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**Contextual, policy and management reforms in the public sector:
The case of the national health service.**

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Biography

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Abstract

The measurement and management of performance in the public services has become increasingly prominent in the past twenty years, and progressively more so under the New Labour Government. In July 2000, the government devised a ten-year plan for the National Health Service (NHS) to radically reform and improve the performance and cost efficiency of the service. Concerns about high levels of public expenditure and their potentially detrimental effects on national competitiveness had been one of the main drivers of reform. The process of reform has brought significant reorganisation, managers have borne much of the responsibility for that, and their role has increased in both scope and influence. Managers in the NHS play a multi-dimensional role; they manage service provision, both clinical and support services, they are agents of central government instigating a raft of health reforms and they are taking an increasingly prominent role in managing human resources. This paper examines four key areas: NHS management, NHS manager's pay, change and NHS management and public sector human resource management (HRM). It identifies a gap in the literature, first examining the awareness of, and extent of, the effect those policies and reforms have had on managers, and second, the manager's experience of the new performance culture.

Key words: National Health Service, managerialism, performance-related pay, human resource management.

1. Introduction

National Health Service (NHS) reform is at the top of the political agenda. The current New Labour Government's ten-year plan, devised in July 2000, set out a reform agenda that sought to deliver a more patient centred approach to health care through service reorganisation and increased spending through taxation. The debate surrounding the reform of the NHS has intensified over recent months and has included several public consultation exercises.

The need for a clear and structured debate about the future of the NHS has become even more pressing in the past few months, as unprecedented increases in funding have combined with growing calls for radical change (King's Fund, 2002).

Despite the reform agenda, the public services remain bureaucratic, hierarchical and rule bound. This has had a detrimental effect on the general functioning of the public services but has also been a major inhibitor to change, at a time when public sector reform has been seen as essential not just in the UK but across the whole of Europe. However, despite increases in spending on healthcare there is no clear understanding of the connection between financial inputs, quality of care and health outputs, illustrating the complexity of the sector. Knowledge of how health systems work is limited and under researched (King's Fund, 2002).

There has been a concerted effort by Government since the 1980's to measure the performance of the public services, and the NHS has not been exempt from this. The National Performance Assessment Framework (NAPF), launched in June 1999, measures and monitors key activity targets. Performance is measured, not just in terms of efficiency, economy and effectiveness, but also quality and customer

satisfaction (Kouzman *et al.*, 1999). Performance assessment enables the Government and the public to compare activity levels and service quality between individual departments and to make comparisons with other providers. Performance is a fundamental concept pervading debate of New Public Management (NPM). NPM was a generic term coined to encompass the general changes in public management across the world, including the United Kingdom. The reasons for these changes are varied, but include the introduction of new technology, a move that enabling cost reduction and the rationalization of certain public services. One of the primary tools used to operationalize NPM was through the introduction and utilisation of contracts (Deakin and Walsh, 1994). The use of contracts in the public sector resulted in the undermining of existing hierarchical controls because the internal market was the means of coordinating and controlling activity. This market-based model was designed to increase purchaser choice; therefore, it was essential service providers competed on the premise of high performance, as well as quality. However, there is a disproportionate emphasis on quantitative over qualitative measures of performance as it is simpler and easier, although not necessarily accurate, and this can be perceived as deceptive (Van Peurseem *et al.*, 1995). In healthcare, this distorts the results of assessment of performance causing problems with the allocation of future funding and then their position as efficient providers in the market. Further, the contract, a tool that is used to 'free' the market, results in organisations becoming increasingly formalised (Deakin and Walsh, 1994).

