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Social capital and public service: knowledge-based management and sustainability

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Defining the challenge

The challenge facing government in the late 1990s is modernisation. While the private sector is able to reinvest in both traditional and new ways – reinterpreting and redefining capital to suit changing realities – governments have taken a conservative approach to investment and at the same time have focused on smaller government and privatisation.

This dichotomy – a private sector which is able to redefine one of its core concepts to ensure that it remains dynamic and relevant – and a public sector which finds itself in a straitjacket of the past – is the key to the way forward for governments and the public sector. The creative tension which it encompasses may be able to be harnessed if governments are able to see beyond the traditional constructs which have bound them and reinterpret and redefine the concepts the private sector has developed and apply them to the public sector in innovative ways.

Are governments too big? The answer in Australia, in looking at comparative statistics with other advanced industrial economies, is no. But there is a perception in the community that they are. Although Australia is not unique in its federal structure, the existence of three distinct tiers of government, each of which has a role in human services delivery, adds a complicating factor. The fragmentation of responsibilities makes the management of human services more difficult. At the same time there is a community perception of general malaise – again defying the trends which show that people are generally healthier than ever before and that (as politicians continue to state) the settings are about right for sustained growth.

But it is precisely this traditional approach to the dynamic of major structural change – from post-industrial to early knowledge – that has contributed to a spiral in the public sector which will lead to failure. In the human services, the community sees government unable to deliver, and consequently makes apparently contradictory demands. On the one hand, the community demands smaller government and on the other it demands reinvestment (though that is not the term commonly used) in those services to enable government to become more relevant, more effective and modern.

The private sector has faced this structural change with a major change in the way it defines capital and a subsequent change in emphasis in management techniques which incorporate leadership, change, autonomy and empowerment as key parts. The early manifestation of this was the Total Quality Management
(TQM) movement (which is essentially about giving individuals the ability and capacity to initiate incremental change). But the leaders in the private sector have moved well past this and are now applying evolving knowledge management to build knowledge-creating organisations.* This has also meant a move away from structural or organisational solutions to more innovative views of the organisation as an 'organism'.

**Setting new parameters**

The public sector and the governments which lead it must articulate new ways of defining and reinterpreting capital which are relevant to their circumstances. This does not simply mean adopting the parlance and methods of the private sector. There are major theoretical and practical differences between the private and public sectors in a modern and changing society. In neither case is the 'old economics', be it from a left or right perspective, adequate in either redefining or re-evaluating a new theory for the public sector.†

The leaders in the private sector have clearly recognised this. But in the public sector there has been a retreat to 'silos', economic resource redistribution, data-driven evaluation and evidence-based practice. Some of these – in particular, the notion of silos – are unhelpful concretised metaphors which serve simply to mask the complexity of the role of the public sector. Others, while they have a valuable place as processes, have become elevated to outcomes through the adoption of what might be called economic principalism whereby other factors which define society are relegated to a secondary level.

At a service level, and indeed at an individual staff level in the public sector, this has been translated to a dominance of concern on levels of performance. While these are supposedly measured in terms of outcome, in most cases they are measured in terms of output, as government is constrained by media pressures and the election cycle in taking a longer-term view and finds it easier to concentrate on short-term or immediate output gains and efficiencies.

The redefinition of capital in the private sector has moved away from the notions of activity-based capital – financial resources – toward more functionally oriented definitions – human, structural and customer. While the former definitions relied principally on concrete economic resources and did not equate knowledge with capital (even though it is recognised that non-tangible human endeavour such as thought processes is a source of wealth creation). The new


† An important ‘task’ for governments is to allow the space in which this redefining can evolve. It is clearly accepted from a body of research that up to fifty years ago virtually all knew knowledge was created in the academic sphere whereas today only 50 per cent is. If the public sector is to redefine, reinterpret and apply new ways this sanctioned space is essential.
The component parts of intellectual capital are:

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<tr>
<td>Human</td>
<td>the knowledge held by individuals</td>
<td>employee based</td>
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<tr>
<td>Structural</td>
<td>the system of organisation</td>
<td>organisation based</td>
</tr>
<tr>
<td>Customer</td>
<td>the relationship to the customer</td>
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definitions are an attempt to give meaning to the notion of intellectual capital in a way that is more readily quantifiable.

The challenge faced when defining capital in this way is how to measure and evaluate it. Sveiby (1997, pp. 43-6) suggests there are clear differences between information and knowledge:

- information is meaningless without analysis, especially given the glut of information which exists, and has little economic value; and
- information only has value when it contributes to knowledge.

