

# ***Public Management Reform and Corruption – Conceptualizing the Unintended Consequences***

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## **1. Introduction**

Does New Public Management foster corruption? This question has been at the center of a debate among public management experts arguing that New Public Management (NPM) oriented reform has a negative impact on the integrity structure of public organizations (Self 1993; Frederickson 1999; Doig 1995, 1998). The reason for the growing interest in this issue lies not only in a number of publicly debated corruption cases in OECD countries (OECD 2000, 2000a; Economist 2002) but also in the “agenda setting” work of nonprofit organizations such as Transparency International (TI).

Proponents of NPM argue that introducing competition, quality standards, performance measurement and a clear responsibility structure raises transparency of an organization and therefore helps to deter corrupt deals (Osborne & Gaebler 1997; Osborne & Plastrik 1997). This is meant in contrast to the traditional bureaucratic model, which, according to proponents of NPM, itself encourages corruption. Critics raise the argument that NPM solely focuses on criteria such as efficiency, effectiveness and economy and thereby neglects probity and public welfare in the traditional sense of equality (Adonis 1997; Doig 1997, 1998; Löffler 2000; Yesilkagit & de Vries 2002; Gregory 2002; Savoie 1995). NPM, it is being argued, leads to a decentralized organizational structure, empowered managers and less hierarchical control and supervision. Furthermore does the introduction of market mechanisms and competition firstly increases the interaction with the private and non-profit actors and secondly blurs the boundary between what is public and what is private. Public managers are more exposed to conflicts of interest than before. Moreover does the recruitment of personal from the private sector change the former character of a homogenous bureaucratic culture. These aspects, it is being argued, foster corrupt behavior in the public sector.

This paper solely focuses on the unintended consequences of public management reform and will not treat positive experiences of NPM with regard to the corruption issue. Reviewing the literature on this New Public Management-Corruption debate one detects three main characteristics and deficits: The first deficit is related to the NPM label as such. The term NPM is (mis-)used for different reform strategies in different countries somehow assuming a homogenous reform trend. If empirical research shall help to bring light to this question if and how NPM fosters corruption, it makes sense to differentiate between Maintain, Modernize, Marketize and Minimize strategies (Pollitt & Bouckaert 2000:176f.). Secondly, there is an one-sided focus on corrupt bureaucratic behavior. In the course of decentralization and an increasing interaction between political, bureaucratic, private and non-profit actors it is to be assumed that also the corruption risk is being decentralized. The corrupt behavior of the former mayor of the reform city Farum in Denmark emphasizes the necessity to open up the analytical perspective to other actors in the public, private and non-profit sphere than just public managers. A differentiated typology of corrupt interactions helps to detect possible areas of risk. The third argument concerns a missing integration of singular arguments into a common analytical framework. That means, that aspects such as a changing ethical infrastructure or contracting out are

not being integrated into one analytical framework. This might be one reason for the so far underdeveloped state of empirical studies on this issue.

The approach taken here shall help to overcome these deficits by firstly giving an systematic overview of the main debate. Secondly, a typology of where corruption potentially takes place and who bribes whom shall bring some light to the issue. Thirdly, an analytical model is introduced that takes NPM reform strategies as a starting point and develops a concept that integrates the motivation, the opportunity and the possibility (MOP) to act corruptly. These three elements constitute a so-called *corruption fostering situation*. This framework is needed to transform the different, mostly isolated arguments debated in the literature, into a systematic concept that supports case study research. This framework is based on Actor-Centered Institutionalism, an approach developed by Fritz W. Scharpf (2000) that combines Sociological Institutionalism with Rational Choice analysis. Actor-Centered Institutionalism helps to increase our understanding of how actors behave under changing institutional conditions.

The aim of this approach is to show systematically how different reform instruments, such as contracting out or decentralization, influence the motivation, opportunity and possibility of corruption.

## **2. What Do We Know? An Answer Provided with the Help of Literature Analysis**

The debate on New Public Management and corruption is a clearly biased one. It is dominated by the focus on ethics in general, bureaucratic versus managerial values in specific and codes of conducts as a instrument to “stabilize” the ethical infrastructure in particular. The assumption here is that this specialized focus is too narrow and does not do justice to the complexity of the corruption phenomenon. By looking at the literature one discovers a more diverse picture. Socio-psychological factors such as uncertainty and alienation play a significant role as well as organizational elements such as purchaser-provider splits, contracting out and the role of competition. In many OECD countries one can observe a growing significance of agencies and private or non-profit providers in the provision of public goods. Therefore, we have to ask if decentralized units can be sufficiently controlled and what are the obstacles? Is there any evidence of a control deficit? These few introductory words already show that the debate cannot be reduced to a debate on ethics. A one-sided (ethics) debate will easily lead to wrong assumption regarding anti-corruption strategies.

In the following, the literature review on the debate on NPM and corruption will be organized as follows: arguments on ethics, alienation and uncertainty will be presented; secondly, contributions on negative effects of contracting out and competition are to be treated; thirdly, the ‘misfit’ between decentralization and corruption will be explained (von Maravic & Reichard 2003:124).

### **2.1 A Changing Infrastructure of Ethics**

Contributions to the issue of ethics mainly come from the social sciences and law. The so-called erosion of ethics in public administration is seen as being part of a larger social transformation towards individualism and hedonistic values (Sommermann 1998: 298) accelerated in the administrative context by the NPM campaign for managerial values. Concomitant to societal changes in industrialized countries, a decline of traditional bureaucratic values is being observed. Traditional values of the bureaucracy are probity, equality, integrity and loyalty (Beck-Jorgensen & Bozeman 2002; Frederickson 1999). From this perspective, values incorporate functional utility with regard to the guidance in unorthodox decision-making situations and shall help to avoid conflicts of interest. The norm as such is functional in real life situations (Klages 2002: 471). That is especially important when the boundaries between public and private interests blur and the interaction increases (OECD 2000a: 28).

