constitute a sizeable proportion of pay. These allowances are based on bonuses for qualifications, additional duties and for performance and there is flexibility allowing some of the bonus to be applied at county or hospital level, or on an individual basis (see Andersen et al. 1999: 222).

In countries such as France, with a highly centralized system of pay determination, it has proved difficult for the Government to respond to public service workers grievances. The dilemma for the Government has been that re-evaluating the work of groups such as nurses could encourage comparability claims from other groups due to the interconnected job classification system, unleashing upward pressure on public sector wage levels. The Government was therefore equivocal about boosting nurses' pay in the aftermath of industrial action in 1988 and preferred to use a plethora of bonuses, many of which are not included in the official statistics (Piotet, 1994).

In more fragmented and decentralized systems there is greater scope to address the grievances of specific occupational groups. In the UK the complex structure of public sector pay determination has enabled some groups (e.g. nurses, teachers, police) to be granted larger pay increases than other groups without triggering a generalized increase in public sector pay (Elliott and Duffus, 1996). Similarly, in Sweden during 1998-99 nursing staff in a number of hospitals were awarded additional pay increases after threatening to resign en masse unless substantial pay increases were granted (Berg, 1999). The paradox of the UK case, however, is that in the health service the pay determination system is characterized by too little integration rather than too much as in France or Germany. Because the pay of each occupational group is not closely related to pay awards for other groups this has facilitated successful legal claims of equal pay for work of equal value, arising from the gender bias within the pay structure. In addition the separate pay and occupational structures within the health service have inhibited flexible working across occupations and spawned attempts by some managers to develop integrated, trust-specific pay structures at local level to overcome these problems (Grimshaw, 1999).

As Bordogna and Winchester note, there does not appear to be a general trend towards the decentralization of collective bargaining in the public services and its uneven development illustrates the complexities and risks of the process, providing support for the view that there are few unequivocal benefits of a shift towards more decentralized pay bargaining (Arrowsmith and Sisson, 1999). For governments there is an understandable reluctance to delegate significant autonomy for pay determination to lower organizational levels because of the desire to maintain tight control of the public sector pay bill. Governments have, however, proved more willing to delegate responsibility on non-pay components of employment and working conditions to managers to increase efficiency, flexibility and service quality. In general there has been limited pressure from employers and trade unions for more pay bargaining decentralization, although their calculations are sensitive to prevailing labour market conditions and their assessment of overall government objectives. For example, the Swedish Association of Health Officers has campaigned for and recently gained a pay agreement based on local negotiations that will widen differentials and be linked to performance, despite the reservations of some members. The expectation is that the agreement will lead to substantial pay increases for its members in a period of nurse shortages (Eironline, 2000b).

5. The impact of privatization on efficiency, quality and working conditions

5.1. Contracting out

Within the public service sector, the most important component of privatization has been the contracting out (also termed outsourcing) of services. The extent of this development is now well documented and although it has been strongly associated with particular countries (especially the UK, New Zealand and the United States) the process has left few countries untouched (for overviews see Domberger, 1998; Young, 2000). Despite criticism of the process from service users, trade unions and even employers,¹ and international agencies cooling towards privatization, it is being considered most earnestly in countries that have been reluctant to accept privatization (e.g. Denmark and Sweden). Public opinion, however, still seems reluctant to endorse these developments (EIRR, 1999).

Although the geographical reach of contracting out is extensive, the volume of contracting out as a proportion of public sector budgets has been relatively small. Of great significance, however, is that the historically relatively narrow range of services covered, such as catering, cleaning, refuse collection and street maintenance, is being expanded. A broader range of technical services is being considered for privatization including information management and personnel using longer-term contract arrangements with a more extensive contractual remit. Nonetheless governments have been far more wary of contracting out services that are viewed as integral to the welfare state. Hirsch and Osborne (2000: 315) in an examination of contracting out of municipal services in the United States report that Los Angeles County, with a board of supervisors totally committed to privatization, contracted out only 1.2 per cent of its budget in 1987-88, a figure that rose slightly to 2 per cent by 1998-99. These figures, however, are misleading because the impact of competitive tendering/market testing is not diminished by relatively low levels of private provision. In the UK, during the period of unbroken Conservative administration between 1979-97,² it was mandatory for hospitals to competitively tender for catering, cleaning and laundry services and hospitals were encouraged but not required to market test pathology and other technical services. In local government from 1980 a proportion of highways and building maintenance work had to be subject to competitive tender and legislation in 1988 required authorities to expose practically all their ancillary services to tender. This process was extended further in 1992 when professional services (including finance, legal and personnel functions) were subject to tender. Other examples of extensive