This suggests that measuring information will not necessarily contribute to knowledge and may, in fact, hinder knowledge creation. All the authors cited in the first footnote on p. 60 provide examples of the glut of information which can preclude action. Without the capacity to categorise, to make value judgements and to analyse, individuals and organisations will not be able to create knowledge.*

Sveiby (1997, p. 37) defines knowledge in the organisational sense as the capacity to act. The competencies which an organisation must possess to create and transfer knowledge embrace explicit knowledge, skill, experience, value judgment and social networks. That is, new knowledge is created by fusing the explicit knowledge which exists in an organisation - knowledge which has been quantified, measured and expounded - with tacit knowledge - that which people know without being able to explain and which rests on belief, value judgement, experience and intuition.

The key activity of a knowledge organisation is the transferring of this knowledge by encouraging and enabling the development of intellectual capital.

Intellectual capital in this context has key concepts:

- a knowledge perspective;
- the managing and measuring of intangible assets;
- the sharing of knowledge through measuring and quantifying, that is, the conversion of tacit knowledge and information into explicit knowledge;†
- meaning - staff must be continually questioning and reassessing which factors are crucial for knowledge creation and transferring.§

* A colleague cites the example of a statistical data collection agency of a central European country which had an extensive collection of highly accurate data but which had not consulted about data collection or the needs of other arms of government for over ten years. The result was a glut of high quality information which was useless. The agency was abolished in the structural reforms following the collapse of communism.
† Knowledge as a capacity cannot be sold in a traditional sense although information can be. The seller will always retain the original knowledge and may, in fact, increase it through the sale. What the purchaser obtains is a greater capacity to act.
§ Wheatley (1992, pp. 134–5) points out that meaning underpins employees’ ability to make sense of what they are doing even when an organisation is in crisis or lacks explicit leadership.
situation – knowledge pertains to a particular situation and is therefore unique to each.

If an organisation or society is to be knowledge creating it must make investments in educational and cultural infrastructure which are as crucial to the development of capital as investments of financial resources. This means finding ways to convert the tacit knowledge held within an organisation to explicit knowledge which can be shared and built on. Nonaka and Takeuchi (1995, pp. 70–3) suggest a spiral model of organisational knowledge creation which recognises essential conditions of intention, autonomy, fluctuation and chaos, redundancy and requisite variety. These in turn lead into five phases of the knowledge spiral – sharing tacit knowledge, creating concepts, justifying concepts, building an archetype and cross levelling of knowledge.

What does this mean for government and the public sector?

The application of the concept of knowledge creation to the public sector is crucial if modernisation is to be achieved. It is no longer enough to react to community disquiet by reducing the scope of government and the public sector to easily measurable information and immediate output monitoring. In fact, this approach is having a negative impact.

In the public sector, the creation of intellectual capital and the creation of knowledge is not sufficient to address the structural changes which are required because the underlying philosophy of the public sector – the social good – is fundamentally different from (though not necessarily at odds with) the philosophy of the private sector which is private profit through tangible wealth creation.* The development of intellectual capital in the private sector is a necessary ingredient for the development of tangible wealth, while in the public sector it is a necessary ingredient for the social good. In itself the social good is an argument for the re legitimisation of the role of the public sector which (especially at a state level) is facing some difficulty in finding a relevant position.

However, the public sector requires an additional ingredient which it is not yet competent in measuring and evaluating or, indeed, even describing, if it is to undertake its role in modernisation. This ingredient is social capital.

The notion of social capital is a recent one and the literature on it is not yet as sophisticated as that with regard to intellectual capital. Although social capital is created in all sectors, its creation and subsequent reinvestment in the public sector is where value is added in public sector transactions. This added value is what is aimed at being measured through the development and collection of data for social indicators rather than economic indicators (Hyde, 1997, pp. 12–17).

Indeed, the reason for the legitimacy of the public sector – the social good – underpins this value adding, and the measurement of indicators of the social good provides the basis for describing social capital.

Cox (1997) suggests that, while other forms of capital are generally privately owned, social capital is not. It is a measure of relationships, interaction, social

* The difficulties for the public sector in adopting and adapting knowledge creation and using it to add value in public sector transactions, in particular in the human services, is the absence of the ‘bottom line’ of the profit motive which exists in the private sector and the presence of the ‘political imperative’. 
connectedness, empowerment, attention, sociability, engagement, social trust and civic trust. Social capital is more than the sum of the inputs which may be, for example, measured in terms of participation as an input, with social and civic trust as the output and social capital the outcome.