There is a lack of clarity surrounding what constitutes NPM and there are warnings of the domination of the NPM debate over discussion of public sector management (Bach and Della Rocha, 2000). However, it is an important debate and one that needs

careful consideration and amplification because NPM has driven and influenced governmental and organizational policy and administration. It has been defined and associated with several different reforms, initiatives and changes to the way the public services are administered and managed. Corby and White (1999) summarise three very different interpretations of NPM in the current literature. The first is defined as ideological and relates to the introduction of managerialism into the public sector (Pollitt, 1993). Within the NHS, the new ideology manifested itself through the introduction of general management, which decentralised power. Professionals across all the public services who were subject to similar radical changes, complained of work intensification and likened it to neo-Taylorism. There was an ever-increasing emphasis on work measurement, target setting and this was linked to reward with performance the determining factor (Corby and White, 1999). These resulted, however, in a strengthening of management power and the increased use of performance measurement tools. Bach and Della Rocha (2000) claim that although many of the professional managers existed prior to the recent reforms they have gained new “discretionary powers” which enable them to “challenge long-standing professional and trade union influence in order to alter work organisation and patterns of working time” (pg. 86). These major changes were designed specifically to increase flexibility by having a much firmer control over factors such as absenteeism, pay levels and clear employee performance objectives. The second relates to the introduction of a private sector ethos and related management practices making the public sector more business orientated (Hood, 1990). One of the most prevalent practices introduced was performance-related pay, and it proved to be one of the most unpopular with public servants. These features are modelled on the private sector with contracts used to operationalize market mechanisms. The use of

compulsory competitive tendering and, in some cases internal markets, had a significant impact on the management of employees, with many employed directly by private companies on less favourable terms and conditions of service (Bach and Della Rocha, 2000). The third encompassed factors associated with the modernization of the public services and is a generic term that represents the shift from bureaucracy, democracy and paternalism to a customer-focused, responsive, performance-orientated and efficiently run set of organizations (Ranson and Stewart, 1994). The underlying management practice has now changed from “management by hierarchy to management by contract.” This redefined, fundamentally altering and often blurring organisational boundaries (Bach and Della Rocha, 2000).

2. National Health Service Management

In the 1980's, the Conservative government sought to introduce successful management approaches from industry into the NHS, following the recommendations of the 1983 Griffiths Report (Ahmed & Cadenhead, 1998). In sharp contrast to professional management, general management permeated all operational and strategic functions of the organisation, requiring professionals to report to a general manager. According to Paton (1996) the NHS has moved to more intensified production but within increasingly tighter financial budgets, driven by a centralized political system. However, the general managers were charged with driving through government policy, so they carry a heavy responsibility for achieving much with limited resources. To achieve a more efficient health service there is a greater emphasis on results and managers must focus on outputs and outcomes, rather than inputs and processes (Paton, 1996). This has led to the

pervasion of the performance culture with the emphasis on targets and activity, which the manager is liable for, not the government directly. NHS management, according to Paton (1996), is “about devolving blame.” The creation of a management culture was in an attempt to enable patient activity to grow faster than health care spending, in essence to introduce financial efficiency (Sheaff and West, 1997). Managers in the NHS play a multi-dimensional role. They manage service provision, both clinical and support services, they are agents of central government instigating a raft of health reforms and they are taking an increasingly prominent role in managing human resources, subsequently McConville and Holden (1999) describe NHS management as “a complex area.” Despite aims at loosening bureaucracy with the service, tight budgetary constraints and centralised bargaining over pay, by the Whitley Councils, have severely hindered the management autonomy and control envisioned by Griffiths in 1983. Some managers have embraced change and used it to enhance their influence of organisational strategy. Others have viewed it as an opportunity to update their skills and to broaden their expertise whilst others have resisted change. According to Dopson *et al.* (1992) public service managers have survived a multitude of “failed initiatives” and as such have become rather sceptical of change, as opposed to their counterparts in the private sector who feel change has had a positive impact on both them and their organisation. Examining the scepticism reveals an underlying discomfort with the introduction of adversative values, particularly amongst clinical managers. This goes some way to explain how some initiatives do fail; commitment is essential to drive through even the smallest of changes.

The implementation and increased influence of management in the public services has had a significant effect on the way policy is devised and subsequently implemented. However, the context of change that led to the instigation of NPM has in fact placed individual managers under great pressure. In the private sector the development of total quality management, which many observers have likened to NPM (Deakin and Walsh, 1994), had a major impact on increasing customer expectations through, for example, improved customer relations. Those same customers are also recipients and users of public services and have come to expect a similar level of service quality. However, public sector managers are under pressure from central government to meet strict performance targets whilst remaining within budget, a pressure not as severe in the private sector. To meet both, what could be seen as conflicting expectations, managers have had to examine service levels. Ultimately this has meant managers have closely scrutinised employee hierarchies, terms and conditions of employment and pay levels.