¹ In the UK private sector contractors by the mid-1990s had become disenchanted with the policy of compulsory competitive tendering. The costs of preparing tenders was high and their success rates were relatively low. Even if a contract was gained, managing the service proved difficult in authorities which were opposed to the policy and there was little prospect that the contract would be renewed. This experience has encouraged several multinationals to exit the market for smaller, low price contracts.

² Since its election victory in 1997 the Labour Government has replaced the legal compulsion to seek tenders for specific services and proposed that all municipal services should be subject to periodic review to ensure "best value"; that is, performance targets, based on private and public service comparisons, should be set and monitored.

market testing in local government include the Victorian government in Australia that prescribed minimum levels of market testing of total budgeted expenditure of 20 per cent in 1994- 95 rising to 50 per cent in 1996-97 (Teicher et al. 1999 cited in Young 2000: 98).

5.2. Efficiency and quality

The extent to which competitive tendering and contracting out has been contentious can be linked to the framework outlined in table 2. In countries where the policy has been mandatory and perceived as ideologically motivated, opposition has been strong (e.g. the UK) in comparison to countries where a more voluntary approach has been adopted which has been linked to a wider process of organizational renewal, such as in the Netherlands (Kane, 1996: 60). The most controversial issue, however, has concerned the issue of financial savings and efficiency. In general, an uneasy consensus has emerged that the process of competitive tendering (whether the service is ultimately contracted out or not) has produced financial economies; a figure of 20 per cent savings has become a rough benchmark in policy circles (Domberger and Jensen, 1997: 161).

More controversial has been the source of these savings with critics suggesting that most of the cost reductions have arisen from job losses, worse pay and conditions and work intensification – especially, but not only when contracts are won by private sector organizations. Even when basic pay rates are protected, hours of work are often reduced and bonuses, holiday and sick pay entitlements deteriorate with important implications for sustaining decent work. A variety of other reasons have been cited for efficiency gains that include increased flexibility in labour utilization, sometimes linked to increased part-time or temporary working, the use of more modern equipment and altered management practices, for example less tolerance of sickness absence. The difficulty in resolving these competing interpretations of the same phenomenon is that there are many methodological problems associated with these studies including objective and accurate measurement of costs, unclear performance criteria and like-for-like “before and after” comparisons (for a review see Boyne, 1998: Chapter 5).

The impact on service quality is also open to conflicting interpretation. Many studies that report reductions in service quality fail to distinguish between different causes; because the specification has been altered (i.e. lowered) or poorly specified by the purchaser, or arising from a failure on the part of the contractor. Supporters of competitive tendering suggest that the process leads to a better specification of service requirements and improvements in monitoring service standards. Critics point to evidence that service standards have been compromised, partly because contract staff have been poorly trained and equipped. Fraser (1997, cited in Young 2000: 109) in a study of the Australian government cleaning service, reported that contracting out increased workloads leading to increased injuries, stress and decreased job satisfaction. In a case study of tendering for hospital cleaning services in the UK it proved difficult to set and monitor effectively the standards expected of the contractor. Cleaning standards declined due to understaffing and poor training and were reflected in increased cross-infection rates. The health authority felt compelled to terminate the contract and return the service in-house (Bach, 1989).

5.3. Working conditions and union behaviour

The impact of contracting arrangements on working conditions of different segments of the workforce has received considerable attention. In the UK the stark conclusions of a study published by the Equal Opportunities Commission on the gender impact of compulsory competitive tendering (CCT) in local government were that:

- women's employment tends to have declined more than men's as a result of the CCT process;
- the greatest burden of job loss has been borne by part-time workers;
- CCT has increased gender pay inequality;
- there has been a general fall in trade union membership, especially in female dominated services.

