New Public Management Reforms: Institutions matter!

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Working Paper

Abstract

New Public Management (NPM) has played a decisive role and has had a radical effect on the productivity and efficiency of the public sector in the Anglo-Saxon countries. However, the effective introduction of the NPM reforms is not an easy task. The scientific community is zealously analyzing the experiences of the developing countries. The stories, they tell, are full of failures, and ineffective reforms. The goal of the current study is to uncover the factors that might influence the successful implementation of the NPM reforms. In our analysis, by relying on the theories of new institutional economics, we developed a model with which we wish to prove that in regards to the success of the reforms the informal and the formal institutions characteristic of the given country are the decisively determining factors. When answering the question, we introduced a new indicator based on public choice theory – the politicians' interest index – by which we could measure the success of the NPM. We tested our hypothesis by a comparative statistical analysis using the data from 31 countries. Based on our results, we find that informal institutions, the culture shared by the members of society, fundamentally determine the probability of the successful implementation of the NPM reforms, these results having a significant practical relevance.

Introduction

In the developed Western democracies public sector reforms have been continuously on the agenda for the past 30 years. The utilization of the experiences accumulated in old European Union member states and in Anglo-Saxon countries is an obvious idea when considering undertaking modernizing efforts in Central-Eastern-European countries. Reforms concerning the public sector that were realized in the West not only encompassed structural, system-wide changes, but also that emphasis was placed on the transformation of the management and managing principles of the public sphere. New Public Management (NPM)

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has played a decisive role and has had a radical effect on the productivity and efficiency of the public sector in the United Kingdom, in New Zealand, in the United States and in Australia. (Barzelay 2001; Pollitt and Bouckaer 2004; Pollitt, van Thiel and Homburg 2007) As a result of the successes of the NPM in the 1980's and 1990's, NPM has became almost a mandatory element of the governmental reform efforts, so it is not accidental that the adaptation of the NPM techniques and the learning process that goes with them is financially supported by the European Union in the new member states as well.

However, the effective introduction of the NPM reforms is not an easy task. The scientific community is zealously analyzing the experiences of the developing / less developed countries, including Central Eastern European countries.² The stories, they tell, are full of failures, and ineffective reforms. (Beblavy 2002; Bouckaert and others 2009; Lodge and Gill 2011; Marobela 2008; Meyer-Sahling 2009). According to our assumption, NPM is not applicable everywhere. It is not a globally adaptable integrated tool set; rather it is more like an approach and a value system, to which numerous management instruments can be fitted. According to our hypothesis the introduction of management methods belonging to this approach can only be effective, if these instruments fit the informal and formal institutional system followed and applied by the society of the given country which try to apply these. The institutional fit is necessary, but not sufficient condition of the successful introduction of a given NPM technique. The talent or inadequacy of the government that is carrying out the implementation, and other external environmental factors that are prevailing in a given place and time can fundamentally influence the success of the implementation. In the current study we exclusively focus on the institutional factors. The reason is that according to our

² From 2011, with the support of the European Union, as part of the Seventh Framework Programme, public administration experts of eleven universities of ten countries are searching for answers to similar research questions as posed in the current study. The research titled *Coordination for Cohesion in the Public Sector of the Future* is attempting to evaluate the NPM. The outcomes of the research can be retrieved from the following homepage: www.cocops.eu.

hypothesis, based on the new institutional economics, the institutional fit determines which reforms worth carrying out in a given institutional environment. A given society's institutional system shows strong stability in the short- and in the mid-run, so in the given decision situation it should be considered as a basic condition, the knowledge of which has a fundamental importance for the decision makers.

The objective of our study is to scientifically analyze and to answer the following questions:

- Do informal and formal institutions influence, and if yes, then how and to what extent, the opportunities for the successful implementation of the management techniques being introduced under the rubric of the NPM movement?
- What kind of institutional framework, in other words informal and formal institutional constellation, is necessary in a given country for successfully implementing a reform belonging to the NPM movement?
- Can a successfully applied NPM reform from a given institutional environment be successfully replicated in another, different institutional environment?

Besides these, the author of the study wishes to answer the question, if the above described hypothesis is confirmed:

- Can the reforms belonging to the NPM movement be successfully introduced and sustained in the long-run taking into account the cluster of institutional and cultural pattern of Hungary?³

³ The notion of the "cluster of institutional and cultural pattern" or "institutional Gestalt" is not used uniformly

which with their stability and strong social acceptance provide the efficiency of the social, economic and political process for the long run. (Williamson 2000)

by the various authors. (Gottlieb 1953, 352 and 358) Gottlieb (1953) ties these notions to economic systems while Acemoglu, Johnson and Robinson (2002) in their paper primarily associate them with property rights. In the current study, under the notions of cluster of institutional and cultural pattern and institutional Gestalt we think of the informal institutions (norms, traditions, habits, the national culture as understood by Hofstede) embedded in the core texture of society and the formal institutions (legal system, as the constitution and laws),

The applied model

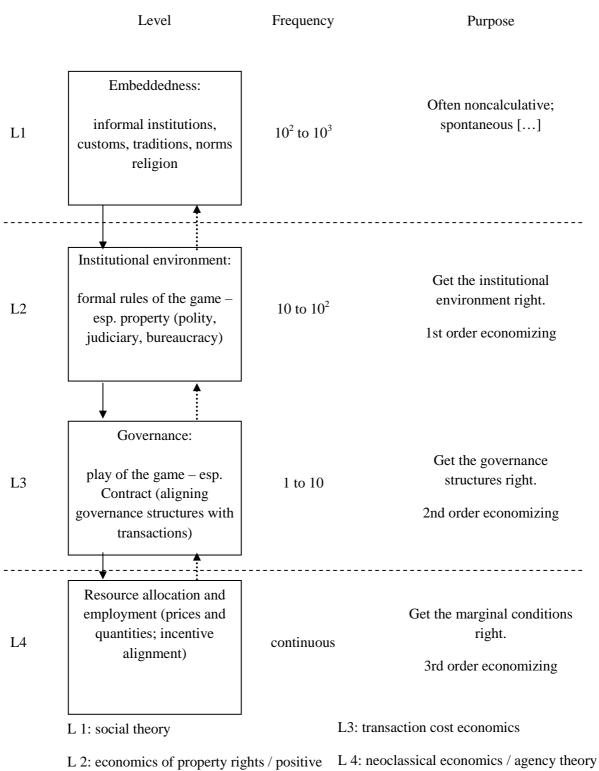
Following the introduction of the hypotheses, the applied model is presented in this chapter. However, before the presentation of the structure of our model in details, we wish to clarify the notion of the "model" in social sciences.