No longer are managers' passive recipients of government expenditure but instead they have been required to act more strategically, increase efficiency and challenge the vested interest of professional staff and trade unions. Moreover, managers have to address concerns about the quality of public service provision. (Bach and Della Rocha, 2000: 85)

3.0 NHS Managers Pay

The introduction of general management, a concept modelled on the private sector, brought with it performance-related pay (PRP). A national PRP scheme was developed for all management grades and despite the introduction of local pay and the devolution of power to individual Trusts, most still operate this scheme. However, according to Dowling and Richardson (1997) not all managers are on PRP

and the decision of who to include in the scheme is the senior management's. They note that the decision to introduce PRP is a complex one and each Trust management have different reasons for its implementation, or exclusion. The reasons cited for implementation include improving motivation and communication, reducing recruitment and retention problems and to individualise employee relations. Recruitment and retention is highlighted by the Department of Health (DoH) as a serious problem facing the NHS but equally attracting and retaining high calibre managers is viewed as imperative too. Accordingly:

The purpose of PRP was said to be to reward those managers who achieve a more competent standard of work. The NHS scheme is therefore clearly designed, at least in part, to motivate managers to perform better than they would otherwise have done. (Dowling and Richardson, 1997: 350)

Research of the current pay landscape in the NHS is blighted by the lack of empirical work, either longitudinally or in the study of specific organisations (Arrowsmith *et al.* 2001). The field of NHS pay has been marked by a succession of reforms, most recently under the Government white paper *Agenda for Change*. A preponderance of the research has focussed on performance-related pay, primarily because the government have actively encouraged its introduction into the health sector, along with all other areas of public service, but resistance has been high in the NHS, particularly among clinicians. Identifying the reasons for this reluctance is problematic because of the general lack of research in this field. However:

A number of case studies suggest that the major obstacle to introducing PRP are perceived financial constraints, political uncertainty, trades union opposition, the prospect of providers mergers and a variety of measurement difficulties. (Arrowsmith *et al.*, 2001: 115)

For the organisations that have introduced a form of PRP for their managers the results, in terms of performance and motivation has been diverse. Research by the OECD (1997) found evidence to suggest that there are problems with the divergence of values between PRP and the public service ethos, and as such managers are unlikely to be motivated by PRP. They concede that regardless of how the organisation design or administer the scheme it will do little to improve the motivational impact. There was evidence to suggest that managers support the concept of PRP in principle, but not in practice. One of the major criticisms of the PRP process is the lack of a proven effective link between performance and reward. In many cases the reward element is too small to be perceived by the manager as effectual. The OECD (1997) research also found evidence of this, with fewer than one in four respondents satisfied with the amount of performance pay they received, most considered it too small to be motivating. Evidence suggested that managers did not always necessarily examine the amount of award they received, but instead compared that with what their counterparts earned and made a value judgement about how motivating that was. There is great kudos attached to receiving the maximum award, regardless of the value of it. Despite managers claiming to understand the process of award allocation the majority of managers believed that PRP awards are not linked to performance. This is because a large proportion of respondents stated they received the same award “relative to their peers one year to the next” so the award was not linked to their own personal achievements. However, identifying achievements requires an effective and clear objective setting process so the manager can identify when they have met or exceeded their personal objectives. Weaknesses in that process invalidate the underpinning framework of PRP. Objectives should be set to align organisational goals to individual goals. The OECD

(1997) report found that fewer than half the managers surveyed believed that the standards and goals used to determine PRP awards were clearly defined.