These findings (Industrial Relations Services, 1995) have been reinforced by others in the hospital sector. Kahn's (1999) case study of hospital manual workers reported that the almost exclusively male portering workforce were highly resistant to forms of generic working that challenged both masculine identity and the material advantages of their occupational position, notably access to overtime paid at higher rates. In addition, the public service union branch was fairly passive in response to a new managerialism, but focused on a defence of the porters' task demarcations within the more flexible ward assistant role. These findings also point to the dilemmas that trade unions confront in relation to privatization and public sector restructuring. The formation of Unison, the UK's largest union, was precipitated by the anticipated shift to decentralized bargaining and membership decline amongst its constituent unions arising from competitive tendering. Foster and Scott (1998) demonstrate that trade unions have responded to contracting out of municipal services in a number of ways (table 4).

Table 4. Trade union responses to contracting out municipal services

Collective principle or pragmatism?

1. Industrial action – largely local responses.
2. Non-involvement in the tendering process – prevents collusion in eroding terms and conditions, but shuns opportunities to influence the specification.
3. Negotiation – working with local managers to minimize the impact of the policy.
4. Judicial challenge – use of legal remedies (national and European) to enforce the Acquired Rights Directive and other regulations.

Autonomy or alliance?

1. Local (autonomous) campaigns based on economic concerns.
2. Broader local campaigns that involved service users e.g. involving teachers and parents to prevent contracting out of school meals or cleaning services.
3. National campaigns to keep services public and to highlight the negative impact on service quality of "contract failures".

1. Maintain historic identity as representatives of exclusively *public sector* employees.
2. Attempt to retain outsourced members and collaborate with private sector firms.
3. Actively seek new members in private firms that are entering public sector markets. This can lead to more intensive rivalry between unions previously organizing workers in different industries.

Source: Based on Foster and Scott, 1998.

The process has significantly altered union behaviour, but also challenged their credibility as they have been drawn into forms of concession bargaining and accentuated inter-union tensions. More positively Martin (1997) drawing on case study evidence from local authorities in Denmark, Germany, the Netherlands and Sweden has suggested that unions have demonstrated their capacity to influence work reorganization and service quality. He suggests that “a key ingredient of efficiency and quality improvements is genuine empowerment of front-line public service employees” (Martin, 1997: 16).

In comparison to developments in municipalities, in public utilities less attention has focused on contracting out. Nonetheless ownership changes have sometimes encouraged increased outsourcing. For example, in the Belgian banking and insurance sector – much of which was formerly publicly owned – call centres and information technology services have been outsourced. These developments have reduced labour costs and sometimes provoked industrial action because the new suppliers are covered by less favourable collective agreements. A further consequence of privatization and liberalization of public utilities, as noted earlier, has been sharp reductions in employment often accompanied by changes in the composition of employment (Eironline, 1999).

To summarize, when services are transferred to the private sector this has had a significant impact on the terms and conditions of employment for the staff concerned and employment levels. Within municipalities, even when a service is retained in-house the competitive tendering process has often led to substantial job losses, work intensification and less job security for those that remain in employment. There is also a growing concern, voiced most strongly by professional staff, that commercial values are infusing public services which places a priority on financial indicators to the detriment of service standards. Heery (2000: 105) in an investigation of these claims, suggested that public service workers’ commitment and identification with the goals of their organizations had proved surprisingly robust in the face of changes that impinged negatively on employees. He warned, however, that:

Aspects of public sector restructuring may, in the longer term, serve to erode employee commitment. The latter is likely to occur if a more directive, non-participative management style becomes the norm and if public service employers cease to display concern for the well-being of their employees. If public service organizations abandon the kinds of employment practice which have differentiated them from their private sector equivalents ... such as the avoidance of redundancy, then a likely effect will be a reduction of employee commitment.