The assumption put forward is that new market values such as flexibility, economy, effectiveness and efficiency are being introduced at the expense of traditional values (Löffler 2000:142; Reichard 2002:273). As far as Germany is concerned, one author concludes that the

“integration of members of the civil service into a consensual and reliable administrative culture” (Sommermann 1998:298; English translation by PvM) is not guaranteed anymore. This tendency of NPM towards efficiency, values the individual interest more than the public welfare (“Gemeinwohl”).

“(….) the sort of failures that are likely to arise will come about through disdain for any collective restraint on the ability for individuals to shape their jobs as they choose, turn public affairs into private-market transactions, and public organizations into private property. Three of the most commonest failings of this type are bribery and extortion, front-line abandonment, and the use of public organizations for personal ego-trips” (Hood 2000: 29).

Löffler lists four external challenges that transport new values to the civil service: blurring of responsibilities due to public-private-partnerships and purchaser-provider splits, empowering managers and extending their decision-making capacities, fragmenting a former homogenous administrative structure and the decline of the traditional bureaucratic ethos (“Beamtenethos”) in exchange for a heterogeneous administrative culture (Löffler 2000: 142f.). Empirical research shows that under certain circumstances „contracting-out in *itself* tends to de-publicize public life“ (Beck-Jørgensen & Bozeman 2002:75).

Self is one of the critics who interpret a dichotomy between public and private values as corruption fostering, especially the sole dominance of market values: „Traditional public sector ethics will get absorbed into business practices. Opportunities for corruption will grow and separation (of functions) must be expected to result in more fraud“ (Self 2000:118). Meny observes an „ever-increasing penetration of market-values of political and administrative systems developed to meet other requirements“ in France (Meny 2000:206). He views the ethical infrastructure as a kind of immune system that shall guide the decision-maker in his judgement but is now loosing this function, although public officials are more than ever in need of an orientation giving value system. This immune system is being deconstructed by those market values.

That public management reform has had an impact on the „ethical infrastructure“ and „accountability“ is observed by the OECD:

„However, these reforms have had an unintentional impact on the prevalence of traditional public service values and standards. This means that the ethics infrastructure has to evolve – accountability mechanisms especially have to be adjusted...“ (2000a: 28).

The first report in 1995 of the *Committee on Standards in Public Life* (CSPL), better known as Nolan-Committee, triggered an ethics debate in the United Kingdom, which gives evidence of the public concern about increasing commercial activities of the public and the ethical conduct of public servants. In the introduction of this report it says about the task of the Nolan Committee:

“To examine current concerns about standards of conduct of all holders of public office, including arrangements relating to financial and commercial activities, and make recommendations as to any changes in present arrangements which might be required to ensure the highest standards of propriety in public life” (CSPL 2001: 3).

Since 1995 seven additional reports have been published by this committee all treating the issue of ethical conduct under changing environmental conditions. Also the *Parliamentary Committee of Public Accounts* warned early about the negative effects of efficiency and effectiveness maximization on the honesty of people handling public money (PAC 1993-94, quoted by Doig 1995:192). Ferlie et al ascertain a decline of probity in a number of organizations in the British health service (1995:375). Doig characterizes the reform of the British health care system as “enterprising and innovative but also an area of risk, misunderstanding and conflict of purpose” (1998:145). Furthermore, he shows that NPM has led to an enterprise spirit within the health service, where public managers adopt more and more the lifestyle of private managers. Public money is partly used to finance the life style of public managers as it is common in the private enterprises (Doig 1998:164).

An example for this type of “personal ego-trip” seems to be the case of the former mayor of the private company like run Danish municipality Farum who was finally dismissed on corruption

charges.<sup>1</sup> “He was expanding his local empire to the local soccer club where he was also involved” (Greve in von Maravic & Reichard 2003:115). Critics accused him “of running the municipality as an absolute monarch” (Beck-Jorgensen & Bozeman 2002:65). This corresponds with the findings that corrupt behavior very often develops out of a position of power. DeLeon and Green (2000) call such persons “cowboys” because they act as if there were no existing rules and regulations. Others characterize this as “caligula behaviour” after the Roman emperor who appointed his horse to be a secretary of state (van Duyne 1998).

Gregory investigates the impact of NPM reform on governmental corruption in New Zealand. According to his findings, did reform promoters regard the traditional “culture of compliance” as an obstacle to a new performance oriented administrative culture. Public management reform in New Zealand aimed at extending the decision-making space of managers in order not to be hindered by the former culture of compliance and probity.

“Some of the main reforms initiated under the NPM rubric have been aimed at broadening managerial discretion, the better to achieve substantive results instead of being inhibited by a compliance dominated mentality. ‘Can do’ was expected to become much more compelling than ‘can’t do’” (Gregory 2002: 12).

Gregory sees a connection between the resulting ethical and organizational changes due to administrative reform and the conviction on fraud charges of a former Controller and Auditor-General.

Janett takes a differentiated position about NPM reforms in Switzerland. He points out that NPM possesses instruments to eliminate corruption such as clear accounting principles, transparent responsibility structure due to contracts and better audit systems. But in the end, he states, that until now it is empirically impossible to deny the assumption that “NPM higher the risk of corruption” (Janett 2000:204; English by PvM).

## **2.2 Uncertainty and Alienation<sup>2</sup>**

In the analysis of corruption *uncertainty* and *alienation*<sup>3</sup> are considered to be relevant factors which increase corruption (Fiebig & Junker 2000: 99). Persons appropriate by corrupt means what they think belongs anyway to them but what actually is not granted to them from official side. The public room is turned into a private property right in order to be compensated for perceived material and immaterial losses.

Different authors consider an increasing uncertainty and alienation among employees as a consequence of the way public management has been implemented (Doig 1995: 196). The feeling of alienation is caused by “bureau-bashing”, material losses, or just insecurity about future job perspectives. The UK prison service can be named as one example where the rapid transformation from a state run service to public-private partnerships “left many staff feeling vulnerable, unsupported and uninformed” (Sachdev 2002, para. 14). Sachdev refers to consequences of different wage rates and staff levels, pension and sick leave arrangements and different lengths of the working week.<sup>4</sup>

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<sup>1</sup> Farum was a candidate for the Bertelsmann Foundation award “Best Run Local Government in the World” in competition with Phoenix, Arizona and Christchurch, New Zealand. “Farum has contracted out kindergartens, elderly homes, administrative services and other services to private providers. Farum has had sale-and-lease-back arrangements where wastewater facilities and school buildings were sold to private investors and lease back. Farum has used PPP’s to construct a brand new 3500 seater indoor sports arena and a 12000 seat soccer stadium. For years, Farum has been hailed as one of the local governments that was carrying out most NPM-type reforms in Denmark” (Greve in von Maravic & Reichard 2003: 115).