There are numerous definitions for the word "model" in the literature. (Hofstede 1981, 16; Hy - Wollscheid 2008) The development of a scientific model is one of the decisive phases of the theory building process, when we attempt to analyze a social scientific phenomenon that has "relatively stable pattern" (Leontief, 1986, 4) in a way that we are aware of the number of factors influencing the given phenomenon. Finally, we only concentrate on those that in our opinion are the most important ones. An important characteristic of scientific model building is that it is based on the theories accepted by the scientific community and that it can be tested empirically. The result of the test is accessible and reproducible by anyone. Thus, this way the models contribute to the development of science: by building on the theories accepted in the given time period, by either refuting or expanding them, they lead to new theories.

When developing our model we considered the above described principles. Thus we set out from the theories of the new institutional school, and we only included in our analysis those explanatory variables responsible for the success of the reforms belonging to the NPM movement, which we considered as the most important ones. We quantified, with the aid of proxy variables, the given blocks of the model, in other words the informal and formal institutions. We followed up that by running the model with the help of statistical methods we tested our hypotheses.

During the development of the model we set out from the model of Williamson (1998 and 2000), which is depicted in Figure 1.

Figure 1.
The Economics of Institutions



Source: Williamson (2000, 597)

Based on Figure 1, Williamson's model is briefly introduced. The first level of the model contains those factors, which – according to our hypothesis – decisively influence the successful implementation of NPM reforms. These factors have been often considered, even by the new institutional economists, as givens. According to Williamson (1998), these include the rules that even unconsciously followed by the members of society. North (1991, 97) called this block informal institutions, and he classified social norms, traditions and habits under this group. It is in this block of our model, where we apply the notion of culture in Hofstede's sense, since as Hofstede and Hofstede (2005, 36) writes:

"Culture is the unwritten book with rules of the social game that is passed on the newcomers by its members, nesting itself in their minds."

The second level contains those formal systems of rules that North (1984) calls formal institutions, and which include the system of property rights, the constitution and laws. These are the formal rules of the game, which obtain their form and become accountable in the social space created by informal institutions.

The strength of the regulating power of formal institutions varies across cultures; in certain societies it is stronger, while in others it is weaker. The contribution of the formal institutions to the regulation of the social processes (as formal rules of the game) fundamentally depends on informal institutions.⁴ In regard to these interrelations and mechanisms, numerous open questions exist. In any event, based on research the historical determination of these processes is clear. (Greif 2006; Greif and Tabellini 2010) The changing of the informal and the formal rules of the game is also a slow process, which take place according to Williamson (1998, 28) primarily through the influence of external factors,

⁴ About the linkage between the formal and informal institutions see for example: (Boettke, Coyne and Leeson 2008; Helmke and Levitsky 2004; Redmond 2005; Williamson 2009)

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such as a result of civil wars, economic crises, foreign occupation, and collapse of political systems.

For the third and forth factors, namely the changes of the government and resource allocations, we can bring up examples from our lives as well. These levels usually pertain to the current workings of the system within the framework defined by the rules of the game established by the first and second levels. While the first two levels regulate *what* the social actors can do, the other levels place the emphasis on the question of *how*.

As already mentioned, the first block of our model includes the notion of national culture as well. According to Hofstede and Hofstede (2005, 6-9) culture is built up like an onion. At its core, we can find those social values that are extremely resistant, so in time they rarely change and in a given moment they can be considered as unchangeable. Whereas the outer layers of the onion consisting of the rituals, heroes, symbols – that are jointly called by Hofstede as "practices" – change more easily and faster during the course of time. When combining Hofstede and Hofstede's (2005) notion of culture and Williamson's (1998) institutional economics we must keep in mind that the first level that is called by Williamson "embeddedness" basically corresponds to the inner core of Hofstede's cultural onion, namely to the values.

In the next section the model by which we wish to analyze the likelihood of the successful implementation of the NPM reforms is introduced. The model is quite simple, with a static structure, and it contains all together four explanatory and one outcome blocks. In Figure 2. the interaction between the various blocks are not indicated separately in order to simplify the introduction of the model, since the main direction of causality according to our hypothesis is clearly heading from block 1. through blocks 2., 3, and 4. to the outcome variable. All of this, however, does not mean that during the statistical analysis the interactions do not come to

light, only that we find it sufficient to call attention to the main cause and effect interrelation, when illustrating the model.⁵

During the description of the model each of its blocks are depicted. Following the introduction of the independent variables, the measurements of the success of the NPM reforms are reviewed. Capturing the notion of success is key to the workings of the model, so our recommended technique is described in more details. The operationalization of success is necessary when we wish to determine the likelihood of a successful implementation of an NPM reform.

We will not deal in details with all blocks of our model, since in order to answer our research question it is sufficient to examine and to empirically test only the first two blocks and the success of the NPM reforms. The reason behind this is that primarily we are interested in the "what" question, in other words under what framework of conditions it is worth to set out to implement an NPM reform. As a result, we are exclusively focusing on the analysis of the necessary, but not sufficient conditions: we are examining the relationship between the informal and formal institutional system and the reforms belonging to the NPM movements.⁶

⁵ During the development of the model I was inspired by the introduced model of Williamson (1998 and 2000) and Kornai's (1992, 360-379) explanatory theory of the workings of socialism and the model related to that.

The analysis does not cover the examination of the necessary conditions (3. and 4. blocks). Therefore, in the case of those countries of which we can state that their reform attempt was futile, we cannot decide unequivocally whether it was unsuccessful, because the approach of the NPM movement did not fit the institutional system of the country, or merely the decision makers of the given time period did not possess the appropriate competence and skills (3. block) for the successful implementation of an NPM reform, or the interrelations between the NPM reforms (4. block) being introduced impede the successful reforms.

However, by the analysis of the first two blocks we can gain information about the third block as well. As Pillay (2008, 380) states: Generally speaking, managers and leaders, as well as the people they work with are part of a

However, by the analysis of the first two blocks we can gain information about the third block as well. As Pillay (2008, 380) states: "Generally speaking, managers and leaders, as well as the people they work with, are part of a national society. In understanding their behaviour, one has to understand the society they live and function in." Moreover, we would like to call attention to that based on our analysis even in the case of the unsuccessful countries we will be able to decide with a great probability – but unequivocally – whether a given country was incapable of the successfully implementation of the reforms belonging to the NPM movement, because of its institutional system or other factors, such as the lack of government abilities that caused the failure. If a country's institutional system is the same, or mainly similar, to the ones of the successful countries and yet its attempt to implement the NPM reforms was futile, then in the case of this country we can assume that the failure was not caused by the relationship to the institutional factors, rather it is explained by other causes, for instance it is linked to the government's abilities and the organizational culture dominant in the public sector.