6. Social dialogue, labour – Management relations and the new public management

State promotion of policies of privatization, decentralized collective bargaining and managerial devolution has shifted attention away from the formal policies of employers' associations. Whereas public sector employment relations has traditionally been concerned with the institutions of collective bargaining and legal enactment, there is now much greater interest in the policies and practices of employers. These reforms have led some commentators, especially Anglo-Saxon writers, to detect that there has been a shift from public administration to public management, labelled the New Public Management (NPM) in which public sector managers mimic private sector best practice (Hood, 1991). Within these frequently prescriptive accounts, it is suggested that the new public management refers to a bundle of measures, not all of which emerged for the first time in the 1980s. Underlying this apparently disparate set of management practices in the NPM are three key dimensions.

6.1. The role of management

The first concerns the extent to which a stronger management function, held accountable for performance, has emerged. It requires the development of professional managerial roles and the use of a range of corporate management techniques (performance management/appraisal), the adoption of which is aimed at improving efficiency and effectiveness. A second issue concerns the degree of change in organizational structures; the extent to which monolithic public service organizations are broken into separate units with more devolved management practice. A third element is market orientated, and explores whether public sector can shift from management by hierarchy to management by contract. Competition may be encouraged by competitive tendering and internal markets. These reforms fragment previously integrated organizations and replace them with competing units linked by a series of contracts.

As noted earlier, in many countries there have been sustained attempts to develop more sophisticated managerial systems and authority has been ceded to lower levels within the nation State, albeit often within strict central government regulations. In the UK, and to some degree in France and Italy, there have been initiatives to strengthen the role of managers, especially within sectors such as health which face severe financial pressures. Even in countries where the signs of the new public management are less apparent, such as Germany, there has been a vigorous debate about managerial reform, particularly within the municipalities (Keller, 1999).

These changes in employer practice are open to another interpretation; namely, that although in most countries there is a general acceptance that a more efficient public service requires more effective management, this is not necessarily equated with developing a managerial role modelled on the precepts of new public management (Bach and Della Rocca, 2000). This arises from the distinctive characteristics of management in the public domain. In comparison with the private sector, trade union membership remains high and managers are more likely to be trade union members than their private sector counterparts. This raises the question of whether managers share some or most of the values of their workforce and, if so, that they may be unwilling to alter fundamentally management

practices. These reservations are reinforced by the presence of distinct professional and occupational identities amongst public service staff, often shared by their managers, which may instil opposition to the widespread implementation of managerial values. In addition, within formalized and legalistic systems of public administration there may be limited scope for the exercise of management prerogatives. Finally, the capacity to implement public management reforms, which requires more sophisticated systems of human resource management, may be constrained by the underdevelopment or absence of a specialist personnel function in many parts of the public sector.

6.2. Labour-management relations

Despite these qualifications, some employers and trade unions are trying to establish new forms of social dialogue that take account of public service reforms, although one potential avenue – European-level social dialogue – is absent in the public services (Keller and Henneberger, 1997). Hegewisch et al. (1998), however, point to the widespread adoption of direct participation mechanisms in European public services and highlight the relatively high incidence of individual delegation. In the UK, attempts to break down the adversarial climate of employment relations in the public services has been encouraged by the Labour Government. One initiative in the health service has involved the public service union Unison and a number of hospitals, facilitated by the health policy organization, the King's Fund, developing genuine collaborative approaches between management and the workforce to “craft a workforce for the twenty-first century” (anonymous, 1999). This process included National Steering Group (NSG) Meetings (box 2) which went beyond a traditionally narrow bargaining agenda and focused on longer term issues than has traditionally been discussed within existing consultative arrangements. This initiative bears many similarities to the “Partnership in Hospitals” project in Denmark in which the social partners have sought new approaches to work organization and staff development to ensure improved patient care and more satisfying work for staff.

Box 2. National Steering Group (NSG) Meetings

Meetings of the trusts with the King's Fund and national officers from Unison have been held three to four times a year for support, information and review. Participants are usually members of the steering groups, but the host trust can bring who they wish.

