

CHAPTER 1

RESEARCH PROBLEM AND RESEARCH DESIGN

1.1 INTRODUCTION

Leadership is a contentious subject in public administration and private administration discourse. Forms of leadership, such as traditional, political and organisational or managerial leadership, are also generally prevalent in public administration. Respectively, such forms of leadership operate within a particular society. For example, traditional leadership operates within chieftainship and headmen and is mostly found at local government sphere. In the context of this study and research, political leadership is sometimes referred to as the national minister or Member of the Executive Council (MEC) and managerial leadership refers to managers within an organisation or department. Throughout the study, leadership will be discussed within the context of managerial leadership in relation to governance in the South African Public Service. Within a managerial leadership context, the research analysis is confined to the level of director up to a head of department or accounting officer as senior managers.

As with leadership, governance has been an area of debate in the field of public administration and the private sector for decades. Relatively speaking, the focus has been on the definition of *leadership* and the role that has been and will have to be played by leaders, including strategies to improve governance in the public sector. Through conferences and dialogue between various governments both in Africa and abroad, discussion relating to leadership and governance has been and still is the order of the day in an effort to shape the performance of governments.

As a result, both in Africa and internationally, reforms have taken place in one way or another to ensure that governments remain ideal and real avenues for ensuring accountability, transparency, responsibility, and that ethical conduct remains the ethos of good governance. This is proof that managerial leadership is responsible for good governance. To contextualise the study, conceptual analysis in public administration as a field of study is provided because findings have shown that some public administration theorists' background influences their theories on managerial leadership and governance.

In the field of Public Administration, some theorists such as Woodrow Wilson, Marx Weber, Gulick and Urwick, Taylor, Fayol and Chester Barnard influenced paradigm shifts. Theories generated from the above theorists are still under discussion in contemporary Public Administration, for example, Woodrow Wilson explains “political and administration dichotomy” and its implications in public administration. Max Weber also explains how “bureaucracy or organisational design” influences departmental internal operations. Gulick and Urwick explain “managerial role” and its dynamics. Finally, Chester Barnard provides “leadership” functions in organisations. In the context of public administration discourse, issues relating to governance and administrative theory or science become crucial, because the latter could support governance and administration, being the central focus of public administration.

Additionally, governance without effective managerial leadership becomes futile because governance is a means to an end and the end is the provision of services to the public. Therefore, managerial leaders have the responsibility to support governance and ensure that quality services are delivered, processes to deliver these services are in place, risks are managed, systems and internal controls are effective, evaluated and monitored. In the context of the South African Public Service, like other countries, governance and managerial leadership are still a challenge.

In order to analyse governance and managerial leadership, the public finance management system and its evolution in South Africa and the Public Finance Management Act (PFMA), 1999, as a public finance framework of government, have to be assessed, analysed and evaluated, and proposed model is recommended for the Public Service.

In the study, policy formulation and management at a micro level, and policy implementation, monitoring and evaluation at a macro level are crucial. Because policy merits and demerits could be provided. The public financial system in the South African Public Service could ascertain whether managerial leaders are capable of ensuring good governance in the Public Service.

An analysis of a policy, both at a micro and macro level, is crucial to provide policy perspectives, especially to the extent of compliance or non-compliance.

Such policy analysis is also essential in assessing and evaluating whether, among others, elements of governance in relation to public finance, such as decision-making, expenditure management, risk management, managerial leadership, ethics, monitoring and evaluation in the Public Service, are adhered to.

To understand the system of government and the effectiveness of managerial leadership in the Public Service, the study will provide an overview of public finance management system; the PFMA will be used as case study to assess both the effectiveness of managerial leadership and governance in the South African Public Service.

Throughout the study, the role and responsibilities of managerial leaders and government as reflected in the PFMA will be the central focus and will be analysed, especially by taking into account the transformation or evolution of public finance in South Africa. Throughout the thesis, 'the Public Service' refers to the South African Public Service.

1.2 PROBLEM STATEMENT

Transformation has created threats and opportunities in the South African Public Service. Such threats or problematic areas create uncertainty in the Public Service which affect the vision and mission of government. To illustrate some problematic areas, it has been reported that various policies are not properly implemented or that departments lack skills, resources and managerial leadership in implementing policies. Unethical conduct has been identified as of alarming proportions in the Public Service. To deal with some of the aforementioned issues and to ensure that there is good governance and financial management in the Public Service, the government has introduced the PFMA. However, the PFMA and its implementation is affected by non-compliance which could be attributed to a lack of technical and conceptual skills both at managerial level and at other departmental levels, as well as poor decision-making by managerial leaders.

The lack of fiscal discipline, mal-administration, inefficiency, poor planning and budgeting, the weak link between planning and budgeting, poor expenditure management and poor managerial skills could be matters of concern and problematic areas in the Public Service. On the basis of the above, some areas in Public Service governance are severely affected and the role of managerial leaders is also compromised.

1.3 HYPOTHESIS

With reference to public finance management system in the South African Public Service, governance elements are negatively affected, such as expenditure management, risk management, decision-making, ethics, the oversight function of Parliament and compliance with the PFMA. As a result, the challenge of the leaders is how to deal with the above governance elements as they emerge in the Public Service.

To test the aforementioned hypothesis, the researcher has used unstructured interviews with departmental officials, the chairperson of the Standing Committee on Public Accounts (Scopa) and the National Chairperson of Public Accounts Committees.

Furthermore, to test the hypothetical issues discussed above, the official documentation of the Auditor-General, including the scrutiny of the departmental annual reports and other relevant official documents, have been analysed.

1.4 OBJECTIVES OF THE RESEARCH

The study aims to do the following:

- a) provide an understanding and in reference to governance and managerial leadership and also to provide an examination of public finance management system in the South African Public Service;
- b) contribute and generate knowledge on the science of public administration, public finance management systems in particular, with specific reference with to the PFMA;
- c) to review and analyse the PFMA, so that matters related to governance, including managerial leadership, are explained;
- d) to identify threats and prospects that face public finance in the South African Public Service, in particular the implementation of the PFMA; and
- e) to provide a model that could assist in effecting governance and managerial leadership in the South African Public Service.

1.5 RESEARCH METHODOLOGY

The researcher will use various methods in conducting the research. Both qualitative and quantitative methods will be used. The use of these two methods is solely based on the fact that the research seeks to operationalise certain given concepts in order to measure them. To illustrate the significance of the operationalisation of concepts, Mouton (1996:125) records that operationalisation or operational definition consists of linking concepts in the problem statement to the actual environment to be studied. For example, concepts such as *risk management, governance, fiscal accountability and management* are indeed concepts that will be put under scrutiny throughout the study so as to provide some merits and demerits based on the statement of the problem. To test the linkage tools like questionnaires and observations, are very useful in measuring the accuracy and inaccuracy of the hypothetical stance of the study in question.

Furthermore, Mouton (1996:125) also suggests that the above 'linkage' is usually accomplished by constructing a measuring instrument such as a questionnaire, scale, index, test or observation schedule, in which items are formulated to define all the variables in the study operationally. It is in this perspective that operational definition becomes helpful in scrutinising variables and their implication in explaining the statement of the problem in the study.

Furthermore, in order to obtain an in-depth analysis for the study and to operationalise concepts, participant observation will also be explored as it requires that the researcher joins the group of people who are being studied in order to observe and understand their behaviour, feelings, attitudes or beliefs (Bless & Higson-Smith, 1995:43). Therefore, the researcher will be fully involved throughout the study by taking part in relevant or related projects through assessment and participation in departmental projects. This approach could assist the researcher in understanding the approach and attitudes, and observe both conceptual and technical skills of public servants with regard to the PFMA.

The use of these methods will assist in reflecting the profile of a given condition or an activity; both qualitative and quantitative methods will apply. To clarify the application of both qualitative and quantitative research, an understanding of the difference between these research methods is crucial for the study.

In outlining the difference between qualitative and quantitative research, Mouton (1996: 95) states that a variable is *quantitative* if its values or categories consist of numbers and the differences between the categories can be expressed numerically. In contrast, *qualitative* variables have discrete categories which are usually referred to by words or labels, for instance, 'gender' variable has a discrete category as 'male' and 'female' and 'political affiliation' has a discrete category of African National Congress (ANC), National Party (NP), Inkatha Freedom Party (IFP). Thus, quantitative and qualitative research will be central to the study as it will assist the researcher to understand compliance trends with regard to the PFMA, with reference to governance and the effect of managerial leadership as reflected in the PFMA.

Exploratory approach will be used during the study which could allow the researcher to explore public finance as a subject within the field of public administration. It is within this method that the researcher could develop new insights into public finance. In supporting the explanatory method, a qualitative method will be used.

An explanatory approach could also be used so that in-depth analysis of the statement of the problem can lead to the development of new insights, especially on governance and managerial leadership. With reference to exploratory approach, Bless and Higson-Smith (1995:42) explain that the purpose of exploratory approach is to gain an insight into a situation, phenomenon, community or person. In this context, the PFMA, as a case study under scrutiny and analysis is still very new in the South African public sector in general; it became effective on 1 April 2000. To support the use of exploratory approach, Welman and Kruger (1999:24) also believe the movement towards explanatory research could arise out of a lack of basic information on a new area of interest. Exploratory approach is important because the area of study is relatively new and lacks established theories or research findings. Literature shows that research on the PFMA has not expanded significantly in public management discourse.

Interviews, both structured and unstructured will provide in-depth analysis of the research problem given. Field workers will not be used to assist in collecting data.