<sup>2</sup> Chapter 2.2., 2.3., 2.4.and 3. are partly based on an article the author wrote with Christoph Reichard (von Maravic & Reichard 2003: 122f.).

<sup>3</sup> Lovseth (2001) applies the idea of alienation in his analysis of corruption in Russia.

<sup>4</sup> I owe this example to Andy Wynne.

„In Britain The Observer reports that „our survey, based on responses from 1,911 civil servants, reveals a bleak picture of rock-bottom morale – 92 percent describe it as quite or very bad – and deep insecurity about the service’s future“ (Savoie 1998:405).

Bureau-bashing and its effects as a concomitant feature of reform implementation in some countries can be characterized as „sporadic and emotional pastime which had serious effects upon the morals of public service, and which was supported by painful changes in pay, promotion and discretion of officials“ (Self 1993:80). Blaming the public system for being guilty of all kinds of social and economic problems seems to be a welcome strategy for certain politicians. In the words of the former US President Ronald Reagan did that mean: „Government is not the solution to the problem; government is the problem“ (Ingraham 1996:247). The consequence for employees of the public service is alienation. It is a feeling of being betrayed by the system. The system used to offer job and personal security for the future and now lacks this functions or has changed the way of providing it. This becomes obvious when it comes to different pay scales of public employees. In New Zealand the remuneration paid to top civil servants and “the life style to which many of them have apparently grown accustomed” (Gregory 2002:9) led to public controversies about abolishing the egalitarian ethos of the civil service. An official report of the *State Sector Standard Boards* came to the following conclusion:

„The Board has also noted remuneration for lower level public employees lagging behind the private sector and behind professional and managerial staff in the state sector, the pressure of work throughout the state services, and adverse effects on staff morale as a consequence of public attacks by politicians on state sector employees“ (Gregory 2002:4).

Also Frederickson sees for the US-American reform context a link between public management reform, moral decline of employees and their institutional loyalty (1999:272). Sachdev observes for the prison sector of the UK that the basic average pay of a prison officer reduced by 32.4% with privatization and the salary of a director/governor increased by 24.4% (2002, table). That such a development of ‘class-consciousness’ creates mistrust and envy has been concluded by Christensen and Laergreid who observe a transformation from a system based on mutual trust to a system based on resentment and mistrust (2002:119). Such an individual perception can lead to disloyal and corrupt behavior when the respective person has the opportunity to do so. Rose-Ackerman calls this a phenomenon of „divided loyalties“ (Rose-Ackerman 1999, S. 75). She argues that people then just look for better opportunities to make their living.

Similar to that are reverse effects of empowering managers. „There is little evidence that the federal government or American state and local governments are engaged in widespread training of contract managers“ (Frederickson 1999:274) Empowerment might also foster corruption when inexperienced and not sufficiently trained contract managers from third sector or public organizations have to bear financial and managerial responsibility for public money in an environment of market competition, risk and uncertainty. A potential briber takes advantage of this.

### **2.3 Contracting out and public tendering**

The opportunity of corruption results out of the interaction of public, private and non-profit actors. Tendering processes, contracting out and purchaser-provider splits are instruments that create interface situations which can be misused for corrupt purposes (Klitgaard 1988; Rose-Ackerman 1978). In the field of corruption analysis this is a matter of fact: “Sectors where corruption flourishes are one where the government and private firms have a commercial contractual relationship” (Meny 2000: 205).

Concerning the growing role of competition with regard to public tendering, an unintended consequence is intensified rent-seeking behavior between market competitors and the difficulty for the state to control the market. One has to consider the possible negative effects of competition (e.g. imminent losses) in order to understand the resulting rent-seeking behavior of those market participants who do not perceive the market as a “level playing field”. It is therefore necessary to

recognize the risks of competition. Painter characterizes this as the creation of a “market for contracts”:

“because of the commercial stakes involved and the once-off culture of the decision to award a contract, the incentives and opportunities for bribery and other irregularities are particularly high, perhaps more than in the public monopoly, which is likely to be extracting more benign forms of rent” (Painter 2000: 170).

Adonis supports for the UK the impression that as a consequence of contracting out to the private sector the corruption risk increases (Adonis 1997:115).

„Corruption is on the increase, as government policies to contract out service delivery functions to the private sector and to a plethora of new, quasi-autonomous agencies undermine established routines and checks on corrupt practice“ (Adonis 1997:104).

Possible areas of corruption are those where the government and private firms are preparing for or are already having a commercial contractual relationship. For Germany one can state that the area of public procurement, especially in the construction sector, causes the main concern, with or without NPM. Causes can also be found in obscure and complicated tendering regulations and in the political unwillingness to reform them. The idealistic idea of competition is the one side of the coin, the practical realization the other one. The essential question is: Does contracting out, the separation of purchaser and provider, and competition increase the opportunity for corruption? A well-known proverb says: “It’s the opportunity that makes thieves”. It is evident that corruption can occur where the physical exchange of favors is possible.

#### **2.4 Decentralization vs. Control**

The third aspect that is being treated in the NPM-Corruption literature concerns the ‘misfit’ between decentralization and control mechanisms. In the literature this aspect is very often treated as how to control decentralized departments and agencies. The following statements of experts shall underline this point:

“The connection between specialization (...) and co-ordination is important. All other things being equal, increasing specialization implies a need for greater efforts at co-ordination. Otherwise the danger is that newly specialized agencies, many of which also enjoy decentralized authority, will go their own way“ (Pollitt & Bouckaert 2000: 81).