Meetings were initially characterized by competition, but now there is a strong spirit of cooperation. They have become non-threatening, supportive and liberating. People say they are no longer aware of others rank or position. One staff representative said “it is now irrelevant whether you were a staff rep or a chief executive”. Meetings start with a presentation from one trust followed by discussion and meeting in small groups to swap experience. Usually there is an outside speaker and/or discussion on a relevant policy issue e.g. the government's task force on staff involvement.

The NSG has become a very practical forum in which trusts discuss how they have done things: how they get “ordinary staff” to participate, how they run groups, how they have dealt with disappointments. An iterative process is developing in which the mood of the meetings has changed from people being in competition with each other.

As each trust has found its own way and gained confidence it has been able to contribute and learn in a genuinely collaborative process of give and take.

Source: Anonymous, Partnership Working in the NHS, 1999.

Within the public utilities a combination of privatization, liberalization and altered managerial strategies have led to important changes in employer-union relations (Eironline, 1999; Pendleton and Winterton, 1993). A few of the key trends are:

- the structure of employers' representation has changed as privatized companies have joined private sector employers' associations. This can take the form of direct affiliation, or new groupings of privatized companies can arise. In Finland new organizations have been established in the telecommunications sector and for companies operating in the municipalities;
- greater emphasis has been placed on a range of human resource management techniques. Within privatized firms (but also marketized public services) employers are placing more emphasis on making employees aware of the commercial imperatives of their organizations. This is often linked to systems of performance management, performance related pay and the spread of employee share ownership, alongside more forceful employer demands for "flexible working";
- trade union representation has also been affected. Conflict can arise between public and private sector unions over representation in privatized companies (e.g. Norway and Sweden). In Denmark, however, in the corporatized postal service it was agreed that the National Union of Postal Workers would continue to organize postal workers with civil service status, new entrants without civil service status would be organized by the General Workers' Union. Privatization has also spawned union mergers and other forms of alliance;
- specific forms of worker representation may be altered. For example, at Telecom Eireann, worker directors have been removed from the board but in other cases the more formalized co-determination arrangements prevailing in the private sector has reinforced worker representation. At Deutsche Telecom employees have gained representation on the supervisory board and there is a more prominent role for works councils at establishment level.

7. Discussion

This paper has examined the extensive changes in employment relations in the municipalities, focusing on the provision of health services, but highlighting related developments in other parts of the public sector. First, it has been suggested that the unique characteristics of public sector employment that distinguished public and private sector employment relationships has been eroded in recent years. This has led to a partial convergence between employment practices in the private and public sectors. Increasingly the distinct legal status of employees, pay determination arrangements and management practice are becoming more similar to prevailing practice in the private sector. In the former public corporations and public utilities sectors, conflict has occurred but trade unions are generally pragmatic about these developments, and focus on safeguarding jobs and employment conditions rather than resisting the principle of privatization. In the public services developments are more uneven with service users and trade unions more likely to oppose reforms as a matter of principle.

This overall picture of partial convergence between the public and private sectors, needs to be qualified to take account of important differences between occupational groups arising from the segmentation of public sector labour markets. As noted earlier, for predominantly low-paid occupational groups, with counterparts in the private sector, forms of contracting out and privatization have exerted a downward pressure on wages and terms and conditions of employment, with an especially marked impact on women and other disadvantaged groups, jeopardizing the goal of creating decent work. This “downward” convergence needs to be contrasted with occupational groups such as teachers and nurses whose pay determination arrangements have needed to continue to reflect their distinctive occupational identities, labour market characteristics and the political sensitivities associated with these occupations.

A second issue concerns whether the process of globalization has encouraged governments to pursue similar approaches to public service reform, leading to a convergence between countries. In the same way that globalization, and the increased competitive pressures associated with this trend, has become a prominent explanation in analysing changes in private sector employment relations, how far can such a framework explain developments in the municipalities? It can be argued that the advocacy of public sector “best practice” incorporating privatization, decentralization and the new public management by, amongst others, the OECD and the World Bank is illustrative of a form of globalization within the public services. Trends identified earlier include: (1) increased mobility of health care professions; (2) more frequent attempts at regulation of qualifications that extend beyond national boundaries; and (3) an increased penetration of multinational companies into municipal and health care markets. These trends provide some support for the argument that globalization provides a catalyst for the reform of public services.