The analysis of the 4. block namely the reforms that influence each other in a given time period is to be particularly emphasized. During the introduction of the NPM reforms there can be an optimal order, which is to be followed by the decision makers in order to achieve success. Besides this, certain NPM instruments formulate

According to our hypothesis there will be a strong correlation between the first two blocks of the model (informal and formal institutions) and the successful implementation and application of the reforms belonging to the NPM movement.

conflicting expectations and objectives, so their concurrent introduction – because of the conflicting objectives - will lead to failure.

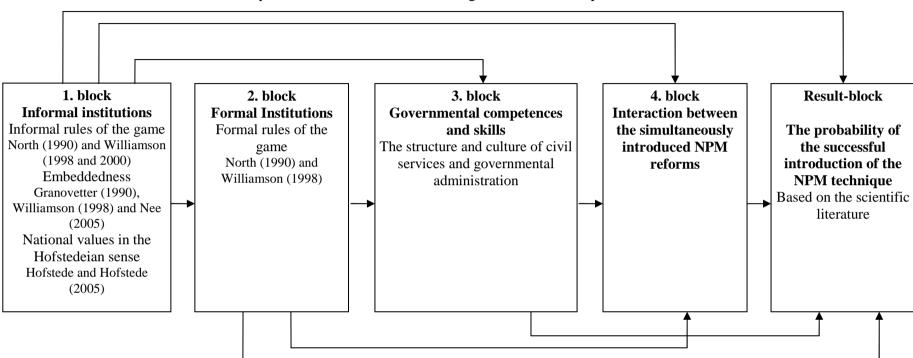


Figure 2.

The causality between the factors determining the successful implementation of the NPM

Source: Own figure

Other influencing factors appearing in the literature: economic pressures, political support, social changes (for instance: growth in the number of skilled workers), political changes (weakening powers of the unions, increasing power of the non-elected public officials), changes in the civil sector (weakening of the professional interest groups, for instance: teachers, medical doctors, etc.), political party systems, technological changes, pressures from the international organizations, fashion, etc. (Borins 2002; Drechsler 2005; Hood 1991 and 1995)

First block, informal institutions⁷

Informal institutions are the rules, unconsciously accepted and spontaneously followed by the individual, which make social coordination more fluent. (Hodgson 2006; North 1990 and 1991; Williamson 1998 and 2000) They are the most efficient coordination instruments of the relationships between the many millions of actors making up society with various individual interests. Informal institutions change slowly, which is one of their main virtues, but this characteristic of theirs has drawbacks as well. They provide security in the changing world, but they hinder the development of the given society. It is difficult to say how informal institutions arise. Fundamentally they are a product of a learning process, which stems from the collective processing of past events. Societies experience a great deal of internal and external influences during their history. The survival of a given group/society depends on the successful answers given to these influences. The repeatedly successful solutions become embedded in the subconscious of the members of society and they help the successful adaptation of the members of society in the long-run. Embeddedness also means that the members of society unconsciously rely on these informal institutions for the solution of certain situations.

Informal institutions, independent of which definition we begin with, are intertwined with the notion of culture. According to Hofstede (1984, 389):

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⁷ See the proxy variables of the informal institutions in the appendix, table 1.

⁸ Granovetter (1985) does not consider the notion of institutional determination, which is in the focus of new institutional economists, as sufficient, since according to him this does not mean a significant shift from the methodological individualism of neoclassical economics. Instead of institutional determination, Granovetter (1985, 490) emphasizes the concept of embeddedness: "The embeddedness argument stresses instead the role of concrete personal relations and structures (or "networks") of such relations in generating trust and discouraging malfeasance. The widespread preference for transacting with individuals of known reputation implies that few are actually content to rely on either generalized morality or institutional arrangements to guard against trouble." Granovetter relies more strongly on the notion of trust than new institutional economists do. For him, the development of trust is of primary importance, which he captures with the concept of embeddedness. However, in the case of institutions if an adequate level of trust exists towards the institutional system and towards the state, which is in charge of the enforcement of institutions, then it is not necessary to have high level of trust between the transacting parties.

⁹ This is also stated by Pejovich (1999, 166): "Thus, informal institutions are the part of a community's heritage that we call culture." See also: (Roland 2004).

"Culture can be defined as the collective programming of the mind which distinguishes the members of one category of people from those of another."

Hofstede's definition allows for a broad interpretation, in any case the "collective programming of the mind" highlights certain characteristics of culture. Programming means that the system automatically answers to certain effects with a given response. Capturing culture through programming makes it clear that informal institutions like traditions, also called by North informal constraints, are identical notions to culture, at least from the perspective of that both culture and the informal institutions are the efficient coordinating instruments of social – including even the economic and political – transactions. ¹⁰

Second block, formal institutions¹¹

Following Williamson in the second block we wish to capture formal institutions. Williamson (1998, 27) classifies the following into the second block: public policy decision making, legislation and bureaucracy, the constitution, laws and property rights. Williamson (2000, 598) defines the second block as the following:

"Constrained by the shadow of the past, the design instruments at Level 2 include the executive, legislative, judicial, and bureaucratic functions of government as well as the distribution of powers across different levels of government (federalism). The definition and enforcement of property rights and of contract laws are important features."

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¹⁰ About the linkage between the informal institutions and NPM see: (Hood 1998; Mouritzen and Svara 2002; Pollitt and Bouckaert 2004; Schedler and Proeller 2007)

¹¹ See the proxy variables of the formal institutions in the appendix, table 2.

This definition is very important in regards to the selection of the proxy variables! In order to capture the second block, it worth to capture the following with proxy variables: legal system, political system – including for instance the electoral system, the relationship and the distribution of power between the local government system and the central government. In addition to this of course, we must measure in some way the strength of property rights and contract enforcement, when we include this block into our model.

The further characteristic of formal institutions is that they increase the stability of the workings of society by extorting the expected conforming behaviour from the members of society. (North and others 2007) This is necessary, because social actors only follow informal institutions with a certain probability; the possibility of deviant behaviour always exists. This characteristic assumes that formal institutions mainly stem from informal institutions. (North 1993, 18-19)¹²

The capturing the success: the politicians' interest index¹³

The theoretical foundation of politicians' interest index (PII) is the public choice theory, therefore during the development of the PII we started out from the assumption that politicians maximize their individual utility, they are rational actors and under democratic circumstances elected politicians compete for re-election. ¹⁴ To achieve this, the objective of the politicians is to have the confidence of the citizens grow in the civil services led by them and indentified with them, and to have themselves re-elected personally. The indicator contains two variables with equal weights. One originates from the databases of the World Value Survey and the European Value Survey, and it measures the citizens' confidence in the

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¹² About the relationship between the informal and the formal institutions, see: (Hall – Soskice 2004, 12-13; Pejovich 1999, Redmond 2005)

¹³ See the values of the PII in the appendix, table 3.