To illustrate the quantitative approach, the size of a table can be expressed in the number of centimetres, i.e. quantitative data. In contrast, regarding the qualitative method, the colour of a table can be described by its quality of being red or brown, dark brown or white, which

constitutes an example of qualitative data (Bless & Higson-Smith, 1995:100). On the basis of the above analysis regarding the difference between qualitative and quantitative data, the study will assess the positive or negative outcome of the implementation of the PFMA in the Public Service. Therefore, the two research methods will be used as a measuring tool in relation to the role of managerial leadership in supporting governance in the South African Public Service by scrutinising the PFMA and Treasury regulations.

For a qualitative researcher, concepts and constructs are meaningful words that can be analysed in their own right to gain a greater depth of understanding of a given concept. In contrast, a quantitative researcher is likely to choose concepts or even to create words in such a manner that not more than a single meaning can be attached to the word being chosen (Mouton & Marais, 1990:160). Generally, the rationale of using both qualitative and quantitative methods is to get deeper into the study so that the governance and managerial leadership role is understood within the context of the Public Service in general, in particular in relation to the PFMA and the hypothetical issues raised earlier on in the study are tested.

To illustrate the importance of governance and the role to be played by managerial leadership from the perspective of the PFMA, the Department of Water Affairs and Forestry will be used as a case study. A case study is the method of choice when the phenomenon under study is not readily distinguishable from its context (Yin, 1993:3). In this situation, a case study on risk management as one of the elements of governance will be provided by referring to practical situations rather than alluding to some theoretical foundations so that the two concepts are explicitly and contextually analysed. Based on the case study, the role to be played by managerial leaders will be covered. Additionally, the case study is also a way of organising social data and looking at the object to be studied as a whole (Bless & Higson-Smith, 1995:44). Through data gathering, the use of the case study will assist the researcher in gaining insight into the issues raised in the statement of the problem.

1.6 SOURCES OF INFORMATION

As indicated earlier, for this research, information will be gathered through structured and unstructured interviews, and relevant literature will be used.

From the Department of Water Affairs and Forestry, four officials will be interviewed and the officials to be interviewed will be within the senior management service (SMS). In terms of the

Public Service Regulation, SMS includes the director upwards to director-general or head of a department.

The national chairperson of the Association of Public Accounts Committees (APAC) and the chairperson of the Standing Committee on Public Accounts (Scopa) of the National Assembly will be interviewed in order to get an in-depth insight into the merits and demerits of PFMA, with specific reference to the level of compliance by departments in the Public Service, the implementation of the Act, particularly issues relating to the role to be played by managerial leadership on governance and the oversight function of the Parliament. The information gathered from the case study, as well as structured and unstructured interviews would be used simultaneously in order to provide an in-depth analysis of the PFMA, as a policy document that, among others, is aimed at fiscal management and serves as a vehicle for good governance in the Public Service.

The literature study comprises relevant books, published articles, journals, relevant unpublished master's or PhD thesis, government policy documents, Acts, published papers, including conference papers. National Parliament publications such as the Hansard reports and Scopa reports will also be used for the study. Relevant publications from the Office of the Auditor-General will be utilised and analysed during the study.

1.7 SIGNIFICANCE OF THE STUDY

The study could assist in providing a conceptual analysis of public administration in general and public finance in particular. The study will also assist managerial leadership within the Public Service in understanding the weakness of the traditional public administration and the challenges of the new school of thought called the new public management. In this context the study will be of valuable importance in changing the mindset of public officials within the Public Service towards the 'new public management' school of thought.

In reviewing the PFMA, the study could also assist in providing technical information and an understanding in order to ensure that, among other considerations, fiscal management and accountability, the rule of law and responsibility, and the processes are understood and maintained so that governance and service delivery are improved in the Public Service. Additionally, the study could assist in restoring a culture of risk management and compliance in the Public Service. The study could assist public officials, especially managerial personnel,

in understanding the importance of scanning an environment as significant, and in understanding any influence becoming political, economic, social and technological variables. The study could also contribute to some questions in the public administration discourse whether public administration is a science or an art.

1.8 THE LIMITATIONS OF THE STUDY

The study will be affected by time constraints because of the number of issues to be researched, especially on the public finance management system and its evolution in the South African Public Service.

1.9 ORGANISATION OF THE STUDY

The chapter outline of the study is as follows:

Chapter 1 provides an approach of the study by focusing on introduction, problem statement, hypothesis, objectives of the research, research methodology, sources of information, significance of the study, limitations of the study and outline how the study is organised.

Chapter 2 examines and provides the impact of the economic, social, political and technological environment that could affect and impinge on public administration will be examined. Within the text, the socio-economic, political and technological aspects will be analysed so that the public administration-environment discourse is understood within the research context. This examination seeks to provide an insight into the environment when organisational decisions are made either by government officials in general or managerial leadership in particular within public administration. Taking an environment into account is significant as it could have an influence on governance, including systems, especially the process of policy formulation and implementation.

Chapter 3 will explore relevant theories of public administration in order to provide an in-depth analysis and a conceptual understanding of Public Administration as a discipline. The rationale for providing a conceptual analysis of public administration is to provide an insight into the field of public administration and to demonstrate that the study in question falls within the field of public administration. This chapter intends to demonstrate the importance of a

combination between theory and practice in shaping governance and the role of managerial leadership in policy implementation, as practice. This chapter will also demonstrate that Public Administration developed from various theories forming theoretical basis so that issues relating to governance, such as managerial leadership, systems, ethics and political-administrative interface are discussed.

In Chapter 4 attention is given to the finance management systems in South Africa. Public finance analysis and background, as well as policy in terms of PFMA will be studied in order to illustrate policy formulation and management in public administration. A departure from the significance of the change from the Exchequer Act, 1975, to the PFMA, as well as different types of budgeting systems in order to illustrate the budgetary transformation from traditional budgeting that has been an input-process and rule-bound to a performance-based budgeting. The significance of the introduction of the medium-term expenditure framework (MTEF) in South Africa will also be scrutinised. The paradigm shift from the cash accounting system towards the accrual system will be explored; the integration of procurement into a broader public financial management system towards a supply chain management (SCM) model will also be dealt with.

Chapter 5 focuses on the theoretical and conceptual analysis of risk and risk management processes in the public service, and a brief international perspective of risk in the public sector will be provided. This chapter also provides various forms of risks and how they influence government departments and the role of managerial personnel therein. The chapter outlines the importance of analysing external and internal risks and the impact they have on an organisation. Additionally, the chapter will explore any form of risks crucial to the study. The analysis of risk will be of assistance in recommending a particular risk management model within the context of governance in the South African Public Service.

Chapter 6 examines a theory on governance in Public Administration, particularly elements or features of governance in Public Administration. However, it also draws on lessons from the private sector environment, particularly case studies conducted, for example the King Report. Central to this chapter is the comprehensive scrutiny and examination of the PFMA and its regulations in order to provide a comprehensive governance model for the South African Public Service. Among other themes, monitoring and evaluation, compliance, good governance, expenditure management, internal and external auditing, institutions of

governance, both within an organisation and outside an organisation, will be discussed. The chapter will provide a theoretical scrutiny and analysis of accountability and broader analysis of public financial management, fiscal accountability and the role of managerial leadership.

Chapter 7 serves as a major contributor to science within the field of public administration, public finance in particular. As a result, data collected will be reviewed and analysed, particularly governance issues, public finance management in particular. In this chapter, findings with an analysis will be provided.

In Chapter 8, conclusions and recommendations will be made and a proposed model on governance in the South African Public Service will also be provided.

1.10 CONCLUSION

Since the South Africa's democratisation in 1994, transformation within the Public Service took place and is still taking place. At the centre of transformation in general, an evolution of public finance is taking place to ensure that elements of good governance are upheld and service delivery to South African population is improved. Prior to or during transformation, political, economic, social and institutional environments have an influence on the functioning of government in general, departments in particular. Additionally, what is also important is the ability of managers to manage change or the environment in which they are operating within the Public Service. Environmental analysis is crucial in public administration because possible threats or risks can either have a negative effect on a department or on the functioning of the Public Service in general. These threats or risks could interfere with the vision and mission of the Public Service and it should be noted that risk in the public service could take different forms, such as political, economic, social and financial risks.

In ensuring that transformation takes place meaningfully and policies like the PFMA are implemented, skilful managers become a priority. The above concerns take place within a budgeting and accounting system and if not attended to can also affect the implementation of the PFMA and the financial management system in general, including governance in the Public Service. Detailed information about the aforementioned issues will be provided in the following chapters.

1.11 CLARIFICATION OF CONCEPTS AND TERMS

This section clarifies concepts and terms so that the discussions in the text are put into context and understood throughout the study. These key concepts are:

Accounting basis: The body of accounting principles that determine the form of financial reporting. There are two ways in which this can be done, namely cash-based and accrual-based accounting (Institute for democratic alternative South Africa, s.a.).

Accounting officer: Head of a department or a Chief executive officer of a constitutional institution (Public Finance Management Act, 1999:23).

Accounting: The systematic recording of the financial aspects of transactions. This is done according to recognized principles so that expenditures are transparent and accounts can be audited (Hickey & Van Zyl, 2002: 75).

Accrual accounting: An accounting convention by which payments and receipts are recorded at the time that the parties enter into a commitment. For example, this system would record the purchase of naval helicopters when the contract is signed, not when the equipment is delivered and paid for (Institute for democratic alternative South Africa, s.a.).

Assets: Objects such as bonds, shares, houses, cars, furniture that may be owned by government, individuals or private sector companies (Institute for democratic South Africa, s.a.).

Cash based-accounting: This accounting system recognises only cash inflows and outflows. It recognises revenue when cash is received and expenses at the time of payment. Assets are fully expended at the time of payment and no distinction is made between operating and capital expenditure (Visser & Erasmus, 2002: 366).