For the municipalities, in most countries, contracting out and the spread of internal market mechanisms have been the most significant developments. Competitive tendering and contracting out, implemented at the level of the individual hospital or municipality, has had a direct effect on specific occupational groups such as refuse collectors or hospital cleaners, usually resulting in lower service costs, although the impact on service quality is harder to gauge. The historically relatively narrow range of services covered, such as catering, cleaning and refuse collection, is being expanded. A broader range of services is

being considered for privatization including information management, personnel, aspects of education management and medical care such as pathology services.

Internal market mechanisms, usually applied to a whole subsector, have had a less direct impact on employment practices than contracting out. The greater complexity and less transparent nature of these reforms has often meant that the impact on employment practices has been diluted. The relatively unambiguous price signals and competitive pressures that exist in tendering for refuse collection, for example, have usually been absent in complex internal markets for health and social care, reducing the pressure for radical changes in employment practices.

There is scarcely any country in the world that has not been touched by forms of privatization and decentralization. Whilst privatization has been favoured by governments because of its potential to raise efficiency, generate revenue for the State and allow it to withdraw from direct provision of services, decentralization has been endorsed because it has been suggested that delegating authority to lower tiers will improve decision-making and enable local citizens to be more involved in their communities. Although this objective is not always achieved, municipalities and the decentralization of decision-making that they aspire to, captures the need of citizens for identification with local centres of power and influence in a more global economy.

This paper has shown that privatization and decentralization can take many forms and not surprisingly have produced uneven results. The outcomes of privatization and decentralization have varied because the underlying motivations for reform have differed and the degree of political will has also been highly variable. In some countries privatization and decentralization have scarcely moved beyond the hyperbole of official policy documents or there has not been the managerial capacity and incentive structures to make a reality of these policies. In others, however, extensive reforms of the public sector have challenged employer practice, trade union strategy and state policy.

In many countries there have been sustained attempts to develop more sophisticated managerial systems and authority has been ceded to lower levels, albeit often within strict central government regulations. Initiatives to strengthen the role of managers, especially within sectors such as health, which face severe financial pressures have been common. For managers there is the challenge of reconciling the adoption of a more forceful and performance-orientated human resource management approach with policies that safeguard and nurture a public service ethos. This is a large task. Not only does this agenda depart radically from traditional employer concerns with the institutions of collective bargaining and legal enactment, but it also requires placing a greater emphasis on developing human resource management expertise at all levels within public service organizations and necessitates developing new skills in purchasing and contract management and the ability to manage change without alienating the workforce.

For trade unions, questions of national and workplace renewal and building alliances with service users are high on the agenda. Privatization in particular has significantly altered union behaviour, but also challenged their credibility as they have been drawn into forms of concession bargaining, and privatization has frequently accentuated inter-union tensions. Trade unions have generally found it difficult to move beyond defensive campaigns that try to limit the negative effects of privatization for their membership, although occasionally forms of social partnership have enabled them to shape the privatization process or develop alternatives that have a positive impact on work organization and service quality.

Finally, in terms of the role of the State, it is naive to view privatization and decentralization as trends that will reduce state influence in shaping employment practices in the public sector. The role of the State is being recast by the process of globalization and is fostering more indirect forms of regulation concerned with *outcomes* (pricing, quality, performance, safety) rather than *inputs* (type of employment statute, personnel policies, number of employees), but this does not diminish the State's role in employment regulation or its responsibility for politically defined outcomes. In comparison to the analysis of privatization, the increasingly important issue of how privatized services are regulated by the State to ensure they continue to operate in the public interest, the degree to which the process of globalization has weakened national regulatory capacities, and the extent to which worker representatives and service users are involved in the regulatory process has received little attention. This important issue requires further analysis because whereas the 1990s could be characterized as the decade of privatization, in the first decade of the new millennium issues of regulation and re-regulation are uppermost in the management of the public services.

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