„First, the devolution of multiple functions to single agencies, with RHA’s (Regional Health Authorities; PvM) becoming significant financial players within a context of cultural change, was not matched by the revision or adaptation of those procedures and controls (...) that would have been considered as important balances to the potential impact of disaggregation, devolution and delayering“ (Doig 1998: 146).

„In New Zealand there is no central facility for monitoring the contracting out of public services, since such centralisation would have tended to contradict the delegation of managerial authority to individual agencies and the presumed efficiency gains from the market“ (Gregory 2002:16).

Christensen and Laegreid (2002) investigate the possibility of undermining inadequate control and supervision mechanisms in purchaser-provider models. If structural devolution “changes the instruments of control and increases the distance between the political leadership and subordinate units and lower levels of management” (2002:101), it is necessary not to succumb to centrifugal tendencies that weaken the effectiveness of control (Schedler & Proeller 2000:82). Reichard warns that the devolution of decision-making competencies may increase the egoism of departments (2002:73).

Additional problems of controlling decentralized units are an insufficient or missing controlling knowledge, the difficulty of formulating complete contracts (Pollitt & Bouckaert 2000:81), a loss of organizational memory due to workforce reduction within government, or an increasing complexity of a more and more fragmented public sector. Several investigations support the assumption that available knowledge within government has suffered from work force reduction and

contracting out. According to a report for the Australian Parliament, public administration may face severe consequences: „The level of expertise which seems to be available in the various bureaucracies has diminished to such an extent that they actually no longer know what they are tendering for“ (Australian Parliament quoted by Painter 2000:176). This seems to be not only true for the Australian context but also for other countries such as the United States:

„Unfortunately, as government’s reliance on contracting out has increased, so too has its disinvestment in its own capacity. At one time, scholars of public administration celebrated the fact that the government employed world-class experts on virtually every issue: mapmakers, chemists, engineers, attorneys, housing economists, agricultural analysts, food safety specialists. The government no longer has such a range of in-house expertise“ (Kettl quoted by Frederickson 1999:274).

For the German context Klages observes that

“On the level of implementation one can quite easily discover, however, that the necessary links between decentralization and the establishment of modern controlling activities are by no means guaranteed. (...) The establishment of links between decentralisation and controlling seems to be a particular sensitive point in this connection...” (in von Maravic & Reichard 2003:100).

Yesilkagit and de Vries (2002) investigate a corruption scandal of a public bank under the perspective of decentralization and Managerialism. They come to the conclusion that the fragmented administrative system and the insufficient administrative control of agencies fostered corrupt behavior.

“The South Holland banking scandal is an example what might happen when unanticipated effects of public management reforms, i.e. the decentralization of central government control and the uptake of managerial ideas, add up. (...) The shift from ex-ante to ex-post financial control and the reduction of control staff turned the Ministry of Interior Affairs blind for unusual and unauthorised financial management practices employed by lower authorities. In essence, central government has come to rely too much and too naively on the idea that decentralisation of tasks and responsibilities would qualitate quo enhance the quality and reliability of local government” (Yesilkagit & de Vries 2002:595).<sup>5</sup>

The point is, with an increasing fragmentation of the public sector and an expanded specialization of services being provided by private or non-profit service agents in a decentralized context, governments must strengthen their enabling role in order to guarantee decentralized service delivery to the citizens.

### **3. Conceptual and Consequences of Implementation**

It is probably the most common thing in political and administrative life that policies and programs that are designed to solve a certain problem may lead to reverse or dangerous effects, which cannot be always anticipated (Hood 2000:18). In different contexts social science has dealt with this and different terms refer to this issue. One is called the “cobra effect” referring to a policy of the Indian government trying to reduce the number of venomous cobra snakes by offering to buy them all. The consequence was that people started to breed cobra snakes and sold them to the government. In the end this intentionally good policy led to an even more severe problem of snakes. In the 1970s Crozier and Friedberg observed *perverted effects* in organizations. They meant the difficulty to take rational decisions in order to influence collective behavior over a longer period of time (Crozier & Friedberg 1979:8). Their conclusion was that more freedom to act presupposes more deliberate structuring of the organization (1979:20). It shows the limits of influencing collective behavior by “purposive social action” (Merton 1936) such as public management reform. In the context of NPM Savoie calls such effects “unintended consequences” of reform (Savoie 1998:396).

There is, however, no direct and simple link between NPM and corruption. The assumption of having a causal mechanism between an analytically assumed cause (NPM) and effect (corruption) is popular but nevertheless problematic and simplifying. It is analytically simplifying because the term

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<sup>5</sup> I would like to thank Jeroen Maesschalck for drawing my attention to this case study.

NPM as such does not tell us much about actual reform contents. Secondly, such an assumption is blaming the reform for corruption and exonerating morally the corrupt person. Thirdly, it does not explain why so many public servants stay honest and loyal to their organization or go even further and blow the whistle. Anyhow, adopting the concept of “unintended consequences” as another starting assumption to investigate the impact of administrative reform on public employees helps to approach this phenomenon from an unbiased perspective. Perceiving corruption in the NPM reform context as unintended consequence can be the prerequisite of a thorough analysis.

This chapter differentiates between conceptual consequences, which arise due to the specific conception of reform and consequences of the implementation process. Klages characterizes the latter as “possible pitfalls of the implementation of NPM” (in von Maravic & Reichard 2003:100). Conceptual consequences are NPM inherent, whereby consequences of the implementation are to a certain extent “unintended consequences” that are neither anticipated nor wanted (Crozier & Friedberg 19798).

Why is such a distinction useful? It is useful because it shows that conceptual consequences will remain when the initial turbulence of a reform have been solved. Consequences of the implementation are those, which are temporarily limited effects, firstly, because the fine-tuning of reforms is a normal strategy and secondly, people adopt to new situations after a while. One can assume that it is easier to solve implementation problems than work out conceptual consequences, which are core elements of the concept.

The transformation of a bureaucratic ethos towards market ethics is here considered to be part of the conceptual consequences because the role of the *new* public manager is a central element of NPM reform.