Cost-benefit analysis: a way of presenting information to assist public sector choice in selecting an appraisal of projects (Abedian, Strachan & Ajam, 1998: 194).

Emphasis of matter: An auditor can add one or more emphasis of matter to the auditor's report to draw attention to a particular issue been discussed in a note to the financial statements. The auditor can report the matter other than those affecting financial statements. Additionally, the emphasis of the matter does not affect auditor's opinion. (Association of Public Accounts Committee, 2003: 116)

Evaluation: An in-depth examination of economic, financial and social effects of a programme or policy initiatives (Allen & Tommasi, 2001: 448).

Fault tree analysis: A systems engineering method for representing the logical combinations of the state and possible causes of various systems which can contribute to a specified event, called the top event (Knight, 1999:55).

Financial management: The legal and administrative system and procedures put in place to permit government ministries and agencies to conduct their activities so as to ensure correct usage of public funds meeting defined standards of probity, regularity, efficiency and effectiveness. Financial management includes the revenue, the management and control of public expenditure, financial reporting, reporting, cash management and asset management (Allen & Tommasi, 2001:450).

Fiscal accountability: This means that the government should account, through its elected representatives, for its intentions, objectives and strategies, the cost of its strategies and actual results (Abedian, Strachan & Ajam, 1998: 194).

Fiscal Transparency: A policy of providing information to the public about the functions and organisation of the government, its economic and fiscal goals and objectives, its financial forecast and public sector accounts (Allen & Tommasi, 2001: 454).

Government finance statistics (GFS): A system designed by the International Monetary Fund (IMF) for the analysis of fiscal policy. It specifies accounting rules, balance sheet formats, definitions and classifications of revenue and expenditure (Institute for democratic alternative South Africa, s.a.).

Hazard: A source of potential harm or a situation with a potential to cause loss (Knight, 1999: 55).

Institution: Sometimes used synonymously with the term organisation or body, for example ministry or government office. However, the term is increasingly used in a different sense, to describe the formal and informal rules that declare behaviour and the enforcement of the rules (Allen & Tommasi, 2001: 459).

Likelihood: It is used as a qualitative description of probability or frequency (Knight, 1999: 55).

Logical information system: A provisioning, procurement and stocktaking system, which is highly adaptable to the requirements of a department (Visser & Erasmus, 2002: 369).

Loss: Any negative consequence, financial or otherwise (Knight, 1999:55).

Monitor: This is to check, supervise, observe critically, or record the progress of an activity, action or system on a regular basis in order to identify change (Knight, 1999:55).

Performance audit: An audit of the economy, efficiency and effectiveness with which the audited entity uses its resources in carrying out its responsibilities (International Organization of Supreme Audit Institutions, 1998: 73).

Probability: This is the likelihood of a specific event or outcome, measured by the ratio of specific events or outcomes to the total number of possible events or outcomes. Probability is expressed as a number between 0 and 1, with 0 indicating an impossible event or outcome and 1 indicating that an event or outcome is certain (Knight, 1999: 55).

Public accountability: The obligations of persons or entities, including public enterprise and corporations, entrusted with public resources to be answerable for fiscal, managerial and programme responsibilities that have been conferred on them, and to report to those that have conferred these responsibilities on them (International Organization of Supreme Audit institutions, 1998: 73).

Public finances: The financial affairs of central, provincial and local government (Hickey & Van Zyl, 2002: 126).

Public sector: All institutions owned or controlled by government. These include national, provincial and local government, extra-budgetary governmental institutions and non-financial public enterprises e.g. Telkom, Denel (Hickey & Van Zyl, 2002: 127).

Results-oriented (or performance or output) budgeting: The planning of public expenditures for the purpose of achieving explicit and defined results. These results may be inspirational policy objectives (outcomes), or the outputs of routine public service activities intended to contribute to policy goals, or 'intermediate outcomes' which represent a major stepping stone in the service delivery towards these goals (Roberts, 2003:vii).

Risk acceptance: An informed decision to accept the consequences and the likelihood of a particular risk (Knight, 1999: 55).

Risk analysis: A systematic use of available information to determine how often specified events may occur and the magnitude of their consequences (Knight, 1999: 55).

Risk assessment: The overall process of risk analysis and risk evaluation (Knight, 1999:55).

Risk avoidance: An informed decision not to become involved in a risk situation (Knight, 1999: 55).

Risk control: That part of risk management which involves the implementation of policies, standards, procedures and physical changes to eliminate or minimise adverse criteria (Knight, 1999: 55).

Risk evaluation: The process used to determine risk management priorities by comparing the level of risk against predetermined standards, target risk levels or other criteria (Knight, 1999:55).

Risk identification: The process of determining what can happen, why and how (Knight, 1999: 55).

Risk management process: The systematic application of management policies, procedures and practices to the task of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risk (Knight, 1999: 55).

Risk management: The culture, process and structures that influence the effective management of potential opportunities and adverse effects (Knight, 1999: 55).

Risk transfer: shifting the responsibility or burden for loss to another party through legislation, contract, insurance or other means. Risk transfer can also refer to shifting a physical risk or part thereof elsewhere (Knight, 1999: 55).

Risk treatment: the selection and implementation of appropriate options for dealing with risk (Knight, 1999:55).

Risk: The chance of something happening that will have an impact upon objectives. It is measured in terms of *consequences and likelihood* (Knight, 1999: 55).

Transparency: The extent to which openness in governance prevails and the extent to which full information on service cost delivery and performance is made available to the public (Abedian, Ajam & Walker, 1998).

Unauthorised expenditure: Money that was spent for purposes other than for which it was allocated or expenditure in excess of what was allocated (Hickey & Van Zyl, 2002: 142)

CHAPTER 2

PUBLIC ADMINISTRATION: ENVIRONMENTAL ANALYSIS AND SYSTEMS THEORY

2.1 INTRODUCTION

Contextual analysis assists public administrators and political heads of departments to cope with social, economic and political challenges facing public administration. Public administration takes place in the political, social and economic milieu. Against this background the socio-political and economic environment becomes a challenge in public administration. It is important that the managerial leaders take into account the above environmental analysis because ignoring social, political and economic features during the planning and implementing of government programmes could have a detrimental effect on achieving departmental objectives, the mission and vision and government in general. It is therefore essential that the understanding and scrutiny of the environment become vital, especially during transformation of the Public Service in particular. Institutions of governance like the Auditor-General and Parliament could operate effectively if they themselves take into account their own surroundings or environment. For example, for the National Treasury to function efficiently it is expected to take into account its own environment of economic variables such as exchange rate, inflation rate and socio-political demands from the public. In support of governance, the managerial leaders in the Public Service have the responsibility to take into account their surroundings or environment.

In pursuit of environmental understanding and scanning with reference to public administration, governmental activities could also be contextually analysed within a given environmental analysis and understanding. This implies that once the context is properly assessed, organisational efficiency and effectiveness are achieved due to environmental scanning.

As demonstrated earlier, public administration, both in practice and theory, takes place within a dynamic and changing environment, which is determined by political, economic and social circumstances.

It is against this backdrop that environmental analysis of public administration becomes crucial and is indispensable, especially in response to globalisation. Failing to conduct such environmental scanning, the government could struggle to function as envisioned in the South African Constitution and other policy frameworks such as the PFMA. Hence policy-makers need to be well versed with an environment in which public administration takes place or operates.

The researcher considers that the following perspectives illustrate the importance of environmental analysis, especially in planning and implementing government programmes which will be analysed within this chapter:

- a) From a *political* point of view, it is crucial for both the executing authority and accounting officers to understand the government political agenda, vision and mission so that government programmes are put into context.
- b) From an *economic* perspective, forms of budgeting systems, trade between countries, financial management, economic growth and bad governance as opposed to good governance should be analysed and become part of government's economic agenda and the agenda should include the above economic variables.
- c) Similarly, from a *social* perspective, it is imperative for government officials to understand the needs of the public with regard to services. Inability to deal with the above socio-economic and political environments could be detrimental in the functioning of government departments and service delivery in particular.

2.2 ENVIRONMENT IN RELATION TO PUBLIC ADMINISTRATION: DEFINITIONS

With regard to the aspect of *environment* in the field of public administration, awareness of environmental scrutiny and an understanding of it become crucial. As much as the term is elusive, *environment* includes every event in the world, which has an effect on the activities or outcomes of the organisation; for example, 'primary schools' are part of the organisational environment of education in a country (Pfeffer & Salancik, 1978:12). Pfeffer and Salancik's analysis could be based on the fact that in dealing with matters of governance in the public service, the managers should be in a position to be acutely aware of what is happening and also recognises any environmental factors that could influence departmental outputs and outcomes.

The following authors enunciate some of the ideas regarding the *environment*. The definitions could provide an in-depth synopsis of environmental analysis and impact on public administration. Firstly, McCurdy (1977:174) describes *environment in public administration* as the ‘world’ or the whole environment in which the government struggles to function. Secondly, Sharkansky (1978:9) defines the *environment* as the sum total of the existing social, economic and political circumstances which cause problems or challenges for policy-makers. Thirdly, Cloete (1991:85) concurs, that factors such as the policies of political parties, the needs and expectations of the population, the circumstances, such as population growth and urbanisation, international relations, natural disasters, wars and technological developments, represent the *environment of public administration*.