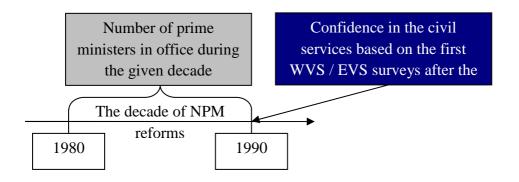
As Buchanan (2003, 1) remind us "[t]he hard core in public choice can be summarized in three presuppositions: (1) methodological individualism, (2) rational choice, and (3) politics-as-exchange."

civil services. The other indicator shows the number of prime ministers in office during the given decade in the given country. The magnitude of trust towards the public administration was analysed based on the first WVS / EVS surveys after the NPM reforms.¹⁵

The other indicator is the number of prime ministers in office for the given decades. This indicator specifically measures the change in the primary leader of the country. Since we wish to capture the political stability of the politicians and not the stability of the political system and the political parties, we are not looking at the number of government changes; rather the changes in the prime minister were considered.

Figure 3.

The structure of the politicians' interest index



Source: Own figure

The big advantage of the indicator is that it is simple, but at the same time it has a number shortcoming as well. One the one hand, a change in the prime minister does not cover all sectors and public administration levels affected by the NPM reform. It is also confounded by the fact that a decline in the confidence towards civil services does not necessarily cause immediate political losses, since it is conceivable that a politician can compensate by other

15 See the applied datasets of EVS /WVS surveys in the appendix, table 4.

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results or symbolic actions the weaker performance attained in this area. The chief shortcoming of this indicator is that numerous uncontrollable factors can influence its value, and it is not exclusively dependent on the performance of the NPM reforms. Nevertheless based on Frattore, Dubois and Lapenta (2012, 225) observation, by which NPM issues are prominent in the political communication even in countries that is characterized by a legalistic administrative tradition, we can assume that the NPM reforms significantly influenced the value of this indicator. As Pollitt (2007, 10-25) also considers *discursive convergence* as the strongest, we share this opinion, that the NPM reforms in most Anglo-Saxon and Northern and Western European countries has determined the public discourse, while we have to admit that in case of the Central and Eastern European countries this is less true.¹⁶

The description of the statistical analysis

All together thirty-one democratic, market economies are analyzed at the system level, where the analytical units are nation-states, which are examined based on their reforms realized in various time intervals.¹⁷ Thus, in line with the implementation of the reforms in the case of Australia, Canada, the Netherlands, New Zealand, the United Kingdom and the United States data was used from the 1980s, in the case of certain Western, Northern and Southern

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¹⁶ In his book chapter Van de Walle (2007) measured the magnitude of confidence towards the civil services by the question of the WVS, which was also applied by us. In his writing he identified numerous problems related to this question of the WVS, among others for instance that the English term civil service was translated differently in the various countries. Based on the analysis of Van de Walle (2007) we can state that the sociodemographic and the socio-economic variables explain to only a very small extent the level of trust towards the public administration. This suggest that we have a very good reason to believe that there is a strong relationship between the values of the PII and the success of the NPM reforms. About the measurement of the effectiveness of the NPM reforms see also: (Barzelay 2001; Ferlie and Steane 2002; Gualmini 2008; Hood 1995; Jones and Kettl 2003; Pollitt and Summa 1997; Torres 2004; Van de Walle and Hammerschmid 2011; Wollmann 2003).

¹⁷ Before running the model and presenting the results we would like to highlight one important condition. We consider the thirty-one countries included in the analysis as the population, in other words we do not consider the countries chosen by us as a sample. It follows that the conclusions of this study cannot be applied to and generalized for the other countries of the world. The reason for this is that the subject of our analysis, the NPM movement, is only able to exert positive influence in a democratic and pro-market environment, since the roots of the movement go back to such economic theories (new institutional economics, public choice theory), which cannot be applied in authoritarian and anti-market environments. There is an important methodological implication of that, we consider the countries included in the analysis as a population and not a sample, since this way the significance level analysis loses its importance. In addition, there is no need for those analyses that assess in what magnitude the sample fits the characteristics of the population.

European countries data was used from the 1990s, while in the case of the Central and Eastern European countries we used data from the 2000s. 20

Our model was verified through statistical methods and secondary sources. We used SPSS software for the statistical running of the model. First, the number of the proxy variables used for capturing informal and formal institutions found on the left side of the model was reduced. To achieve this, a principal component analysis was carried out.

Figure 4.

The factor loadings and communalities of the proxy-variables of the formal institutions

The name of the proxy-variables	Factor loadings	Communalities
Trust	0,79	62,65%
Feeling of Happiness	0,91	82,27%
Tolerance	0,72	51,80%
Opinion about market coordination and bureaucratic coordination and private and state ownership	-0,82	67,30%
(Positive values mean bureaucratic coordination and state ownership are preferable)		

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¹⁸ Those countries, which carried out the reforms mostly during the 1990s: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Norway, Portugal, Spain, Sweden and Switzerland.

¹⁹ The following Central and Eastern European countries were included in the analysis: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

Williamson's (1998) model defines the possible time intervals of each institutional level establishes that informal institutions in the long-run (10² and 10³ years), formal institution in the mid-run (10 and 10² years) are unchangeable, while the factors linked to the government can be changed even in the short-run (1 and 10 years). However, when collecting the data for the model, we did not take into account the Williamsonian time intervals assigned to each level. According to Williamson's model in case of informal and formal institutions it would have been enough to gather data from only time period, from the 1980's, so before the earliest appearance of the NPM movement. However, we did not follow that, because Inglehart and Baker's (2000) research unequivocally highlighted that the proxy variables, stem from the WVS and EVS, and used by us change even in the shorter-run. At the same time Inglehart and Baker (2000, 49) point out that this does not contradict Williamson's theory, since the changes in the data of the WVS and the EVS do not affect the core of culture. By assuming the changes of descriptive, independent variables, we do not make a mistake at all, at worst we are carrying out unnecessary work, as this way we can guarantee that the cause (independent variables) in time precede the effect (dependent variable).