### **Conceptual Consequences and Consequences of Implementation**

**Table 1**

	<b>Conceptual consequences</b>	<b>Consequences of implementation</b>
Transforming ethical infrastructure	X	
Alienation and Uncertainty	X	X
Contracting out	X	
Decentralization vs. Control	X	X

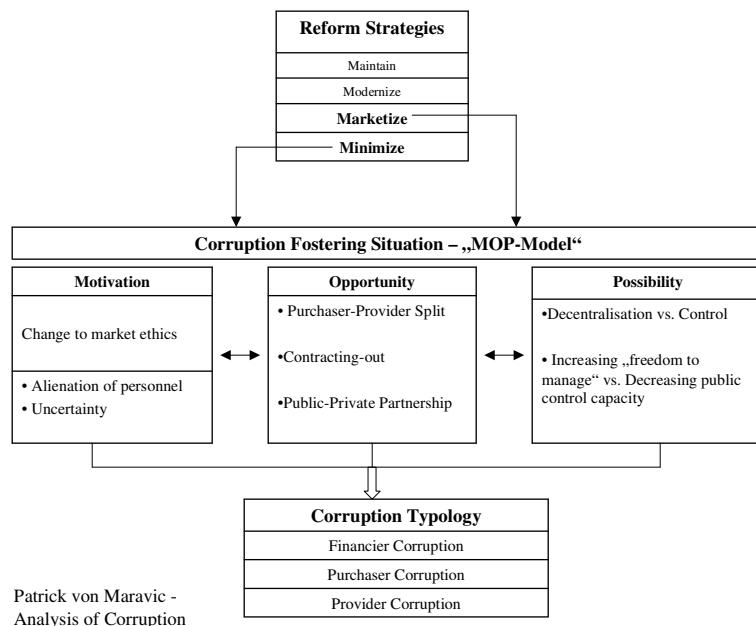
Alienation and uncertainty are on the one hand linked to the way reforms are implemented. On the other hand are differences in pay schemes, e.g. performance related pay, an integral element of Marketize and Minimize reform strategies (Pollitt & Bouckaert 2000: 176). The consequences arising out of this are therefore linked to the conception of reform.<sup>6</sup> Contracting out, purchaser-provider splits and competition are conceptual elements of NPM. Decentralization is part of the NPM strategy to devolve decision-making competencies, but the observed ‘misfit’ between decentralization and the installment of effective control instruments is a product of a failed implementation concept.

Looking at the arguments in the literature one finds certain deficits which were already mentioned in the beginning. Those deficits are: NPM is quite often used as an umbrella term actually covering different reform strategies; many arguments focus too narrowly on bureaucratic corruption; one is mostly confronted with singular arguments thereby missing to see the connection between arguments about the motivation, the opportunity and the possibility. In the following this paper will develop an analytic approach to the two latter aspects.

#### **4. Analysis of Corruption – a Framework**

<sup>6</sup> I am thankful that Andy Wynne drew my attention to this point.

It is the aim of the following passages to overcome these deficits by developing an integrating framework for the analysis of corruption. In the following, three points are discussed: Firstly, following Pollitt and Bouckaert in their argument that public management reform differs in time and space, it will be differentiated between different reform strategies (2000:176f.). Secondly, a typology of corruption will be introduced. That is to be done in order to differentiate between political, bureaucratic and private corruption. It is based on the assumption that decentralization decentralizes the risk of corruption. That means, the risk of corruption spreads to those areas where interaction between political, bureaucratic and private actors takes places. Thirdly, an integrated treatment of the motivation, opportunity and possibility of corruption is introduced in order to develop a deeper understanding of *corruption fostering situations*. This approach is to be based on the theoretical concept of Actor-Centered Institutionalism, which unites core principles of Sociological Institutionalism and bounded rationality (Scharpf 2000:73). This framework analysis has two functions: firstly, to systematize the assumed impact of reform strategies (Marketize, Minimize) on the motivation, the opportunity and the possibility (MOP) to act corrupt and secondly to localize who actually is the briber and who is the bribee. The following graph illustrates the argument:



**Figure 1. Analysis of Corruption**

#### **4.1 Differentiating between Public Management Reform Strategies**

Public management reform differs in time and space, which means, that also the impact of reform on corruption differs. Pollitt and Bouckaert suggest to differentiate between Maintain, Modernize, Marketize and Minimize reform strategies (2000: 176f.). Maintain is closest to a the old “PA-model”, with a focus on cutting costs and strengthening hierachic control. Modernize promotes the introduction of accrual accounting, private sector budgeting principles as well as a flexible service delivery. Marketize stands for competition in the public sector and management culture. Minimize promotes public-private partnerships, purchaser provider split and downsizing. Most authors and examples mentioned in this article refer to Marketize and Minimize reform strategies when they talk about NPM.

#### **4.2 Theoretical Basis for a Systematic Analysis of Corruption**

##### **4.2.1 The framework**

In order to overcome the isolation of singular arguments it is necessary to develop an integrated framework for the analysis of corruption in the context of public management reform. The integration of aspects such as the changing ethical infrastructure, uncertainty and alienation, contracting out and decentralization is a central step that needs to be taken for further analysis. How these different elements belong together will be explained in this chapter.

Public management reform is of dynamic character influencing the behavior of employees, changing organizational structures and impacting on common beliefs and tradition of organizations. In order to be able to analyse the impact of NPM on corrupt conduct a theoretical framework is needed that supports the analysis of how actors behave in changing institutional settings. Conventional economic analysis of corruption ignores cultural dynamics and norms as factors influencing corrupt conduct. It is being assumed that the motive and the incentive for corruption lies in the utility maximizing interest of the individual and this motive is externally given (Klitgaard 1988; Rose-Ackerman 1987).

„In a study of corruption, one can make substantial progress with models that take tastes and values as given and perceive individuals as rational beings attempting to further their own self-interest in a world of scarce resources. Information may be imperfect; risks may abound; but individuals are assumed to do the best they can within the constraints imposed by a finite world” (Rose-Ackerman 1978:4).