The results of the implementation and use of PRP for public sector managers has been diverse. In contrast to the OECD (1997) findings, Arrowsmith *et al.* (2001) claim their case study research provides evidence to suggest senior managers in the two NHS organisations used in their research see “real merit” in PRP. It both raised performance and delivered a clear message about the importance of organizational performance. However, overall they believe their findings are inconclusive and make more robust and conclusive findings more research is necessary. However:

Such research faces real difficulties. One problem is the variety of aims that PRP can have: provider A wanted to use it to support goal setting and staff development; provider B wanted it to underpin a culture-change programme; governments want it to raise performance levels. Each of these criteria needs to be investigated separately. (OECD, 1997: 118)

One of the other key factors making research in this field difficult is the restricted number of NHS organisations operating PRP, so they are using other forms of reward structure. So how many NHS managers are on PRP? According to the IPD (1999) 52% of NHS managers are covered by a PRP scheme. Of the 1158 respondents to the survey, 507 indicated that they did not use any of the performance pay schemes with either management or non-management employees. Of those 23% stated they had recently abandoned performance pay with “a disproportionate number of them in the public sector,” indicating reluctance with the public service of the use of performance pay. Of the 55% of respondents who stipulated why they had ceased using performance pay, 44% claimed it caused too much discontent among employees. The survey results suggest that there is room for more research to be

done to establish more clearly the factors that motivate public sector managers to improve their performance. This makes an interesting research agenda, identifying which managers are not covered by PRP and what differences exist between their motivation and performance because of being covered or not covered by PRP.

3.1 Change and NHS management

An analysis of the context in which the public sector operates has clearly illustrated how the role of public sector manager has grown in scope and influence, mainly in the way they have taken over the management of human resources. Although this has been subject to fierce debate:

There was a degree of consensus that, despite strict financial controls and the political sensitivity of public services, managers have been granted an unprecedented degree of discretion to shape the way they recruited, rewarded and deployed their staff and that they were using those freedoms to alter organisational values, work force flexibility and enforce stricter performance standards (Bach, 1999: 177)

The adoption of private sector management practice into the public services played a part in the erosion of the public service ethos. Public sector management has had an impact upon human resource management and caused fundamental change and it is essential to explore the framework and specific elements of that change process, particularly in terms of context. The key influences are:

- ? The inception and increasing scope of managerialism.
- ? The demise of demand led service provision, replaced by tighter fiscal controls designed to increase efficiency, with performance accountability.

- ? The devolution of human resource management to line managers.
- ? The decentralization of financial control and power from regional or national level to individual trading units, for example NHS Trusts.
- ? The introduction of market mechanisms, put into practice using contracts between service purchasers and providers.
- ? The weakening of trade unions and collective bargaining structures through the promotion of local employment contracts, some with individual performance-related pay.

With the arrival and adoption of human resource management, personnel practices and policies within the public sector definitely altered to represent this shift in policy. It has not been an ad-hoc phenomenon but a concerted effort to take a strategic approach to the managing of human resources. It was one of the Conservative Government's key objectives to reduce the power and influence of trade unions and they wanted to encourage the newly installed management to 'take on' the unions and weaken their grip on employee relations. The decentralisation of power and loosening of government regulations gave personnel specialists the opportunity to align a chosen set of specialist, local employment practices and policies with organisational strategy and support the new business and customer focussed agenda. However, the personnel function was not sheltered from the compulsory competitive tendering process and many in-house personnel departments were replaced by contracted out services. That aside, the mixture of contract and in-house employees working alongside each other, and the transient nature of that caused major problems for the personnel function. Bach (1999) claims that this "hindered their capacity to develop innovative forms of cross-functional working" (pg. 182). However, the

move to HRM meant that it was the responsibility of managers, not personnel specialists, to ensure their employees were flexible, highly committed and high performing. It was perceived, and has now been disproved, that personnel specialists would assume a pivotal role in the devolution process from central control to individual business units. Like all functions in the organisation, the personnel function has to justify its contribution of organisational success and that it has some 'added value'. It is because of this fact, and because they have lost much of their role to line managers that they want to adopt a strategic role. Measuring whether this has occurred, according to Bach (1999) is very difficult. There are a few indicators to suggest this has not been the case, most notably by the lack of personnel specialists at senior management level. Also the unprecedented levels of absenteeism, difficulties attracting, recruiting and retaining staff and accusations of work place stress do not bode well with the personnel management aims. The government are all too aware of the problems they face trying to reform the public services with a beleaguered and demotivated workforce. On the one hand they want to invest in public service workers, the so called 'soft HRM' but they want to achieve this in a 'hard HRM' environment of performance objectives and fiscal austerity.