External / internal factors are decisive in life (Positive values mean internal factors are decisive)	0,8	64,32%
Liberal / Conservative thinking (Positive values mean liberal thinking)	0,67	44,70%
Power distance index*	-0,75	55,77%
Individualism index*	0,68	46,43%
Uncertainty avoidance index*	-0,73	53,45%
Indulgence vs. restraint index*	0,93	86,68%

Source: Own figure. Remarks: * About the meaning and the accurate definitions of the proxy-variables of Hofstede see: (Hofstede 2011)

As noted in figure 4. the high values of the principle component of the informal institutions are characteristic of such societies, where the people have the following self-image: they are satisfied with their lives, the direction of which according to their opinion can be influenced by them, and they experience and express the joys of life. They turn to each other with trust, they tolerate the social differences, and they think liberally about the world, the power distance between people is small. They think as individuals, in other words individual freedom is important for them, they are willing to take risks, and they do not expect the state to create their welfare. They do not support the intervention of the state either in the economy or in their lives; rather they feel confidence in themselves, in the market and in free competition. When setting their objectives they rather focus on the short-run. Based on this description the countries, having high values for the principal component developed from the variables of the informal institutions, are tolerant, pro-market and pro-competition, individualist societies built on mutual trust with post modern value systems (Inglehart 1999), and their objective is to maximize individual happiness.

Figure 5.

The factor loadings and communalities of the proxy-variables of the formal institutions

The name of the Proxy-variable	Factor loadings	Communalities	
(Legal origins): Common	-0,54	28,80%	
(Legal origins): Scandinavian	0,86	73,63%	
Electoral system: Single member district	-0,55	30,36%	
Electoral system: Party-proportional representation	0,58	33,44%	
Chambers of parliament: Bicameral	-0,51	26,23%	
Percentage of elected women in the Parliament in first election of the given decade	0,89	79,04%	
Competencies and responsibilities of local governments	0,59	34,62%	
Local governmental revenues / GDP	0,77	59%,40	
Local government employment share as percentage of total governmental employment	0,65	42,90%	

Source: Own figure

As can be seen at the figure 6, the high values of the principle component of formal institutions is characteristic of such countries, which have Scandinavian type legal system, proportional and party list electoral system and they have such unicameral parliament in which there is a high proportion of female representatives. In addition, in these countries the position of local governments is stabile; they have significant resources, which are complemented by significant authority and human resources. The Anglo-Saxon legal traditions, the electoral system built on simple majority, or the bicameral parliament have a negative correlation with the value of the principle component.

In summary, we can see that Scandinavian and the Anglo-Saxon countries provide quite a similar informal institutional environment for the NPM reforms, at the same time in the case of the formal institutions they differ significantly; both their political and their legal systems significantly differ.

In the case of the continental countries the informal institutions of the Central and Eastern European countries drastically differ from the norm and tradition systems of the societies of both the Scandinavian and the Anglo-Saxon countries. Their formal institutions also differ from the Scandinavian and the Anglo-Saxon countries taking a middle position between the two extreme points.

Among the German speaking countries, Switzerland is a special case already because of its multilingual environment and its direct democratic political system, but in the case of informal and formal institutions it also stands closer to the Anglo-Saxon countries than to Germany and Austria. These two German speaking countries, based on the scores received in regards to the informal institutional main component, are the most market-friendly and the most open cultures of continental Europe, while their formal institutions differ from the Scandinavian and the Anglo-Saxon countries, and they form a well defined continental group with the countries of Central and Eastern Europe and Southern Europe.

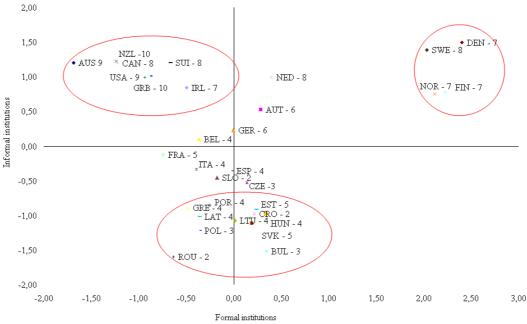
France, Belgium and the southern countries of Europe received significantly lower scores in the case of informal institutions, but – with the exception of Portugal and Greece – they still attained higher scores than their Central and Eastern European counterparts.

In the case of formal institutions we can differentiate three groups: Scandinavian, Continental and Anglo-Saxon types of formal institutional systems. While in the case of informal institutions the Scandinavian and the Anglo-Saxon countries do not differ from each other – both groups received high scores – the Western European countries scored lower on the informal institutions than the previous country groups and scored higher than the Central

and Eastern European and Southern European countries. In the Figure below, we summarized the scores received for the informal and formal institutions main components

Figure 6.

The values of the informal and formal intuitional factors in the case of the 31 countries



Source: Own figure

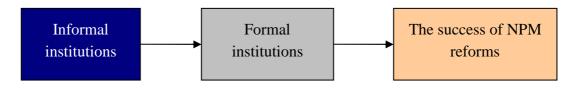
After the principle component analysis, our model is statistically tested based on a path analysis model, which consists of the series of related multivariate linear regressions. The success of the NPM reforms is captured through the politicians' interest index. The path analysis models are in reality a series of regression models suitable for testing the cause and effect relationship deductively devised by the researcher. By developing a path analysis model a probable causal direction can be tested. The causality applied in the current study is the following:

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²¹ The linear multivariate regression analysis is explained in details by numerous books (Ember – Ember, 2009), so we can set aside the methodological introduction.

Figure 7.

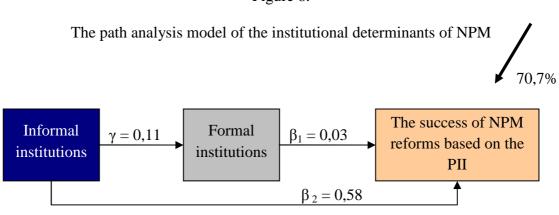
The direction of the causality of the model (exogenous variable: informal institutions)²²



Source: Own figure

After running the path analysis models we can state that we found a strong correlation between the success of the NPM reforms captured by PII and the informal and formal institutions. The results of the statistical analysis of our model highlight that there is a strong and clear relationship between the success of the NPM reforms and informal institutions, while the effects of formal institutions are significantly more modest. The result of our statistical analysis is depicted in figure 8.

Figure 8.



Source: Own figure

²² We know that numerous other factors influence the success of the NPM reforms (see for instance the 3. and the 4. blocks of our model), however we will obtain their combined influence and not the influence of each factor by itself. Let us assume that in regards to the success of the NPM reforms the combined explanatory power of the independent variables included in our model is 25%, then the influence of the other variables explains it in 75%.

The standardized regression coefficient between the informal institutions and the PII is 0,5833, while between the formal institutions and the PII is 0,03. Based on these, we can claim that the knowledge of the informal institutions significantly lowers more our uncertainty about the value of the politicians' interest indicator, than the knowledge of formal institutions. If we consider that we can characterize the most stable and at the same time the deepest layers of the fabric of society with the main component of informal institutions, then our results point toward a strong connection. Informal institutions exert their effects through a number of ways; and still they also strongly define the realization of the politicians' quite concrete goals.