For the answer of our question if and how public management reform impacts on the corrupt behavior of actors, this pure rational-choice analysis would leave cultural and socio-psychological factors unconsidered and therefore neglects factors that have been considered to be important in the NPM-Corruption literature. Furthermore, persons do not act only according to scripts and norms. The New Institutionalism puts too much emphasis on the importance of institutions for the individual conduct (March & Olsen 1989). Persons are intelligent individuals capable of developing a set of preferences that exists independently from the institution. Norms do not hinder individuals to maximize their utility (Scharpf 2000:51). Neither approaches that purely focus on cultural aspects of corruption nor pure rational-choice analysis provide a sufficient basis for further investigation. It is therefore necessary to adopt an approach that considers the influence of institutions on the individual set of preferences. Therefore we propose an approach that combines institutional as well as actor-centered analysis. Meny supports such a perspective by stating:

“Corruption is thus more likely to spread in cases where the ‘immune defence systems’ of the group tend to weaken and the ‘moral cost’ drops; as will occur when public behaviour is less prized than private, when producing results comes to matter more than observing standards, monetary values more than ethical or symbolic values” (2000:213).

Actor-Centered Institutionalism provides a so-called fusion of paradigms (Scharpf 2000:73), which is considered to be functional in this context because it overcomes those deficits described before.

“What is gained by this fusion of paradigms is a better “goodness of fit” between theoretical perspectives and the observed reality of political interaction that is driven by interactive strategies of purposive actors operating within institutional settings that, at the same time, enable and constrain these strategies. (...) Rather, we know that actors respond differently to external threats, constraints, and opportunities because they may differ in their intrinsic perceptions and preferences but also because their perceptions and preferences are very much shaped by the specific institutional setting within which they interact” (Scharpf 1997:36).

Institutions fulfil the function of a coordinator. Actors orient their actions “on socially constructed rules in otherwise chaotic social environments” (Scharpf 1997:39). Institutions do not only provide socially accepted rules but in the case of violation sanction this. That is what makes behavior for other actors predictable and establishes certainty and security.

Institutions are of analytical importance because they restrict or open-up opportunities of potential behavior. “Required, prohibited, or permitted actions” (Scharpf 1997:39) are being specified. Within the given setting actors do not only follow impersonal goals but a strategic calculus that is

affected by the way other actors behave. “Institutions structure such interaction, by affecting the range and sequence of alternatives on the choice-agenda or by providing information and enforcement mechanisms that reduce uncertainty (... )” (Hall & Taylor 1996:12). Though actors act rational within their institutional environment, institutions affect the individual preferences; they may even create them to a significant extent. In the understanding of Scharpf does the individual desire to “maximise physical well-being and social approval (...), the proximate actions conducive to these ulterior goals would still be defined by the institutional settings within which they must pursue these selfish goals” (1997:40).

Additionally, the socialization of an individual is influenced by cultural norms the actor experiences. That means that the identity is related to the institutional environment. As the institution influences the perception of the actor, the actor has certain normative expectations, which are related to the social position and professional function within the institution (Scharpf 2000:112). Institutions as well as actors influence each other mutually. According to this understanding of actor behavior does identity create certainty because uncertainty is being reduced. “Changing corporate identities implies discarding a large investment in moral commitments and cognitive certainties, which cannot be easy” (Scharpf 1997:66).

There is no doubt that corruption needs to be regarded as strategic conduct to maximize individual well-being but it must not be of strategic origin. Preference orders of actors change as the institutional environment is underlying a continuous dynamic. Nevertheless, the formation of preferences is influenced by the existing institutional order. Any institutional setting leaves room for “strategic choices of purposeful actors” (Scharpf 1997:42). Actors may violate binding laws when the price of the sanction they have to pay is lower than the expected surplus or when there is no serious sanction to fear. The risk calculation depends on the institutional environment. When the institution changes or loses its identity-given-function it used to fulfil before an “identity turbulence” is being created that affect the certainty and orientation of an actor. The loyalty diminishes and the probability of defection rises. There shall be no illusion that there exists a 100% institutional control on the conduct and individual preference evolution, which means that the influence on individual preferences is always incomplete.

#### **4.2.2 “MOP-framework” Analysis – The Motivation, Opportunity and Possibility of Corruption**

In the previous chapter it was shown that institutions influence perception, preferences and identity of an actor. Different institutional environments influence differently the strategic choice of alternative options. Either they reduce or widen options. In the literature one sometimes reads about the relationship between New Public Management and corruption as if there were a causal link between these two factors. But does NPM really induces corruption? In social sciences it is hardly ever possible to establish causal relationships. As Klages puts it for the NPM case:

“In my opinion there is no necessary relationship between NPM and corruption, but a possible one. (...) ...ample chances for ‘black holes’ emerge, which may encourage corruptive behaviour” (Klages in von Maravic & Reichard 2003:100).

It makes therefore sense to talk about *corruption fostering situations*, in which corrupt behavior is not ‘guaranteed’ but the risk of corruption rises.

That a person acts corrupt because he or she is just motivated to do so is not realistic. There are at least three constitutional elements that make up a *corruption fostering situation*:

„However, the incentive to be corrupt does not by itself result in individual corrupt behavior. The individual must also have the opportunity to be corrupt, which in turn depend on the extent his official activities are controlled by others, the frequency of his contacts with the public, and his position in the organization. In short, an individual is likely to become corrupt if both the incentives and the opportunities to do so are great enough” (Quah 1993:842; italics by PvM).

Quah regards, besides the *motivation* of corruption, the *opportunity* and the *possibility* to be relevant factors. The opportunity of corruption is given when the physical exchange of favors is possible. This depends very much on the position within the organization and the interaction with political, administrative, private or nonprofit actors. Possibility refers to the ability of actors to undermine control mechanisms because they know that the danger of being detected is rather low and the profit is high enough to forget about moral scruples.

In this analytical framework changes towards market ethics, uncertainty and alienation are regarded as to increase the *motivation of corruption*. The transition towards materialistic-hedonistic market-values (a) and an observed alienation of employees as well as their uncertainty about future perspectives (b) fosters the perception of the actor that the institution does not satisfy the direct needs anymore. If an institution is, according to the individual perception of an actor, not able anymore to support and guide the actor in decision-making processes and does not serve the physical well being of the actor, he or she is encouraged to follow the egoistic self-interest. Especially when ‘can-do’ values enjoy more social acceptance than ‘can’t do’ (Gregory 2002:12). The actor learns that emancipating from the institutional value system serves the personal well being more than to remain loyal to the institution. Public management reform is partly perceived by public servants to be materially degrading, rhetoric bureau-bashing and a decreasing esteem of politicians and citizens of their work impacts negatively on the institutional loyalty of an actor and therefore fosters the risk of corrupt behavior.