In response to the above definitions, the first definition implies that *environment* is the ‘world’ in which public administration has to be acknowledged, assessed and analysed in order to ensure that government functions properly and governance or systems are in place and function properly. In the second definition, Sharkansky (1978:9) purports that the social, economic and political environment pose threats for policy-makers. However, Sharkansky’s claim lacks a further analysis regarding ‘the how approach’. Sharkansky makes no mention of how these environmental variables cause problems for the government rather than simply exposing them as causes of a problem for policy-makers. As much as the above definitions mirror some contextual synopsis of an environment in which public administration operates, the last definition by Cloete suggests and provides a comprehensive depiction of the *environment of public administration* that could assist in managing any risks if these environmental variables are not understood, contextualised, and managed properly.

2.3 ENVIRONMENT, DEBATE, AND ANALYSIS

With regard to the micro and macro perspectives, the environment in public administration is also analysed from two viewpoints, such as the specific and general environment. Literature reveals that the *general environment* is broadly defined as everything external to the organisation or everything outside of the boundaries of the organisation (macro). In contrast, the specific environment is defined as factors or components that directly and internally influence organisational resources (micro). As a result, the *specific environment* is conceptually categorized as regulators, suppliers, consumers and competitors (Fox, Schwella & Wissink, 1991: 18).

To exemplify and exhibit the linkage between the micro-macro analysis, the micro environment can be envisioned as being made up of three major subsystems akin to the goal and work system; technology, structure, communication, authority; and the power system within an organisation. The macro environment could be related to political, social, and economic situations (Hodge & Anthony, 1979:69).

The above explanation by Hodge and Anthony, demonstrates that micro-macro perspectives in response to the public administration environment are crucial in understanding sub-systems such as technology, structure, political and economic environment or context. According to Katz and Kahn (in Pfeffer & Salancik, 1978:1), it is generally accepted that in context, organisational environments are important in understanding actions and structures.

To take cognisance of an environment helps to support and positively effect managerial decisions, only if managers understand that the environment is able to sway or affect organisational vision and mission. This implies that public organisations should be adaptable to an environment. As a result, an application of rule which is regarded as a mechanistic approach does not yield good quality results. In contrast, an organic approach is regarded as adaptable to an environment in which public administration operates. Hence, it is crucial and significant for managers to be mindful of the fact that an analysis of planning and managing social, economic, political aspects is fundamental in organisational operation or public administration in general. It is also significant to conduct research about an environment or apply environmental scanning which helps to analyse and understand 'hidden factors' that could impinge on an organisation and also affect the organisation's goals, mission and vision.

With regard to environmental scanning, Kast and Rosenzweig (1985:147) declare that a proactive approach involves environmental scanning and analysis in order to determine those forces in the society that will be most salient to future operations. In this context, the manager in an organisation or government department has to circumvent a narrow-focus view of how an organisation functions internally without looking further at its surrounding environment.

The unit of survival is not an entity at all, but rather a pattern of organisation adopted by an organism in its interactions with its environment (Capra, 1982:313). Capra's analysis could be based on the fact that the environment in which organisations operate, is important in order to

respond to a given environment to improve governance and administration in public administration, and managerial leaders have to respond, understand and adopt a given environment. Hawley (in Pfeffer and Salancik, 1978:1) also stresses that it has been confirmed that all organisations engage in activities, which have their logical conclusion through an adjustment to the environment. In this instance, Pfeffer and Salancik (1978) also support Capra's analogy regarding environment in relation to an organisation namely that organisational adjustment regarding environment.

It is essential to understand and analyse the environment because it has an indisputable influence on organisational processes such as, an internal process like planning and budgeting for an organisation. Environments of an organisation are critical factors in understanding what functions are performed internally and externally. On the basis of the above statements, it is believed that no organisation is an island unto itself (Schwella & Wissink, 1991:12). For example, from an economic environment perspective, the introduction of the medium term expenditure framework (MTEF) in 1989 and subsequent introduction of the performance budgeting system have indeed led to some drastic changes with regard to departmental planning and budgeting, including clear lines of accountability and responsibility. Furthermore, the inhabitants continue to put more pressure on government, sometimes through interest groups or as individuals.

At this stage, a democratic government, such as in South Africa, has no choice but to take into account the views of the public. It is in this context that a socio-political environment takes shape. Additionally, taking into cognisance the views and ideas of the general public could also impact on organisational planning, the budget itself, and deliverables from government departments.

From a micro perspective, the introduction and utilisation of technology in the public service has an influence both in internal operations or systems and the entire Public Service. The introduction of an electronic system, commonly known as e-governance, to deliver public services is an indication of technological influence that is taking place in the public service. These 'hi-tech' initiatives, in most cases, do inculcate a new organisational culture and compel managers to introduce new systems in response of the technological environment.

In pursuit of the above environmental discourse on public administration, it is crucial to comprehend the micro and macro organisational and managerial analysis. It is for this reason that the environment tends to influence organisational processes and decision-making. As a result, organisations and environment are interrelated.

For instance, other theorists, like Dessler (1980:62), provide a micro analysis, namely that organisations are structures of decision-makers, and this focus on decision-making helps to explain how the organisation and its environment are related. As indicated in preceding paragraphs, a micro perspective deals with internal operations or internal actors such as management or decision-makers so that the internal environment is manipulated for the benefit of an organisation, especially in organisational efficiency and effectiveness. Additionally, politics manipulate organisations in many ways. For example, Parliament, as a policy-authorising institution, is able to influence the South African Public Service and its operations.

In response to a macro perspective, Hodge and Anthony (1979:70) argue that the environment could influence an organisation at political, economic, and technological level. Political, technological, and economic environments have influenced and are still influencing the South African Public Service. Subsequent to South Africa's democratisation in 1994, for example, the country's Constitution, Public Service policies and Acts have changed, and are still changing, organisational structures and the way the departments and government operate. The shift from traditional or classical Public administration to the so-called new public management has an impact locally and abroad on organisations and governments in general.

Evidence signifies that the aforesaid shift from traditional public administration to the new public management could have been influenced by economic, social, technological and political demands. In this regard, the PFMA gives much more prominence to the outcomes-based model that is mirrored in the Act. The introduction of the Act impacts on the structure and organisational planning of various departments in the Public Service.

2.4 THE CLASSICAL AND BEHAVIOURAL APPROACH: CLOSED SYSTEM

2.4.1 Introduction

As indicated earlier, public administration operates within political, social and economic environments. In this context different schools of thought argue differently regarding the importance of the environment on organisations. For example, the classical school of thought focuses on the internal processes and ignores the external environment that might influence the internal decisions and process within an organisation. Focusing on the tasks to be performed and ignoring the behaviour of the person performing the tasks, could have a negative effect on other factors such as decision-making and functioning of an organisation because the personnel might have to respond to the environment or surroundings. Therefore, the classical school of thought limits the scope of operation by focusing on the 'inside' not the 'outside' of the organisation. Therefore, public servants in general, managerial leaders in particular, should perform their tasks by taking into account the 'outside' world. Because public servant's response to the surrounding or outside world could influence the 'closed character' of the classical school of thought and support governance in the public service. Literature records that the classical school of thought believes that there is one best way in dealing with organisational matters or the 'one size fits all' approach. This is confirmed by the fact that (Fox at al.1991: 9) also argue that the classical school of thought believes in the 'one size fits all' approach or one best way in dealing with organisational issues.

In modern public administration, as in ancient public administration, such a narrow focus could negatively affect the internal process, management's responsibilities, leadership, systems, organisational design, service delivery and governance in general. Consequently, the closed system could be harmful with regard to supporting both the organisational and management agenda.

2.4.2 Classical school of thought

In the introductory analysis of the classical school of thought, it has been shown that the school's approach is different from an open school of thought, especially with regard to the organisation and management in relation to the environment. According to Fox et al., (1991:9),

in public administration, there is a distinct analysis with regard to a closed and an open school of thought. They further argue that the 'classical school' originates from the scientific management approach, as well as from bureaucratic theory. As indicated previously, one of the critiques of the school is the main focus on the 'internal' side. On this basis, Fox et al., (1991:10) endorses the point that the school focuses on internal efficiency and does not give attention to the management environment and factors in the environment.

In view of the classical approach, Robbins (in Roux et al., 1997:30) argues that a perfect system would be one that receives no energy from outside sources and from which no energy is released to its surroundings. Robbins's observation implies that the classical school of thought adheres to as a closed system in some situations. To maintain stability this school of thought ensures that an organisation becomes perfect by focusing internally without any external influences and no interaction with the external environment. On the contrary, this could affect an organisation's effectiveness and make an organisation inefficient as opposed to perfection. This is indeed an indication that the classical school of thought is a closed system not an open system.

The following section discusses the open school of thought as opposed to closed school of thought. The latter has been discussed previously, and based on the literature provided the closed school of thought does not provide any significance in modern public administration, especially at the time of evolution in the public finance management system in South African Public Service. Alienating the surroundings or the environment from matters of governance could make it difficult for the managerial leaders to make organisational decisions that are based on the transformational agenda of government.

2.5 THE OPEN SYSTEM

The dissimilarity between an open and closed system signals the view that an external environment is certainly fundamental in an organisation and it could shape both the country's agenda and the organisational agenda. From an organisational analysis point of view, an open system assists an organisation in being effective because of its ability to accommodate political, economic and social variables, especially during policy formulation. An inclusive policy that takes into account its environment could be easily implemented. However, the institutional environment, that is the level of skills within the organisation, could also affect

policy implementation. Therefore, there must be a balance between the institutional environment and the external environment. Hence, in an open system the focus is not only on the tasks to be performed, as in the case of the closed system, but also on what could improve the performance of tasks by taking into account its surroundings.

According to Hodge and Anthony (1979:57) organisations transform within a given environment and receive their inputs from this environment, and people or other systems in the environment use their outputs. In this context, organisations are regarded as open systems due to their adaptability to an environment. Moreover, for an organisation to be able to function interdependently between itself and other sub-systems the environment becomes central and it must be scanned and scrutinised so that deliverables in government are based on a particular environment.