Results

Following the evaluation of the models, now we can provide answers to the research questions of the current study. Let us look at our research questions!

Do informal and formal institutions influence, and if yes, then how and to what extent, the opportunities for the successful implementation of the management techniques being introduced under the rubric of the NPM movement?

Based on our analysis, informal institutions significantly influence the likelihood of the successful implementation of the reforms belonging to the NPM movement, and they drastically reduce the uncertainty associated with it. We claim that those countries are able to successfully implement the management techniques belonging to this reform movement, where informal institutions are compatible with the approach of the NPM reforms, in other words where social norms support liberal, pro-market and pro-competition values. The NPM reforms strongly rely on the private sector, on the power of the market. For this, there is a need for a well functioning market economy, the essential prerequisite of which is that the members of society have confidence in themselves, they should be entrepreneurial, and they should not wait for the state to solve their problems. Those values, norms, habits, traditions

and national culture, which were captured by the positive values of the principal component of informal institutions, are closely fitting to the value system of the NPM reforms.²³

Based on the statistical model we claim that the principle component of formal institutions, by which the legal and political formal institutions of the countries were described, much more modestly influences the likelihood of the success of the NPM reforms, than the principle component capturing the informal part of the institutional Gestalt. Therefore, a reform belonging to the NPM movement can be successful even if formal institutions of the given country do not support this, as long as informal institutions support the implementation and realization of the reform.

What kind of institutional framework, in other words informal and formal institutional constellation, is necessary in a given country for successfully implementing a reform belonging to the NPM movement?

The reforms belonging to the NPM movement will most likely be successful, if they are introduced in an institutional Gestalt that fits the approach of the movement. Thus, the likelihood of the successful implementation is larger in such societies, where the members of society trust each other and the political institutions, satisfied with their lives and their financial state, individualists, confident in themselves and able to tolerate uncertainty and diversity, and have postmodern value systems. In case of formal institutions, our analysis did not yield such clear results. What we can claim with great likelihood is that the individual district electoral system fits better to the approach of the NPM reforms than the proportional electoral system, and the Anglo-Saxon legal origins fit better the NPM reforms than the Scandinavian legal origins, but even these statements do not mean a really decisive difference. Based on our analysis we can claim that it is not the formal institutions that define the success

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²³ See also: (Christensen and Lægreid 2007; Pillay 2008; Verhoest 2011). These studies come to the same conclusion.

of the NPM reforms, their influence is minimal compared to the influence of informal institutions.

Can a successfully applied NPM reform from a given institutional environment be successfully replicated in another, different institutional environment?

Based on our study only a more complex answer can be provided to this research question. Since according to our results the influence of informal institutions dominates, an NPM reform can be successfully replicated in such institutional environment, where informal institutions are the same, even when formal institutions differ. This is the case for the Anglo-Saxon and the Scandinavian countries: in regards to the NPM reforms the relevant informal institutional factors are almost the same. It is also important to highlight that the informal institutions of these countries are not identical, so the NPM reforms are realized differently.²⁴

Imitation, simple copying would not have been successful even in this case, as knowledge and experience sharing can only be successful, if they are fitted to the informal institutions of the given country. The more different the informal institutional systems of two countries, the bigger the chance of failure during the adaptation, and all the more the NPM reforms to be implemented must be modified. Beyond a certain level of institutional dissimilarity, reforms reflecting the values of the NPM movement can be realized only with a very small probability. In the case of the countries that have culture significantly differing from the values of the NPM movement, other types of reforms can be successful with greater probability. These can even lead to similar results as the NPM reforms. This question however demands further research. Based on the current study we cannot provide a

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²⁴ In what respect the cultures of the given societies should be similar to each other depends on the given reform. We do not claim that the societies of the Anglo-Saxon and the Scandinavian countries show similarities in every aspects, even it is possible that they differ in more aspects than they are similar to each other, but their cultural traits necessary for the success of the NPM reforms are similar. That is why the Scandinavian countries able to successfully adapt the NPM reforms of the Anglo-Saxon countries. Let us not forget that in the case of the Scandinavian countries we do not speak of imitation, let us remember that the Scandinavian countries significantly altered the NPM reforms. (Pollitt and Bouckaert 2004)

scientifically valid answer to the question of what type of reforms could lead to similar results in the Central and Eastern European countries.

Can the reforms belonging to the NPM movement be introduced and effectively sustained in the long-run taking into account the cluster of institutional and cultural pattern of Hungary?

Based on institutional characteristic of Hungary (see figure 6.), we can render it probable that the implementation of the reforms belonging to the NPM movement will be unsuccessful and the implemented reforms will not be sustainable in the long-run. Hungary can be characterized by such informal institutions, which are conflicting with the values of the NPM movement. Based on the statistical analysis of the data of the EVS from 1999, the following picture develops about the informal institutions of the Hungarian society: the country can be characterized by a medium level of trust and the majority of the population is dissatisfied with their lives. Among the Central and Eastern European countries included in the analysis, Hungarians have the least confidence in the markets, and the most support for bureaucratic coordination. This is understandable in light of the fact that the majority of the population feels that they do not control their lives; rather it is external factors that influence its course. Hungarians – based on the analysis – are highly intolerant, are rather uncertainty avoiders, and can be characterized by strongly conservative attitudes. Also, their relationships are characterized by high power distance.

Based on this we can claim that the approach of the NPM movement is foreign to the traditions of the Hungarian society and significantly differs from the norms and traditions accepted by the members of society. Because of the social norms and culture, the Hungarian society and the public administration most likely will not be able to accept the reform concepts suggested by the NPM movement; either during their implementation or during their operations they will fall through. It is conceivable that instruments belonging to certain NPM

movements will survive in the longer run, but they will be distorted and they will adjust to the informal institutions of Hungary, and cannot be characterized by the values of the NPM. Based on the literature we can claim that in these cases these instruments do more harm than good for the public sector of the given country. During the reform of the Hungarian public sector the toolkit of the NPM movement should not be applied or imitated in its entirety, it should be fitted to the Hungarian institutional environment, which could demand such levels of modifications after which we cannot consider the modified instruments as a part of the NPM movement anymore. Out of the practices of the more developed countries, it worth to examine principally the public sector reforms of the Southern European countries, since the informal institutions of these countries stand the closest to ours, or we have to find our independent way to go. We believe that we should rather choose the later path.