Contracting out, purchaser-provider splits and competition are analytically understood as creating an *opportunity of corruption*. A growing role of competition with regard to public tendering creates intensified rent-seeking behavior between market competitors. Actors are either able to extract rents from the interaction process itself or influence the decision-maker by means of bribery. Corrupt actors appreciate obscure tender processes and the political unwillingness to reform those.

The *possibility of corruption* refers in this context to an observed inability to exert control on decentralized managers, departments and agencies. Devolved decision-making competencies with regard to the use of financial resources and the misfit between decentralized structures and control mechanisms encourage the perception of the actor that the risk of being caught is relatively low. From the perspective of controlling behavior public management reform has had a severe impact. These additional problems of controlling decentralized units are an insufficient or missing controlling knowledge, the difficulty of formulating complete contracts (Pollitt & Bouckaert 2000: 81), a loss of organizational memory due to workforce reduction within government, and an increasing complexity of a more and more fragmented public sector.

But why are these three factors of motivation, opportunity and possibility to be integrated in one framework of a corruption fostering situation? None of the variables can explain alone sufficiently the dynamic of a corruption fostering situation. The motivation of corruption is relevant because it clearly shows that the actor leaves the integrating context of the institution or the institution itself loses its integrative capacity. Concomitantly the scruple for the actor to accept or extract a bribe decreases. That does not mean that an actor who is motivated to act corruptly will also do so. Firstly, the actor needs the opportunity for a corrupt deal. A person who is responsible for internal controlling affairs is not as much exposed to tender processes or other interactive affairs with private or non-profit actors than the head of the department of gardening services. Secondly, the awareness of effective control mechanisms increases the risk and price of being caught. But on the other hand the actor perceives ineffective controls, an obscure structure of responsibilities and low sanctions as elements that protect the corrupt deal. Thirdly, despite a perceived lack of supervision and control by the superior and the actor identifies an opportunity of corruption, the actor may still stay loyal to the institution and resist the opportunity and possibility. These motivational factors must be high enough in order to outweigh the relatively low risk of being caught. This is the case when the organization offers the actor material security, satisfaction and a perspective for the future. The actor may also value immaterial incentives, such as the service to the public, equality and loyalty as values in itself higher than a selfish calculus of increasing the personal well being on the cost of the public welfare.

The risk of corruption is high when the supervision and control is inadequate, the opportunity is there and the incentives are high due to disintegrative forces. In such a case it is analytical enlightening to talk of corruption fostering situations.

### **4.3 A typology of Corruption**

The important question is: Does it make sense to talk about the corrupt behavior of bureaucrats when the *corruption fostering situation* appears between other actors who are also part of the purchaser-provider story? The role and self-perception of politicians, bureaucrats but especially the function of private and non-profit providers has changed as one consequence of NPM reform. More public services are to be produced by other providers than by the state itself. A modified perspective is necessary to find out where do we actually have to calculate with corruption in order to be able to develop corresponding anti-corruption strategies. This will be done here.

#### **Typology of Corruption**

**Table 2**

<b>Financier Corruption</b>	<b>Purchaser Corruption</b>	<b>Provider Corruption</b>
Bureaucrat bribes Politician	Politician bribes Bureaucrat	Politician bribes Market participant
Market participant bribes Politician	Corruption between Departments	Bureaucrat bribes Market participant
	Market participant bribes Bureaucrat	Corruption between Market participants

This typology is originally based on reflections of van Duyne (1998) but adapted for the NPM context. This typology distinguishes between *financier corruption*, *purchaser corruption* and *provider corruption*. Normally parliament is perceived as the financier, administration as the purchaser and private or non-profit actors as the provider (Schedler & Proeller 2000:85). But who actually is the purchaser and who is the provider depends very much on the situation. Between all these actors corruption is possible because they all potentially belong to the public production process and use public money for public service delivery. The chosen terminology indicates *who* is being bribed. For example, we talk about financier corruption when a private company bribes a politician. The term indicates that the company is the briber and the political financier the bribee. This typology takes into account the increasing interaction between different actors from different sectors in the production of public goods.

#### **4.3.1 Financier corruption**

The first possible corrupt interchange in the table is about a bureaucrat and a politician (financier), which means that the bureaucrat bribes the politician. In this constellation we cannot expect a monetary exchange. More important are immaterial factors, such as favours, career support or insider information. These are exchanges, which are difficult to identify, and are hardly ever covered by the standard analysis of corruption. The reason lies in the normality of informal networks. But they can cause severe damage to the democratic system as well as to the trust of citizens into the politico-administrative system. The sense of appropriate public behavior gradually diminishes and this conduct is perceived to be the “normal” survival strategy in a context of political power games (Scheuch & Scheuch 1992; Wewer 1992).

Besides this type of corrupt interchange where a bureaucrat bribes a politician the more common type is the interaction between financier and provider. In the following case the bribers were private companies and the bribee a politician. As in the Danish city of Farum private companies enjoyed advantages granted by the political elite of the city.

“In 2002, a huge scandal has evolved in the local government of Farum in Denmark. Money was paid under the table in connection with the soccer stadium construction. (...) Farum has contracted out kindergartens, elderly homes, administrative services and other services to private providers. Farum has had sale-and-lease-back arrangements where wastewater facilities and school buildings were sold to private investors and leased back. Farum has used PPP’s to construct a brand new 3500 seat indoor arena and a 12000 seat soccer stadium. For years, Farum has been hailed as one of the local government that was carrying out most NPM-type reforms in Denmark.” (Greve in von Maravic & Reichard 2003:114f.)

The role of the administration has not yet been clarified. Financier corruption or political corruption takes place in a grey area in which corrupt interchanges are difficult to detect especially when no monetary exchange happens as it normally happens between politicians and bureaucrats.