2.51 Characteristics of an open system

The following are the factors that demonstrate features of an open system:

a) Environmental awareness

An institution as an open system acknowledges the interdependence between an institution and the environment within which it functions. This implies that an institution must make certain organisational arrangements to enable it to accommodate the inputs or demands from the environment in a meaningful way. The system provides a framework for a macro perspective of organisation analysis (Fox et al., 1991:10).

b) Feed back

An important feature of an open system is the maintenance of an extensive information network. This means an information system which is constantly able to *feed back* information from the environment to the institution.

c) Cyclical character

An open system lends a cyclical character or appearance to an institution. This implies that contemporary institutions deliver certain results or outputs, which act as a means of obtaining

new inputs. The latter creates a repetition of the internal processing, resulting in new outputs or results.

d) Negative entropy

The term *entropy* originates from physical sciences, specifically physics. The term means decline in energy. This entails that after a closed system has been established, it will gradually move away from a state of order to a state of disorder. Because no maintenance or energy-giving inputs take place, a closed system in essence can become destructive. In contrast, an open system is characterised as negative, this implies that such an institution is able to be self-supportive due to the fact that more energy is absorbed or put in than is lost by means of outputs.

e) Growth and development

Growth and development imply that a more complex or intricate system will try to prevent entropy and by doing so the system will systematically grow and develop.

f) Various actions to achieve the same results

A system can follow a variety of methods or activities in the internal processing, that is, when inputs are converted into outputs. This also implies that open systems are not bound to internal rigid procedures (Botes, Roux, Brynard, & Fourie.1997: 31).

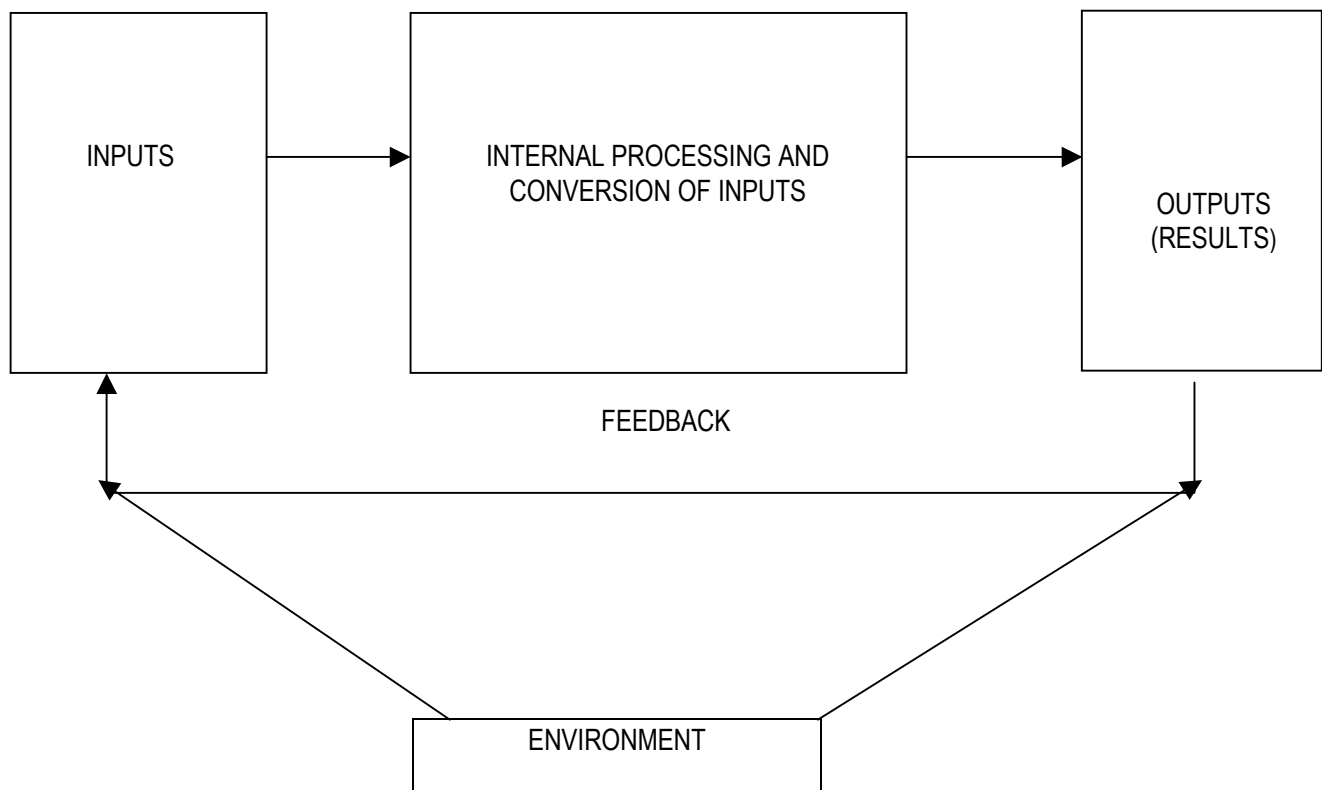
The features regarding an open system present the system as one that crafts institutional environment equilibrium so that an institution could respond to an environment in which it operates. Yet again, the environment becomes fundamental in bringing environmental feedback or information to an organisation. As a result, internal operations and processes are influenced and decisions are made to deliver outputs through the utilisation of inputs. Thus, the input-output model within the systems approach has an impact on an organisation itself through environment-institution interdependency in order to influence an organisation. Environmental dynamics have an influence on the management of the organisation (Fox et al., 1991:10). It is within this framework that managerial leaders in the Public Service have to be observant of public management system dynamics both locally and internationally so that good governance becomes the order of the day. This has to be done because international

trends and policy dynamics could influence the way an organisation or a department is managed.

Robbins (in Botes, et al., 1997:30) also argues that the open system recognises the dynamic interaction of the system and its environment and further asserts that organisations or institutions depend on clients and customers on their environment to absorb their output. Robbins's argument purports that the 'dynamic environment or world' has an influence on an organisation. However, an organisational influence depends on the active participation of the inhabitants, including interest groups, and the participation depends on the context in which they operate.

The diagram below (Figure 2.1) represents an open system and how inputs are converted into outputs. The figure further shows how an environment interacts and influences an organisation or institution, including internal operations in order to produce results or outputs.

Figure 2.1: Environmental influences on an organisation



Source: Botes et.al, (1997:30)

Having specified the significance and features of an open system, the school of thought on environmental influences also emphasises the importance of the environment as a variable in the management of complex organisations (Fox et al, 1991:10). This is in support of the notion that the understanding of a particular environment is important when managing institutions in order to deal with complex situations in organisations. In essence, an open systems school of thought does not accept or believe in the dogmatic approach when dealing with institutions in public administration because of the nature and the context in which public administration takes place. This means that a universal application of rules and procedures has no room in

an open systems approach, unlike theorists such as Weber and Taylor, who strongly believe in the rule-bound approach and 'one size fits all approach' and in the universal application of managerial principles in public administration, as if organisations are the same. As a result, 'universal principles of management' and one 'best way' are rejected by the open systems approach (Fox, et al, 1991:10). Criticism comes from the fact that a closed system, which only focuses on an internal operation or process without taking into account an environment, applies a dogmatic, universal approach to governance.

Keeping an organisation and its management in a state of dynamic equilibrium with its environment is indeed a strategy to make sure that it becomes essential for modern management and the contemporary organisation (Fox, et al., 1991:11). It is therefore crucial for managers to take cognisance of an environment and treat environmental acknowledgement as indispensable in managing the public service and governance matters in general.

2.6 CONTINGENCY SCHOOL

The environmental acceptance in an open system in contrast to the environmental denial in a closed system has been pronounced broadly in the previous debates regarding a comparison between open and closed systems. In dealing with situational analysis before an action, the contingency approach considers that an organisation's relationship to other organisations as well as its environment depends on the situation it finds itself in (Fox, et al., 1991:11). At this point contextual or situational analysis becomes crucial for the management before organisational decisions are reached. This school of thought could assist managers in scrutinising a situation before any action is accomplished or taken. Within the theory of modern management, situational analysis, risk assessment and analysis are crucial in managing the day-to-day activities of an organisation. In most situations, an action and a situation are analysed in order to manage risks if consequences or decisions are not calculated.

In view of the philosophy regarding the contingency school of thought, the following tenets are provided:

- a) First, the contingency approach implies that managers should be adaptable, flexible, analytical and ingenious in their decision-making and management style;

- b) Secondly, management strategies have to be selected or adapted for a particular situation facing the organisation; and
- c) Thirdly, it is argued that the model facilitates strategic management practices whereby strategic decisions are made in terms of an environmental analysis (Fox, et al., 1991: 11).

Given these tenets of contingency school of thought, it is apparent that the focus is on situational inquiry, contextual assessment and evaluation. The flexibility to situations facing an organisation lies squarely on the managers and they have a responsibility to inculcate a culture of environmental analysis to all the levels of a department.

The aforesaid variables regarding the contingency model become crucial for evolving public administration, particularly from a classic or traditional approach to a modern public administration or the so-called new public management approach, which will be analysed in Chapter 3 of the study.

2.7 ENVIRONMENT AND ORGANISATIONAL ANALYSIS: MICRO AND MACRO PERSPECTIVES

Planning within a department by taking the environment into account is progressively becoming more essential in the public service, due to the evolution in public administration and public financial systems in particular. The latter could require the managers to understand and observe micro and macro dynamics. In this instance *micro dynamics* describe internal process and controls and *macro dynamics* describe the 'outside world' that can affect the internal processes with a department. Therefore, the managerial leadership should possess both analytical and conceptual skills so that key aspects regarding governance such as risk management, expenditure management, and decision-making and public financial management, become part of an organisational culture. It is therefore paramount that managerial leaders understand the relationship between public service and its own environment. This suggests that public service by nature operates within a dynamic environment. Therefore, the managerial leaders should be able to scrutinise and understand such dynamic environment (macro) because it could affect budgeting and strategic planning (micro).