3.2 Public sector Human Resource Management

Corby and White (1999) claim that employee relations in the public services differ from the private sector in several ways. The most significant of those is not the absence of profit, although that does restrict the resources available to organisations in the sector. Also, it is not the relative strength of the trade unions and collective

bargaining, as it must be remembered that trade union membership in the police and armed forces is prohibited. In fact,

The difference is that, unlike the private sector, the fabric of public service employee relations is shot through with the all-important dimension of political power. (Corby and White, 1999: 3).

Employee relations in the public sector have a complex historical background, which provides an important context for any debate or analysis. It is this context, one of radical reform and change that has led to changes in organisational structure and employment hierarchies. This has led to a change in the composition and pattern of employment. The post-war growth in employment numbers turned into a decline from the 1980's onwards and with the implementation of compulsory competitive tendering the number of manual workers directly employed by public sector organisations fell. The composition of employment changed with almost two-thirds of workers being female. Corby and White (1999) note that in the private sector the gender balance is equal, however, women in the public services are better paid than in the private sector, but male employees are lower paid. These factors cannot be ignored when examining the management of human resources in the public sector.

However, it is becoming increasingly difficult to isolate and define public sector human resource management, and will become increasingly the case, because of the concerted effort by central government to blur the boundaries between it and the private sector. There have been three major reasons for this. The first is "the importation of private sector managerial techniques into the public services and to the unions" (Corby and White, 1999, p. 15). Trade union membership is no longer clearly distinguishable with traditional public sector unions recruiting from the

private sector and vice versa. The second is organisation and financial decentralisation. There has been a decentralisation of collective bargaining arrangements, replaced by local agreements within a national framework. The national framework must exist because ultimately ministers are still accountable to Parliament. This does undermine complete decentralisation. The third reason is employment flexibility in organisational structure, work organisation and pay. It is this reason that has the most far-reaching implications for HRM because it affects the employment relationship. The desire for a more customer-orientated approach to service delivery means that the employees must be required to work more flexible hours and if necessary acquire a range of new skills. These changes make existing pay arrangements unfair in some instances so there has to be a corresponding change in remuneration arrangements to reflect this. The ultimate cost of flexibility is the move towards different forms of contract, many being temporary, part-time or annualised hours. This definitely undermines the collectivist approach to employee relations and trade union membership because many part time and temporary staff do not often join trade unions. The fact that the public services have adopted HRM is an admission that they favour its underlying ideology of individualism and the manager's prerogative. All of these features have caused an erosion of the 'public service ethos' that came to represent values of standardisation, probity, risk aversion and fairness (Corby and White, 1999). HRM represents this divergent model of entrepreneurial spirit, risk taking, innovation and business focus.

The flexibility argument is a particularly interesting one. According to Hegewisch (1999) public service employees have much less secure terms of employment with fixed term contracts popular in the public sector with 27 per cent of all employees

covered by them. A total of 53 per cent of fixed term contracts are used in the public sector and the public sector share of temporary employment in the economy as a whole is 38 per cent. However, the NHS has had several highly publicised critical reports from the Audit Commission berating them on their over reliance of agency staff, particularly the use of very expensive agency doctors and nurses. However, this need is going to continue because of problems with recruiting and retaining qualified staff. In one NHS trust the turnover of nursing staff was over 40 per cent in 1999 and without the use of agency nurses, service levels would not have been maintained. This would have had an effect on the meeting of contracts and activity rates would have fallen, affecting performance levels, league table positions and ultimately funding. Besides temporal flexibility, functional flexibility has played an important role in recent years. Although less simple to measure there has been a rise in the use of its key elements, most notably re-skilling, team working and job redefinition. According to Corby and Mathieson (1997) nurses are one group of employees who have seen their role evolve and grow. In a Unison survey they quote that nine out of ten nurses say they are carrying out a wider range of tasks than they were a few years ago. This range of different working patterns, contracts and work organisation provides a challenge to managers, not least because:

Standardised or informal patterns of communication, training, career development and assessment are no longer adequate and are likely to miss, if not alienate, workers on flexible employment contracts (Hegewisch, 1999: 130).