#### *4.3.2 Purchaser corruption*

There also exists a corrupt relationship between financier (politician) and purchaser (bureaucrat). One can actually think of influencing the administration in determining the value of a tender or reveal information on the competitors or influence the actual decision-making process of the tender. There are several creative versions of mutual manipulation. Van Duyne gives the following example for this type of corruption:

“A local political dignitary intimates to the head of the political department that if he tolerates a higher level of pollution then would normally be permissible he need not to worry about his career. It appears that the local politician is himself a pig farmer who is in the breach of the Manure Disposal Regulation” (van Duyne 1998:28).

A second version of purchaser corruption is the one between bureaucrats (van Duyne 1998:25). It is not too much known of such corruptive interactions because these are highly obscure and therefore invite for manipulation.

„Moreover civil servants do not bribe each other with the proverbial thick envelopes for which they do not even have the money. If an improper exchange relation develops in a decision situation the pay-off will more likely be in terms of non-monetary benefits or favours” (van Duyne 1998:25f.).

This constellation is especially interesting in the context of public management reform. There we see the ambition of reformers to introduce inter- and intra-organizational competition, which means competition between public, private and non-profit providers and between administrative departments. There is no reason to doubt that there exists the same risk of corruption as between public and private actors. If a certain service of the administration is to be contracted-out and as a consequence of this the further existence of a department or personal career ambitions are endangered, then corruption is one instrument to manipulate such a decision. Why should there be any other rationality within the public administration than between private competitors? Rent-seeking behavior exists in both worlds.

Still, the classical corruption is purchaser corruption taking place between the administration as the purchaser and a private company as the provider (Kerbel 1995). The purchaser buys the service on the market by running a tender process with a number of different competitors among whom the purchaser shall be able to choose the best, not necessarily the cheapest offer (Rose-Ackerman 1999). The private company bribes the bureaucrat in order to circumvent the tender process.

#### *4.3.3 Provider corruption*

The issue of provider corruption is a rather unusual one. It affects first of all private and non-profit organizations, therefore all market-participants, but also public departments or agencies that are responsible for the production of a service. The possibility of contracting out in the sense of creating an *enabling chain* is one important element of the purchaser-provider model. That means that services are contracted-out two or three times to sub-contractors. It is of common use that sub-contractors give the service to another contractor. The sub-contractor himself becomes an enabler and therefore has to guarantee the delivery of the service. At each of these “decision-making intersections” delinquents can influence a decision by bribing somebody.

Although this type of corruption takes place between private, non-profit or hybrid actors such as Public-Private-Partnerships, it is necessary to recognize it as a corrupt act. As long as public money is involved “bribery and corruption must be foreign to public duties” (Serious Fraud Office 1999 & 2000:30). As was shown for the case of the Focus Housing Association, Birmingham, UK, in von Maravic & Reichard (2003: 125f.) corruption in the “non-profit” sector lies within the responsibility of the public insofar as public money is used to deliver services to the citizens.

This is *the* specific type of decentralized corruption we assumed before. Decentralized corruption is difficult to control and takes place in the private or non-profit sphere which are normally not as regulated and controlled by public authorities as the public one. It is therefore necessary, that the analysis of corrupt behavior must go beyond the classical conception of corruption because new forms of corruption take place as part of a public enabling chain with private or non-profit providers. Corruption, firstly, takes place between private actors and non-profit organizations. Secondly, also here it is likely that politicians influence the decision to award a contract to someone he or she needs or wants to do a favor. This the actor can do by promising the provider follow-up contracts or information about other market-participants. The same happens when a bureaucrat tries to influence those decision-making processes.

If corruption is being analyzed within such a pattern of financier, purchaser and provider corruption, more differentiated answers can be given to the assumption that the corruption risk is being decentralized. Furthermore, those areas can be identified where a potential corruption fostering situation exists. In total one discovers eight potential situations where corruption can take place.

## **5. Conclusion**

This topic suffers severely from the number of theoretical assumptions concerning the impact of public management reform on corruption and, despite some exceptions, the few empirical studies. Nevertheless, assumptions are the first step for thorough case study analysis. In order to overcome this deficit of the New Public Management-Corruption debate this paper transforms assumptions found in the NPM-Corruption literature into a systematic framework that helps to guide systematic empirical case study research. For the analysis of corruption in the context of public management a dynamic approach is needed. “Mainstream” economic concepts for the analysis of corruption such as purely Rational-Choice based approaches do not pay tribute to the dynamic of corruption fostering situations, which arise as an unintended consequence of contracting out, decentralization, and the promotion of institutional change. Actor-Centered Institutionalism offers an alternative by combining Sociological Institutionalism with Rational Choice analysis. The “MOP-framework” analysis of corruption, which stands for the motivation, opportunity and possibility of corruption, integrates cultural, socio-psychological as well as organizational factors as unanticipated consequences of the reform concept itself or the “failed” implementation process. Together, do these three elements create corruption fostering situations with a high risk of corruption. It is therefore argued that the fusion of institutional and actor-centered assumptions is not only necessary for grasping theoretically the impact of public management reform on corruption but also for stimulating a more differentiated theoretical understanding of corruption fostering situations.

The literature analysis shows that all three elements of a corruption fostering situation are affected by public management reform, especially by Marketize and Minimize strategies. The

motivational aspect is affected by promoting market values, bureau-bashing or just uncertainty among public employees about the future. The opportunity for corruption is being created where government and private actors have a commercial contractual relationship. This happens in the case of contracting out. Actors perceive control mechanisms as inadequate where decentralization is not backed up with sufficient control mechanisms. Undermining controls becomes possible where the risk of being caught is low. This is especially true in a “decentralized” service delivery context where public, private and nonprofit actors compete for contracts. It can be assumed that a fragmented and decentralized organizational structure decentralizes also the risk of corruption.

For a final answer to the initial question if and how new public management affects corrupt behavior it is still, despite some analytical progress, too early. A thorough case study analysis can help to develop appropriate anti-corruption strategies tackling the motivation, opportunity and possibility of corruption.

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