2.7.1 Organisational analysis: a micro perspective

In the preceding paragraphs, organisations, systems, and environments have been discussed. To understand micro and macro organisational analysis, the literature differentiates between *task* and *general* environment. The task environment deals with and affects the individual organisation more directly. In contrast, the *general environment* deals with and affects all organisations in a given society (Kast & Rosenzweig, 1985:136). An understanding of the difference between the task and general environment could assist in understanding organisations or institutions both at macro and micro levels.

Micro-organisational analysis is regarded as an internal processing of organisational information or inputs for organisational effectiveness and efficiency. At a stage where information is discussed and analysed by decision-makers, management and policy-makers, the environment should be taken into account.

Through the cognitive process of transforming inputs to outputs, within an organisation, managers should bear in mind that an organisation does not operate in isolation of its surrounding or environment. As indicated previously, organisations should take note of the political, social and economic milieu. In essence, micro organisational perspective shows that its environment, especially in its operations, structure and organisational culture, directly influences an organisation. As a result, Kast & Rosenzweig, (1985:138) emphasise that the *task environment* (micro) is defined as the more specific forces, which are relevant to the decision-making and transformation process of an organisation.

With regard to Kast & Rosenzweig's assertion on task environment, acknowledging the influence on decision-making and transformation becomes crucial to the internal processes of an entire organisation. Kast & Rosenzweig (1985:139) further argue that task environment has an impact on the goals and values, structure, technology, human relationships, and managerial processes within an organisation. The aforementioned statement signifies the fact that task (micro) environment produces or impacts more on the goals, values, structure, including the management, within an organisation.

Pfeffer & Salancik (1978: 2) maintain that what happens in organisations is not only a function of the organisation, its structure, its leadership, its procedures, or its goals, but a consequence

of the environment and the particular contingencies and constraints deriving from that environment. This implies that a broad understanding of micro organisational perspective is crucial, as it is not only a focus on the internal processes and management, but also a focus on the environment that influences organisational internal processes.

2.7.2 Organisational analysis: macro environment variables

Having provided a synopsis on micro organisational analysis, outlining the general (macro) environment is vital as it demonstrates how macro-environmental variables affect an organisation, management, policymaking and implementation. Theorists like Hodge and Anthony acknowledge that political, economic and technological environments exert some influence on organisations and the public service in general. Macro analysis and forms of environments are discussed below:

a) Political environment

Based on the political environment, it means that any political system that is introduced has a bearing on the functioning of the state and its institutions. For example, the apartheid or segregation policy that was introduced by the South African Government had an influence both on public officials and the composition of the government. Under the apartheid period, public servants were rule-bound at operational level without any culture flexibility, transparency and accountability. In contrast, the new government who came into power in 1994, led by the African National Congress (ANC), introduced a democratic system which introduced an ethos of democracy namely openness, transparency, rule of law, accountability and responsibility. Even the public servants are expected to act according to the above ethos so that the state and its institutions are transformed and services are delivered to the public. The influence of the above ethos is such that in 1994, the ANC produced a policy framework entitled *The reconstruction and development programme (RDP)* which later became the government's White Paper on the reconstruction and development programme.

Among other issues, the RDP introduced a number of reforms in order to set up a transformational agenda in South Africa, as follows: meeting basic needs, developing human resources, building the economy and democratising the state and society (African National Congress, 1994:7). Against this background the political agenda of the ruling party could influence and shape the functioning of government and administration, including the vision

and mission of public servants in general, governance in particular. Therefore, public servants and the leadership in general in the public service should understand the political environment in which they are operating, especially the managerial leadership so that government programmes are contextualised.

b) Economic environment

The economic system is the way in which a society creates and distributes wealth. Further, it should be noted that the economic system allocates limited resources to competing individuals and groups. This necessitates the government's fiscal and monetary processes to stimulate or restrict the demand for goods and services. Any economic developments can influence public administration. Administrators and managers need to know about economic matters and implications of such decisions on the economy. In 1995, the South African government introduced Growth, Employment and Redistribution (GEAR), a macro-economic strategy. Among other elements, GEAR provides a renewed focus on budget reform to strengthen the redistributive thrust of expenditure and commitment to the implementation of stable and coordinated policies (Growth, Employment and Redistribution, 1995:2).

Against this background, reforms such as performance budgeting system, medium term expenditure framework (MTEF), Public-Private Partnership (PPPs) in delivering services, together with PFMA, have taken place in the South African Public Service to date. This supports the point that economic policies and the environment create a new culture in government in general, and thus bureaucracy too. Therefore, an emerging culture or environment is essential because it becomes part of a system. It is important for strategic leadership to understand the culture that is emerging and to respond to it effectively.

At the economic level and at the corporate governance level, African leaders under the New Partnership for Africa's Development (NEPAD) view it as crucial to create conditions for development and economic growth. As a result, NEPAD, within Africa, seeks to promote concrete and timely programmes aimed at enhancing the quality of economic and public financial management, as well as cooperative governance (The New Partnership for Africa's Development, 2001:190). Again, NEPAD as an 'economic driver' within Africa sets an agenda or is able to influence governments in Africa on effective financial management, economy and governance in the region. NEPAD's commitment to corporate governance indeed has an

influence on the public sector within the region through its African Peer Review Mechanism (APRM).

For example, on the basis of economic governance and management objectives, APRM seeks to promote sound public finance management in Africa (African Peer Review Mechanism, 2003:55). Additionally, with regard to public finances, Pillay (in the United Nations Development Programme (UNDP) Report, 2003:58) also provides an advice that a 'non-spending' mindset and underspent funds negatively impact on service delivery. Referring to UNDP report on 'non-spending' and under-spending' this has indeed had economic effect on governments therefore, the inability of government to spend as planned and to under-spend as a result of poor planning both have negative economic effects, on economic growth. Additionally, APRM is also of the view that to achieve good economic and corporate governance, transparency in financial management is a prerequisite. This will also promote economic growth and reduce poverty. APRM also acknowledges the fact that to achieve economic and corporate governance, the following codes and standards have to apply:

- a) code of good practices on transparency in monetary and financial policies;
- b) best practice for budget transparency;
- c) guidelines in public debt management;
- d) principles of corporate governance;
- e) international accounting standards; and
- f) International standards on accounting (African Peer Review Mechanism, 2003:13-14).

The above statements by APRM regarding the economic environment suggest that the managerial leaders in the Public Service should understand the change that originates from NEPAD and APRM because such change impacts on the public financial management system in general. Therefore, the managerial leaders in particular should also take into account any organisational or policy developments so that governance is improved in the Public Service.

In the same vein, managerial leadership within the South African Public Service has to be mindful of the fact that there is a need for environmental analysis so that the Public Service itself is able to cope with demands and developments, especially the above codes and standards by APRM. This will help to support good governance. However, there must be a balance between economic environmental analysis, developments regarding public finance

management system and the skills profile within the Public Service to support the ideal form of governance, including the ability of the managerial leadership.

c) Technological environment

Technological developments must be taken into account in order to ensure effective governance and administration in the Public Service. The use of technology influences the management of information within organisations and the delivering of services to its customers. Technology influences and uses electronic machines and processes to produce and distribute goods and services (Hodge & Anthony; 1979:70). It is in this context that technology influences the way services will be delivered to people as well as the management of organisations. The managerial leaders in the Public Service have to understand technological developments because they have an influence on organisations.

d) Institutional environment

In most cases, constitutions, policies, people and their behaviour, processes, regulations, norms, values, and codes of conduct govern institutions. In this context, institutional environments are analysed. However, it is equally important that an organisational culture is understood in order to perfectly analyse institutional environments.

Manning, Mukherjee & Gokcekus (2000:4) describe *institutional environments* by emphasising that *institutions* are humanly devised constraints or set of related contracts that guide public officials' activities. These activities consist of formal constraints, such as rules, laws, including constitutions and informal constraints like norms of behaviour and codes of conduct. Manning et al. (2000) also believe that for public officials formal, rules are laid down in codes of conduct, manuals, budget documents, and within directives and instructions through policy. On the other hand, informal rules are what the officials collectively understand as appropriate behaviour, like 'how we do things around here' and this institutional environment could shape the expectations of public officials.

Although it is important to look at the institutional environment of informal and formal rules, policies, behaviour of personnel and codes of conduct, the above institutional environment analysis by Manning and others are silent about the skills of personnel within an institution and

the organisational design of an institution itself. The skills profile within an institution provides a sense of direction based on the institutional vision and mission and the ability of an institution to deliver quality service to people. Organisational design influences service delivery, the lines of accountability, transparency, management responsibilities and organisational effectiveness. The latter depends on how an institution is designed and the understanding of an institutional environment outlined above. Within the context of a public finance management system, budget and policy imperatives become central but budget and policy have to be supported by an institutional environment that is conducive and compliant to legislative framework, norms and standards. Kusi (2004) also argues that improving the institutional environment such as rules, customs and incentives, in which the budget and policy process operates, will greatly enhance accountability. The latter is crucial in enhancing and improving governance in the Public Service.