1. Main findings and summary

The most important yield of the study is that it proved through statistical analyses that informal institutions, in other words norms, traditions, habits, beliefs and social culture that are followed by the members of society, play a decisive role in deciding whether the reforms related to the new public management movement can be successfully introduced in a given country or not. If the informal institutions of a country differ from the approach of the NPM movement, then the low probability of the successful implementation should prompt professional practitioners to fit the reforms to be introduced to the informal institutional facilities of the country. The practical relevance of this statement is significant: it can even influence the aid policy of the European Union. If the culture or traditions of a new member state differ from the cultures of the leading countries of the EU, then the European Union takes up a huge risk, if it encourages / forces the new member states to implement such reforms that do not fit the informal institutions of the given countries. In recent years the

European Union has spent significant amounts on the support of the reforms in the new member states, a decisive part of which can be linked to the NPM movement. Based on the current study we can claim that these reforms will be unsuccessful with high probability, if during their implementation they do not sufficiently take into consideration the informal institutional environment characteristic of the given country. In most cases the result is squandered billions, or the development of non-sustainable systems, or even worse, distorted reforms causing effects contrary to the objectives. At the beginning of this paper we alluded to some case studies, which analyzed the introduction of the NPM in Africa and Asia and they pointed out the seriously negative effects of the reforms belonging to the NPM movement. These cases are "trivial" in the sense that in the instances of non-democratic systems the toolkit of the NPM movement works in a dysfunctional manner. Based on the current study we can claim that even under democratic and market economic conditions the success of the NPM reforms cannot be guaranteed.

We can claim based on the results of the study that the possible introduction of the NPM reforms depends decisively on the informal institutions of society and to a smaller extent on its formal institutions (the necessary condition of success), while the magnitude of the success of the already implemented reforms is determined also by the culture of the public administration, and other factors not examined (3. and 4. blocks of our model) in the study (sufficient condition).

We consider the modelling and the description of the differences between the influences of formal and informal institutions on the NPM reforms as an important result. During our analysis it emerged that the possibility of the implementation of the NPM reforms depends on informal institutions, which change slowly and which are givens for politicians and for business people at a given point in time. The NPM movement during the past thirty years can be characterized as a wave of fashion, which was followed by politicians in order to maximize

votes. Let us assume that a politician, say that the country's minister of economy, intuitively realizes that the reforms belonging to the NPM movement and demanded by the member of society, or by a part of it (for instance the scientific elite), or even by an external organization (EU, IMF, etc.) do not fit the country's culture. In this case, he or she keeps public interests in mind, if he or she does not embark on such reform that is doomed to failure with great probability, so instead he or she handles the pressure laid on him or her rhetorically. Let us not forget that explaining why he or she does not support the implementation of a reform, which is successful in another country, is a quite difficult and dangerous political task. According to Pollitt, the NPM movement is in a great part the series of such kind of "reform talk" (Pollitt 2007, 14), which he calls discursive convergence. This could seem as an act of compensation, but based on the results of our research it is conceivable that in the decisive majority of the cases politicians act correctly, when they do not introduce a given NPM reform. Based on our results, the discursive convergence can be interpreted as a rational and effective defence mechanism.

Our model also points out that those cultural attributes, which are labelled by Inglehart (1999) as postmodern, could play a dominant role in the success of the NPM reforms. This is by all means thought-provoking, when we decide on whether to recommend or not the implementation of the reforms related to the NPM movement in the countries of Central and Eastern Europe, where the societies of these countries cannot be characterized by postmodern attributes yet. By reviewing the results of the study, we can claim that between the informal institutions of the countries of Central and Eastern Europe and the countries successfully implementing NPM reforms there exists such a huge gap that most likely these countries would not be able to adapt, in other words to tailor the NPM reforms to their own institutional environments. The examples of the Slovakian and Czech practices (Nemec 2010; Nemec, Merickova and Ochrana 2008), or the Hungarian cases (Hajnal 2008 and 2011) also

attest this. Based on our study, the reasons behind the failures should be found between the differences in the approach and value system necessary to the success of the NPM reforms and the informal institutional systems of the Central and Eastern European countries.

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Appendix

Table 1.
The proxy-variables of informal institutions (**Bold: proxies after the principal component analysis**)

The name of provi	component analysis)				
The name of proxy- variables	Source				
Trust	World Value Survey / European Value Survey				
	Questions:				
	A165 Most people can be trusted				
	E085 Confidence: Justice System				
	E076 Confidence: The Civil Services				
	E075 Confidence: Parliament				
Feeling of Happiness	World Value Survey / European Value Survey				
	Questions:				
	A008 Feeling of happiness				
	A170 Satisfaction with your life				
	C006 Satisfaction with financial situation of				
	household				
	C033 Job satisfaction				
Fairness	World Value Survey / European Value Survey				
Tolerance	World Value Survey / European Value Survey				
	Questions:				
	A035 Important child qualities: tolerance and				
	respect for other people				
	A125 Neighbours: People of a different race				
	A129 Neighbours: Immigrants/foreign workers				
	F118 Justifiable: homosexuality				
7.1	F120 Justifiable: abortion				
Role of the state	World Value Survey / European Value Survey				
Opinion about market	World Value Survey / European Value Survey				
coordination and	Questions:				
bureaucratic	E036 Private vs state ownership of business				
coordination and	E039 Competition good or harmful				
private and state	C060 How business and industry should be				
ownership	managed				
Obedience	World Value Survey / European Value Survey				
Responsibility taking or	World Value Survey / European Value Survey				
obviating	, ,				
External / internal	World Value Survey / European Value Survey				
factors are decisive in	Questions:				
life	A173 How much freedom of choice and control				
To died describes /	C034 Freedom decision taking in job				
Individualism /	World Value Survey / European Value Survey				
Collectivism	W 11V 1 0 /F V 1 0				
Risk taking or risk	World Value Survey / European Value Survey				
avoidance	W 11V 1 G /P VI G				
Working culture	World Value Survey / European Value Survey				

Political ideology (left –	World Value Survey / European Value Survey			
right)				
Liberal / Conservative	World Value Survey / European Value Survey			
thinking	Questions:			
	D018 Child needs a home with father and			
	mother			
	D019 A woman has to have children to be			
	fulfilled			
	D022 Marriage is an out-dated institution			
	F126 Justifiable: taking soft drugs			
Religiousness	World Value Survey / European Value Survey			
Breach of norms and	World Value Survey / European Value Survey			
rules				
Nationalism	World Value Survey / European Value Survey			
Power distance index	(Hofstede and Hofstede 2005) and			
	http://www.geerthofstede.nl/research			
	vsm/dimension-data-matrix.aspx			
Individualism index	(Hofstede and Hofstede 2005) and			
	http://www.geerthofstede.nl/research			
	vsm/dimension-data-matrix.aspx			
Masculinity index	(Hofstede and Hofstede 2005) and			
	http://www.geerthofstede.nl/research			
	vsm/dimension-data-matrix.aspx			
Uncertainty avoidance	(Hofstede and Hofstede 2005) and			
index	http://www.geerthofstede.nl/research			
	vsm/dimension-data-matrix.aspx			
Long-term orientation	(Hofstede and Hofstede 2005) and			
index	http://www.geerthofstede.nl/research			
	vsm/dimension-data-matrix.aspx			
Indulgence vs. restraint	(Hofstede and Hofstede 2005) and			
index	http://www.geerthofstede.nl/research			
	vsm/dimension-data-matrix.aspx			
_	v sam dramatistical drawn and an arrangement			

Source: Own compilation

Table 2.