It is trust, both civic and social, which is the currency of social capital. Cox defines social trust in terms of the familiar – that is, the relationships between individuals and within communities – and civic trust in terms of institutions – that is, a belief that individuals and communities can make a difference, that the rules of engagement allow challenge and dissent, that the system is changeable.

In health, the imperative to find new ways of measuring the level of social capital is crucial. The measurement of outcomes in health – that is the public health indicators (related to poverty and thus to economics) which show that bad water, insufficient or poor housing, poor food standards, translate reasonably quickly to disease – enabled health to maintain a 'traditional hazards' approach to outcome measurement. But as Kickbusch (1997) notes, the emergence of 'modern hazards' linked to rapid development, industrialisation and the environment has made outcome measurements much harder. Even where there is a direct causal link to disease – for instance where chemicals cause cancer, the development of disease may take many years as the build-up of chemical damage occurs and/or where its transition through the food chain is slow. While it is well known that the causes of poor health lie in poverty, the responses to 'modern hazards' do not lie only in economics but in political, cultural and social advances.

Therefore, as Cox (1997) has suggested, unless the strength of social bonds is measured – that is civic trust – and the outcome fed into the system to measure 'health', the loss of social capital will make it difficult or even impossible to develop sustainable programmes and build a sustainable system.

Organising the public sector for knowledge creation and social capital

Putnam (1993, pp. 35–6) attributes to social capital 'features of social organization, such as networks, norms, and trust, that facilitate coordination and cooperation for mutual benefit'. He points out that social capital is an essential ingredient in both economic development and effective government through networks of civic engagement which:

- promote accepted norms of community and individual reciprocity;
- promote co-ordination, co-operation and information about trustworthiness in others; and
- provide examples of collaboration which become cultural norms of behaviour.

One of the problems facing governments and the public sector is how to find mechanisms and structures which promote both the efficient allocation of

* Cox (1997) poses three very important questions:
  Why do indicators for health and the economy look good and yet people generally feel bad?
  How do we introduce social capital into the notion of private sector partnerships through the development of markets based on mutuality and trust rather than competition?
  Has 'evidence-based practice' destroyed social trust through measuring only quantitative and not qualitative data?
(politically) scarce resources and social connectedness and cohesion. Over the past decade there has been an emphasis on the first with a winding back of an increasingly inefficient and expensive welfare state with its attendant poverty traps and allocative inefficiencies through the introduction of market mechanisms. James (1997, p. 46) suggests that while these have been successful in matching resources to risk, the market has focused too much on structural solutions and has been unable to attract investment into those areas which build trust, public consent and legitimacy. In doing so 'it has failed to remember the questions that the welfare state was set up to answer'.

It has also led to a concentration on competitiveness which instead of leading to long-term stability has led to a concentration on structure (funder, purchaser, provider in public sector terms). Instead of building the capacity of organisations through the development of core competencies, structural outcomes (and often almost continual reorganisation) are seen as solutions.

James (p. 46) also suggests that there are four main types of organisations - bureaucratic, professional, business and network (the first two are often merged as professional bureaucratic organisations). Each has a different premise and characteristics with authority and legitimacy coming from expertise in the professional, from line and rank in the bureaucratic, from market share in the business and a capacity to enable in the network. She argues that professional bureaucratic and business organisations each have important contributions but that the future does not lie with the uncertainty of the market with its concentration on competitiveness but on collaboration and developing new capabilities and capacities from the interfaces between different organisations and agencies. It is here, for James, that values and ethics reside and, therefore, social trust and social value.

In the broad area of health and human services this is vitally important. The inability of the market and its subsequent concentration on mechanisms such as funder, purchaser and provider in maintaining the levels of social cohesiveness and trust envisaged in the welfare state, have led to the re-emergence of many of the very problems the welfare state was created to address.

As the public sector grapples with its formal structures at the expense of promoting the interface between departments and agencies, it reduces its ability to enable and its capacity to lead.

Conclusion

The challenge, therefore, for the public sector in developing a capacity to successfully modernise is rebuilding its legitimacy and role through the explicit creation of knowledge, of developing and promoting civic and social trust, and being able to translate this into explicit knowledge through the development of measurable indicators which quantify social capital.

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