From the NEPAD perspective, in ensuring that its dream, vision and mission are attained, the environment within institutions or governments in Africa is properly analysed and understood. For example, the NEPAD policy argues that in ensuring political governance and other commitments, a target must be based on capacity-building initiatives and institutional reforms, such as administrative and civil service, strengthening parliamentary oversight, promoting participatory decision-making, adopting effective measures to combat corruption and embezzlement and judicial reforms (The New Partnership for Africa's Development, 2001:18). In this context, skills become important when analysing the institutional environment. The above initiatives by organisations like NEPAD and APRM seem to have an influence on institutions in order to promote good governance and South African Public Service is not immune from such African reforms. Additionally, the leadership within the Public Service has to understand or conceptually and technically deal with the paradigm shift. Understanding the paradigm shift could assist other managers to deal and cope with the political, economic and technological environments. Any influence or change that takes place within an organisation has to be managed by a competent workforce, therefore an institutional environment has to be analysed and scrutinised.

Given the above macro analysis, it is apparent that political, economic and technology could be prime factors or significant variables in influencing the public service and internal organisational systems. As a result of this macro analysis, both organisational culture and organisational design could be affected.

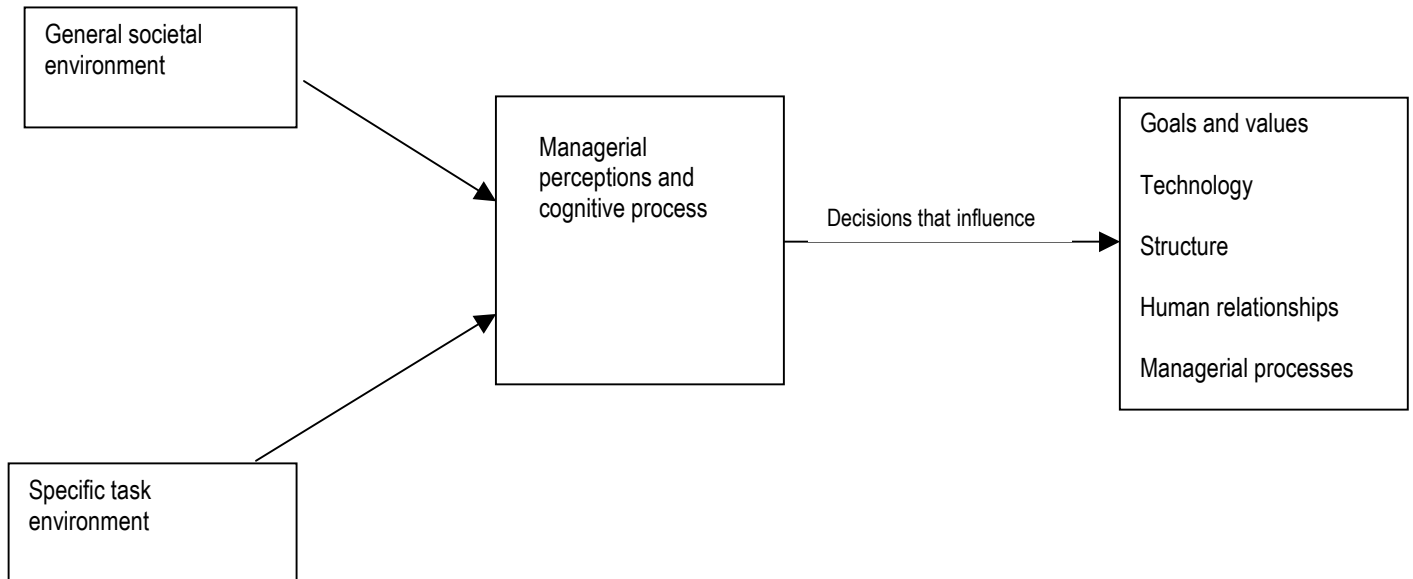
An input-output model by David Easton (in Cloete & Wissink 2000:39), which focuses on the response by the political system to the demand and needs of interest groups, attests to the above macro environment by implying that demands from interest groups influence political environment and need to be recognised. It is indicated that such demands enter the (political) system as inputs and through the political process via channels of debates, cabinet memoranda, proposals, and counterproposals including decisions or conversions (Cloete & Wissink, 2000:39).

Pfeffer & Salancik (1978:12) comment that the external basis for judging organisational effectiveness makes the concept of the environment important. Therefore, the environment should not be neglected or avoided as it impacts both positively and negatively on public administration.

Environmental analysis helps to shape both an organisation and government's vision and mission because the environment is taken into account during the policy planning, formulation and implementation.

Figure 2.2 below signifies that an organisation as a system should also take into account other factors or subsystems in order to have a comprehensive approach to environmental or situational analysis before any pronouncement is made. The diagram shows the effect or impact of both general and task environment on managerial cognitive processes. It also shows that managerial thinking results in decisions that could influence governance within an organisation. This diagram identifies decision-making as one of the elements of governance which influences values, goals, structure or organisational design, human relations and managerial processes of a department, and the Public Service in general. It is therefore important that the managerial leadership ensures that decisions reflect the dynamics both within and outside an organisation or a department.

Figure 2.2: Influence of general and task environment



Source: Kast & Rosenzweig (1985: 141)

2.8 SYSTEMS APPROACH: PUBLIC ADMINISTRATION ENVIRONMENTAL ANALYSIS

2.8.1 Definition and approach

The systems theory is based on the fact that a system comprises the interrelation and interconnection between subsystems or components in order to reach a particular objective or aim. It can be based on the notion that the ‘closeness’ or synergy between subsystems could impact a given organisation. An *analysis of a system* is an analysis of parts which interact with each other for some purpose or reason (Hodge and Anthony, 1979:49). Shall (1999:10) notes that in systems analysis, the part is always viewed in relation to the whole. Furthermore, Shall’s analysis and comment about the performance budgeting system is that the integrated components which make up the system of performance budgeting include financial planning, expenditure management and performance management (Shall, 1999:10). Shall’s viewpoints are correctly placed in the context of systems theory because research shows that proper functioning or implementation of performance budgeting depends on the effective functioning of the components mentioned above, such as financial planning, expenditure management

and performance management. Therefore, the latter parts of the 'whole' contribute significantly to the budgeting system in particular and the service delivery framework or strategy in general.

In terms of the above systems analytical framework, Henry (1975:151) defines a *system* as an entity in which everything relates to everything else or systems comprise components that work together for the objectives of the whole. To analyse it further, the 'whole' as described in the previous paragraph, could mean an organisation and its agenda. It is against this backdrop that dysfunctional elements of any sub-system could have a negative influence on the functionality of other subsystems. The dysfunctionality of subsystems that originate within a system could also affect the functionality of a system as a whole or itself. It is therefore crucial to understand a system and its components, merely for the success of an organisation and its stability. Henry (1975:151) concludes that the systems approach is merely a way of thinking about these components and their relationships. Centrally to Henry's above contribution and analysis is the relationship of components in a system; it is this relationship that could support organisational objectives, efficiency and effectiveness.

According to Capra (1982: 288), systems thinking is process thinking, associated with processes, interrelation with interaction, and opposites unified through oscillation. Capra's argument could be based merely on the fact that interrelation and interaction with the process within a system are crucial in order to create a culture of co-operation in order to respond positively to an environment in which an organisation, including managerial leadership is exposed.

Having provided an input regarding the systems approach and systems components, it is evident that the understanding and analysis of subsystems within an organisation, that is how these subsystems interact to form a complete system, have aided in the integration of administrative theory. The latter will be discussed in another chapter. Additionally, this has also aided in the perception of organisations as dynamic and complex systems that must compatibly interact with a larger system or environment (Robbins, 1976:45).

Additionally, Robbins (1976:44) explains that an organisational system could be envisioned as being made up of the "independent factors, including individuals, groups, attitudes, motives, formal structure, interactions, goals, status, and authority". For example, to improve governance in the Public Service, systems approach could be applied by making sure that an

organisation as a system functions very well through connectedness and interrelationship with its subsystems such as organisational culture, transparency and responsibility, internal and external reporting and fiscal discipline. Through a synergy between subsystems and the system itself, the aforesaid subsystems are crucial in building up an effective and efficient organisation.

As a result, one dysfunctional subsystem could have an effect on the entire organisation, which is a system. As specified earlier, connectedness and interrelationship between a system and subsystems are vital for an organisation.

To illustrate the objective and aim of a system, Dessler (1982:10) argues that a *system* is any entity, like a hospital, a city, a company, and so on, that has both interdependent parts and a purpose. Dessler further states that a systems approach advocates the belief that viewing an organisation as a system helps one to realise that the different parts, departments, or 'subsystems' of an organisation are interrelated and that they all must contribute to the organisation's purpose.

Based on this analysis, the scrutiny and understanding of an organisation as a system, including its subsystems, are significant in the functioning of an organisation *per se*. Experience has shown that the management in most organisations fail to analyse and understand the functioning and ability to adapt to a specific environment at a given period. As a result, organisational objectives are unattainable. Attainability could stem from poor linkage between an organisation and its objectives (system), various components and tasks (subsystems) and the environment in which it operates or intends to function. This disjointed situation could cripple the mission and vision of both an organisation and the government itself. This will happen because, in most cases, departmental mission and an objective are based on the government's vision and mission.

As outlined earlier in the thesis, politics or economics could have an impact on organisation and public administration in general. Hence, change imposed by politics and economics in a country or department could pose an environmental change and dynamics. This implies that managers have a responsibility to scrutinize, understand change and respond to it vigorously so that a system and its subsystems could function properly. In his analysis of the influence of change in an organisation and its components, Robbins (1976:45) stresses that the systems

approach advocates and recognises that a change in any factor within the organisation has an impact on all other organisational or subsystem components. Robbins (1976:45) further notes that within a larger system, a subsystem or its components are social, legal, physical, technical and economic in nature. An argument by Robbins could authenticate the fact that public administration, by nature, functions within political, social and economic subsystems, including other subcomponents such as legal and technical.