The proxy-variables of formal institutions (**Bold: proxy-variables after the principal component analysis**)

component analysis)					
The name of	Source of the proxy-variables				
proxy-variables					
	Economic I	Freedom of the World – Fraser Institute			
Magnitude of state	General government consumption spending as a percentage of total				
centralization	consumption				
Centranzation	Transfers and subsidies as a percentage of GDP				
	Government enterprises and investment				
	Economic Freedom of the World – Fraser Institute				
	Judicial independence				
Rule of Law	Impartial courts				
Rule of Law	Protection of	of property rights			
	Integrity of	the legal system			
	Legal enfor	rement of contracts			
	Economic I	Freedom of the World – Fraser Institute			
Magnitude of state	Hiring and	firing regulations			
control	Centralized	collective bargaining			
	Price contro	ols			
	Anglo-Sax	on legal origin			
Legal tradition	German le				
Legai tradition	French legal origin				
	Scandinavi	ian legal origin			
	Minority go	overnment			
Type of	Coalition go	overnment			
government	Great-coali	tion government			
	One-party r	ruled government			
T.11 £ 41	Conservativ	ve			
Ideology of the	Liberal				
government	Social-dem	ocrat			
	Single	First-past-the-post voting			
	member	Multiple younds (sequential vote)			
Electoral system	district	Multiple rounds (sequential vote)			
	Party-proportional representation				
	Combinati	on			
Chambers of	Unicamera	ıl			
parliament	Bicameral				
	Local and national wide				
Referendums					
Referendums	National				
	None				
The participation r	ate at the fir	rst election of the given decade			
		rliament in the given decade			
Competencies and	Competencies and responsibilities of local governments				
Local governmenta					
		share as percentage of total governmental employment			
8	I J	F			

Source: Own compilation

Table 3.

The values of the politicians' interest index in the 31 countries involved in the analysis

Countries	The number of The standardized prime ministers mean of the in office during Politicians' the given decade Interest Index in the given country				
USA	0,88	3^{1}	1,43		
United Kingdom	0,87	1 ¹	$0,27^5$		
Netherlands	0,60	21	0,31		
Canada	0,48	31	0,63		
Australia	0,27	21	-0,36		
New Zealand	-0,48	31	-1,28		
Switzerland	1,25	0^2	$0,47^{6}$		
Denmark	0,91	2^2	0,93		
Portugal	0,87	2^2	0,85		
Ireland	0,65	4^{2}	1,54		
France	0,60	6^2	0,28		
Grece	0,60	4^{2}	-2,27		
Norway	0,55	3^2	0,76		
Austria	0,40	2^2	-0,09		
Germany	0,33	2^2	-0,24		
Spain	0,33	2^{2}	-0,24		
Belgium	0,31	3^2	0,30		
Finland	0,07	3^2	-0,20		
Sweden	0,03	4 ²	0,30		
Italy	-1,35	7^2	-0,76		
Slovakia	0,66	3^3	0.99^{7}		
Estonia	0,58	4^{3}	1,39		
Slovenia	0,05	5 ³	0,90		
Latvia	-0,09	6^3	1,18		
Hungary	-0,17	4^{3}	-0,11		
Croatia	-0,44	3^3	-1,21		
Romania	-0,89	5 ³	-0,98		
Poland	-0,91	5 ³	-1,02		
Bulgaria	-1,22	4 ³	-2,21		
Czech Republic	-1,35	7^{3}	-0,76		
Lithvania	-1,37	7^3	-0,81		

Source: Own figure

Remarks: ¹ Number of prime ministers between 1980 and 1990

² Number of prime ministers between 1990 and 2000

 $^{^{3}}$ Number of prime ministers between 2000 and 2010 $\,$

⁴ The proportion of respondents who answered "A great deal" or "Quite a lot" to the following question: I am going to name a number of organisations.

For each one, could you tell me how much confidence you have in them: is it a great deal of confidence, quite a lot of confidence, not very much confidence or none at all? The civil service.

⁵ Australia: WVS in the year of 1995, New Zealand: WVS in the year of 1998, others: EVS in the year of 1990.

⁶ Finland: EVS in the year of 2000, Norway: WVS in the year of 1996, Switzerland: WVS in the year of 1996, others: EVS in the year of 1999.

⁷ All the countries: EVS in the year of 2008.

Table 4.

The applied datasets of EVS /WVS surveys in the case of the 31 countries included in the analysis

	I.	wave	II	. wave	II	I. wave	I	V. wave
Country	Year	Dataset	Year	Dataset	Year	Dataset	Year	Dataset
Australia	1981	WVS	1995	WVS				
United								
Kingdom	1981	EVS	1990	EVS				
Netherlands	1981	EVS	1990	EVS				
Canada	1982	EVS	1990	EVS				
New Zealand					1998	WVS		
USA	1982	EVS	1990	EVS				
			1000	77.79	1000			
Austria				EVS	1999			
Belgium				EVS		EVS		
Denmark				EVS	1	EVS		
Finland			1990	EVS		EVS		
France			1990	EVS	1999	EVS	_	
Grece					1999	EVS		
Ireland			1990	EVS	1999	EVS		
Germany			1990	EVS	1999	EVS		
Norway			1990	EVS	1996	WVS		
Italy			1990	EVS	1999	EVS		
Portugal			1990	EVS	1999	EVS		
Spain			1990	EVS	1999	EVS		
Switzerland			1989	WVS	1996	WVS		
Sweden			1990	EVS	1999	EVS		
Bulgaria					1999	EVS	2008	EVS
Czech						77.70	•	
Republic					1999		2008	
Estonia					1999		2008	
Croatia					1999		2008	
Poland					1999		2008	
Latvia					1999		2008	
Lithvania					1999	EVS	2008	EVS
Hungary					1999	EVS	2008	EVS
Romania					1999	EVS	2008	EVS
Slovakia					1999	EVS	2008	EVS
Slovenia					1999	EVS	2008	EVS

Source: http://www.wvsevsdb.com/wvs/WVSDocs.jsp?Idioma=I