There are problems with managing flexible workers. These include access to communication, an essential need if employees particularly in times of change, access to training and development to enable them to perform their job and to cope

with the demands made of them by more functional flexibility. In addition, there is the important issue of motivation. Many employees are on performance-related pay so motivation plays a pivotal role in the employee's ability to perform well. Demotivated employees have high absenteeism rates, low levels of commitment and low levels of performance. These cause problems for managers who are trying to manage a customer-focussed service and meet the pressure placed on them to meet or often exceed performance targets set by government.

4. Conclusion

This working paper has examined some of the contextual, policy and strategic reforms of the public services, with particular reference to the public health sector. In terms of contextual reform, there are numerous arguments in the literature concerning the semantics of New Public Management, as well as the inevitable discourse relating to the actual existence of a 'new' public management as a concept or new paradigm. Academics and practitioners are in no doubt that general changes to the fabric of government, borne out of global changes that include the increase in the use of technology, the emphasis on quality and performance and changes to the demography of countries, have led to a fundamental change in the way public services are managed. There is significant scepticism among several key academics about the transition from *old* public management to NPM. The adoption of private sector management techniques, the emphasis on consumers, strict fiscal policy and the decentralization of control characterize the new public sector. NPM, according to Glynn and Murphy (1996) had a direct impact on the scope of accountability and stated in the public service accountability ultimately lies with the Government. They

claimed that the introduction of NPM has meant a significant widening of the role and scope of accountability in the public services, particularly with the introduction and prominence of general management. They argue that the introduction of NPM has brought the issue of accountability to the forefront and warn that the market mechanisms that work effectively in the private sector do not operate the same in the complex public sector. Government ministers themselves admit to a certain level of unease with some of the elements of NPM, particularly as they see their role as guardians of the more vulnerable members of society.

The contextual changes have undoubtedly had an effect on how management practices, strategies and organisations have influenced human resource management. Ideological and political change have installed, and subsequently significantly increased, the power and influence of managers. Coupled with the development of the performance culture, where employees have had to justify their performance and in turn be flexible and receptive to change, there has been an increase in the implementation of private sector practices and the erosion of the public sector ethos. Examples are the development of internal markets and the use of compulsory competitive tendering. There has been a definite blurring of the traditional boundaries between the public and private sectors. Managers themselves are under great pressure to operationalize government policy whilst keeping within existing financial budgets. Those policies have been for public services to become more customer and business focussed. The increased role and scope of management is illustrated in the way they have taken over the role of managing human resources. This was a deliberate move by central government to weaken collective bargaining and trade union influence, deemed necessary to reduce labour costs and encourage

local pay setting. Despite the blurring of the boundaries between the public and private sector it is clear that employee relations in the public sector do differ markedly from the private sector for one key reason, the political dimension. Despite the desire to flatten hierarchies, demolish bureaucracy and instigate local control of employee relations, this will never completely happen because of the accountability ministers have to Parliament. However, it is becoming increasingly difficult to isolate and define public sector human resource management, and will become increasingly the case, because of the concerted effort by central government to reshape the margins between it and the private sector. This is because of the recruitment of private sector managers into senior positions within the public services, the change in membership and composition of trade unions and the decentralisation of financial decisions to unit level.

What is unclear from the literature is what effect the pervasion of private sector management practices, in particular the use of performance management, has on the management and managers in health services. In order to address this gap in the literature, this working paper provides a contextual background to the design of a quantitative research project concerned with performance and the NHS manager. The survey instrument, a questionnaire, has been designed to gather information in two key areas; firstly, it seeks to establish individual manager levels of performance awareness in terms of NHS policy and procedures at an individual and organisational level. Secondly, to examine the effect, if any, performance assessment has on NHS managers through performance appraisal and the organisational reward strategy. It will add to the body of knowledge examining the measurement, management and assessment of manager's performance in the NHS. At an organisational level, the

process of performance data collection, analysis and use will be examined, to establish levels of performance awareness. At an individual level, the experience of performance management will be explored, to establish how those particular practices affect the performance of managers.

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