However, noting or acknowledging the dynamic nature of public administration due to its economic-political and social aspects is not enough. However, this presents a challenge for the managerial leadership and public servants in general to take into cognisance the evolving nature of public administration.

Having discussed systems analysis, it is evident that the systems approach or theory has implications for an organisation or public administration in general.

The implications regarding the systems theory are:

- a) *Interdependency*: the parts that make up a system are interdependent. If a change occurs in one part or set of parts, it affects all other parts of the system
- b) *Wholism*: changes in parts of the system and in the functioning of elements of the system should be considered from the standpoint of the system's overall performance.
- c) *Synergy*: this refers to interactive parts of the system working together. The key concept is that as each part of the system performs its role, it enhances the performance of other parts and hence the total performance of the system (Hodge & Anthony, 1979:49).

If using a systems theory implies synergy or interconnectedness, risk management as a component of governance could be implemented. As a result, the South African Government believes in the integrated governance approach such as planning the framework of the government where government priorities are outlined, for instance in Cabinet meetings, director-general's forums and government clusters meet to co-ordinate government policies and activities (Department of Public Service and Administration, 2003:34). Central to systems theory, among other things, is the interdependency or 'working together' between units and subunits within an organisation or the public sector in general. However, it takes a visionary leader to apply or implement such interconnectedness. The government also believes that the basic principle underpinning the integrating approach is that the work of the government impacts on the totality of the lives of the citizens in an integrated way (Department of Public

Service and Administration, 2003:34). It is therefore important that the systems approach or an integrated approach is applied by the government in order to improve governance and administration because once departments work in silos, good governance can be undermined and 'bad' governance could be the order of the day and the life of people could also be severely affected.

Most importantly, it is crucial for a system to be effective in order to contribute to building an effective organisation. This will in turn affect or positively impact on other subsystems within an organisation. Therefore, the stronger the system or an organisation and other subsystems such as organisational structure and culture, management, risk management and compliance, within an organisation, the more effective an organisation it becomes.

As discussed earlier, Capra's definition and conceptual analysis of systems theory, focused on the central argument regarding this theory, namely that of the correlation of processes, and the interrelation by interaction with an environment. The 'states' or conditions regarding the systems theory seek to provide an in-depth understanding of situations or factors that could build up a systems theory in general. Theoretically and practically speaking, the systems theory is based on a particular open environment, an environment that takes cognisance of its surroundings and has the ability to cross organisational 'boundaries'. To illustrate the above point, Robbins (1976:12) confirms that the open system recognises the dynamic interaction with the environment.

However, of critical importance is the ability of subsystems to work together in order to adapt to an environment that is able to challenge an organisation and its strategic management. Therefore, the following stages contain what informs or provides the underlying elements, namely that which makes up a systems theory.

2.8.2 Stages in Systems Theory

According to the systems theory, a system has different states and it is important to understand such states because an organisation is dynamic and operates differently in different situations or environments. People also react differently in different situations, therefore it is important to understand certain states in which a system operates. Public servants and the government have to study and analyse the states and conditions in which

they operate so that flexibility, not a dogmatic approach, becomes the solution to a changing environment which might be influenced by social, institutional, political and economic environments. Hence, it is paramount to identify with the environment in which projects or programmes of the government are to be implemented. Failure to analyse an environment could also result to poor or non attainment of vision and mission of government. Additionally, poor analysis of the systems theory on the basis of poor co-ordination, operating in an uncoordinated fashion without synergy and without 'listening' to an environment, might lead to the managerial leadership not managing the evolution of the public finance management system within the public service. The following states in systems theory explain the importance of 'listening' to an environment:

- a) First, when the system is in a state of continual fluctuation, even when there is no disturbance, such state is known as *homeostasis*. This is a state of dynamic, transactional balance in which there is great flexibility. Thus, the system has a large number of options for interacting with its environment. When there is some disturbance, the organism tends to return to its original state and it does so by adapting in various ways to environmental changes.
- b) Secondly, this kind of adaptation to living organisms is the adaptation of the species in the process of evolution. The changes are brought about by mutation, also know as *genotypic change*. Through genotypic change a species adapts to the environment by shifting the range of some of its variables, and notably of those, which result in the most economical changes. Increasing flexibility and decreasing reversibility characterize these modes of adaptation (Capra 1982:294).

Capra's analysis is used in relation to public administration, particularly in the South African Public Service, a country that is still in a transitional period or undergoing transformation. It is essential that government officials, especially the strategic or managerial leadership are able to understand change, environment, the theory on adaptation and reasonable flexibility in an organisation. Capra alludes to some environmental variables such as economical changes. This particular variable has been raised previously in the thesis as important in influencing public administration, policies in particular.

Mary Parker Follett, a theorist of public administration, in analysing leaders' tasks, believes that a leader must have a thorough knowledge of the job, an ability to grasp the total situation,

the capacity to create as well as direct power, the talent to see future directions and a pioneer's sense of adventure (Fry, 1989:113).

The fact that an environment is significant and helpful should be taken into account so that the managerial leaders are able to scrutinize and understand current and future trends in public administration. Systems thinking could also help public servants and organisations to adapt to a situation or environment and also become flexible.

According to Cloete & Wissink (2000:39), the systems model can provide perspectives on aspects such as the influence of the environment on the political policy and vice versa. Through political demands (inputs) interest groups, in order to influence an environment and conversion of these demands into public policies (output), namely the Public Service Regulations of 1999, the White Paper on transformation of the South African Public Service of 1995 and the Public Finance Management Act of 1999 intend to change (outcome) the Public Service both institutionally and structurally.

2.8.3 Forms of systems

To put the systems approach into perspective and context, it is imperative to provide the following illustrative examples regarding systems, as they are applicable and relevant in public administration.

The following systems are:

- a) **Economic system:** an interdependent set of roles organised to promote and guarantee the accumulation, reproduction and distribution of wealth within a nation state.
- b) **Political system:** an interdependent set of roles organised to regulate conflict over the control of the state.
- c) **Government system:** an interdependent set of roles organised to legally control the administrative organized organisation and functioning of the state.
- d) **Administrative system:** an interdependent set of roles organised to co-ordinate and control the structuring of human activities within a nation state (Jun, 1986:30).

Having given the above forms of systems, it shows that a critical point in systems approach is in the interdependence of components in achieving common goals. What is crucial is the

importance of the environment in which the above systems are to take place. Roles by the above systems could not easily be achieved or could not be achieved at all if environment is not scanned properly for the benefit of both an organisation and government. Therefore, political, economic and institutional environments are important so that the results of government service delivery programmes impact positively and organisations could perform efficiently and effectively.

2.8.4 Effectiveness and efficiency: systems analysis

It is important to understand the effectiveness and efficiency of a system because for a system to survive, it depends on the efficiency and effectiveness of a subsystem or subsystems. To be explicit, organisational ineffectiveness and inefficiency could affect other subunits within an organisation, and that could in turn affect the outputs to be delivered by an organisation.

When a part or subsystem of the system efficiently aids the system in its overall operation, it is termed *functional*. In contrast, when a part or subsystem hinders the overall operation of the subsystem is termed *dysfunctional* since it enables judgements to be made about the efficiency and effectiveness of subsystems (Hodge & Anthony, 1979:52). In this context, the ability for a system and subsystems becomes vital from organisational perspective, because the functionality of both the system and its subsystems is essential.

2.8.5 Systems approach: main advantages and disadvantages

As outlined in the thesis, the systems theory needs to take into account the understanding of the functionality and dysfunctionality of both the systems and subsystems for organisational efficiency and effectiveness. Thus, it is important to provide that which is 'working' and 'not working' when a systems theory is applied.

The advantages and a disadvantage of the systems approach are provided below:

Advantages

- a) The wholism of the systems approach enables one to consider an organisation in its entirety.

- b) The elements of the organisation are clearly defined, and changes in one element can be traced through the system to determine their effect on the system's performance and output.
- c) Organisational interface and its environment are explicitly considered.

Disadvantage

- a) The most common disadvantage is the misunderstanding and misapplication of the approach. Therefore, the users of the approach need to know the pitfalls that exist in its application and how they might be avoided (Hodge and Anthony 1979:60).

The above assertions about the advantages and disadvantage of the systems theory undoubtedly confirm that the organisational environment collaboration between a system and a subsystem, and the application of the systems theory within an organisation are crucial and relevant to environmental analysis in public administration. In relation to the disadvantage, it is important that public servants in general and managerial leaders in particular are technically equipped so that the systems theory does not become a dream but a reality. This will ensure organisational efficiency, especially when the public finance management system is implemented.

2.9 CONCLUSION

Literature on environmental issues indicates that when analysing public administration, the environment becomes central because public administration functions within different environments, notably political, social, technological and economic. Clearly, these different environments influence, among others, an organisation itself, organisational operations, managerial responsibilities, and organisational culture. Hence, it is important to examine public organisations and administration in order to place the environment within public administration. Environmental analysis is central in public administration.

An analysis of the environment should be coupled with an understanding of a closed or open system. Because an open system allows organisational interaction or interrelation and collaboration with an environment as opposed to the closed system. The latter creates boundaries that make it difficult for an organisation to acknowledge the existence of an environment as crucial in public administration. As the closed system focuses more on internal

operations, less on the 'outside' world, it could be difficult for the management within an organisation to be flexible and adaptive to any environment.

A systems theory can assist the management to understand an organisation as a system, which is made up of subsystems or components. For example, the proper functioning of an organisation depends on adaptive management, and the proper application of a systems approach or a system.