

A Systematic Literature Review (SLR) on the Connection between New Public Management and Policy Capacity

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ABSTRACT

New Public Management (NPM) and policy capacity (PC) are key concepts in public administration, yet their relationship remains underexplored. This paper conducts a systematic literature review (SLR) following PRISMA guidelines to examine how NPM influences PC, using sources from Scopus, Web of Science, and Google Scholar. The review reveals three main findings: (1) NPM can erode aspects of PC, (2) NPM may enhance PC if carefully implemented, and (3) existing PC supports successful NPM reforms. These findings highlight a complex, context-dependent relationship that warrants further empirical research to inform effective governance and public sector reform.

Keywords: Policy Capacity; New Public Management; Systematic Literature Review

INTRODUCTION

Governments around the world have continuously sought ways to improve their performance in response to growing demands for efficiency, transparency, and accountability. One of the most prominent reform movements in public administration has been New Public Management (NPM), which emerged in the 1980s as an effort to introduce private-sector management practices into the public sector. At the same time, the concept of policy capacity—defined as the competencies (analytical, operational and political capacity) and capabilities necessary to perform policy functions—has gained prominence in explaining why some governments perform better than others in tackling complex governance challenges (Wu, Howlett, & Ramesh, 2018).

While NPM is intended to improve public service delivery, some scholars argue that persistent deficiencies in policy capacity across public institutions, even decades after NPM-style reforms were implemented (Brenton, 2018; Shubham, Shi, & Wu, 2021; Wu, Howlett, & Ramesh, 2018; Faulkner, 2022; Mirzamani, Naderi-Beni, & Mohammadian, 2021; Bettini & Head, 2018; Peters, 2018). Some argue that the very reforms meant to enhance government performance have, ironically, eroded the state's policy capacity to develop, coordinate, and evaluate policies effectively (Peters, 2018; Mukherjee, Coban, & Bali, 2021).

While both NPM and policy capacity are both theoretically important, the relationship between NPM and policy capacity remains under-theorised and empirically fragmented. There is still a lack of systematic reviews examining the connection between NPM and policy capacity. Most existing studies treat the two concepts in

isolation or emphasise only the negative consequences of NPM reforms. However, emerging studies (e.g., Mirzamani et al., 2021; Barakbah et al., 2024) suggested otherwise—showing that NPM can also enhance policy capacity and that policy capacity is often essential for successful NPM implementation.

To address this gap, this study conducted a systematic literature review (SLR) to explore how NPM has been linked to policy capacity. A search for “policy capacity” and “new public management” in Google Scholar returned over 2,400 results, illustrating the challenge for practitioners and researchers seeking a clear understanding of the topic. This SLR seeks to simplify the process by offering a clear and structured overview for those in the early stages of engaging with the concept of policy capacity and its connection to NPM across different international contexts.

The review covers literature published between 2002 and 2024, offering insights from over two decades of literatures following the global spread of NPM principles. It is guided by the central research question: How does New Public Management (NPM) influence policy capacity in the public sector? This review offers several contributions. For policymakers and practitioners, it highlights the conditions under which NPM reforms may strengthen or weaken the government's policy capacity. For scholars, it addresses a significant gap by organising and synthesising existing information to answer debates surrounding NPM and policy capacity. Ultimately, this study contributes to a more nuanced understanding of how public sector reforms shape and affect the capacity and effectiveness of government institutions.

The paper proceeds as follows. The next section outlines the methodology used in conducting the SLR. This is followed by an analysis of the findings organised thematically by the effects of NPM on policy capacity. The paper concludes with a discussion of theoretical and practical implications, followed by suggestions for future research.

METHODOLOGY

Review protocol—PRISMA

This SLR followed the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines. PRISMA was originally developed by Moher et al. (2009) and later improved by Page et al. (2021). PRISMA was chosen as the main reference because it offers several advantages. These include a comprehensive search strategy, quality control over selected articles, and a structured process for data extraction based on the research questions. Although PRISMA was originally designed for the health and medical fields, Page et al. (2021) emphasised that it is flexible enough to be applied in other disciplines as well. Guided by PRISMA, this SLR was carried out using four main steps: formulating research questions, conducting a systematic search strategy, assessing the quality of the articles, and extracting and analysing the data.

Formulation of the Research Question

Formulating a clear research question is an important part of conducting an SLR. Lockwood et al. (2015) introduced the use of the PICO mnemonic to help guide this process, where P stands for Population, I for Interest, and Co for Context. However, this SLR was driven by a conceptual interest (I) in exploring the connection between NPM and policy capacity, without focusing on a specific population or national context. Because of this, using a mnemonic like PICO was not necessary. Instead, the main research question guiding this review was, “How does New Public Management (NPM) influence policy capacity (PC) in the public sector?”

Systematic Searching Strategies

To ensure that this SLR carries out a comprehensive search, a systematic search strategy was used. This process followed three main steps: identification, screening, and eligibility.

Identification

Identification is the stage where the researcher determines key terms based on the research question. Relevant studies were identified through systematic searches using three databases, such as Scopus, Web of Science (WoS), and Google Scholar. To identify potentially relevant articles, a manual searching technique (handpicking) was conducted. Although manual searching is subject to certain biases, such as retrieval bias and publication bias, efforts were made to minimise these limitations by using multiple databases as mentioned and a consistent search strategy.

To assist with the search process, artificial intelligence (ChatGPT) was used to explore related terms and synonyms to improve the likelihood of retrieving relevant literature. Based on this exploration, the following key terms were identified:

- Policy capacity: policy capacity, policy capability, analytical capacity, operational capacity, political capacity, administrative capacity, institutional capacity
- New Public Management: new public management, NPM reform, managerialism, public management reform, administrative reform
- Public sector: public sector, public administration, bureaucratic capacity, state capacity

Initially, a more complex search string was tested, using field codes, phrase searching, and Boolean combinations (see Table 1) to capture a wider pool of studies. However, the results often included irrelevant articles, many of which did not discuss how NPM affects policy capacity. Consequently, a simpler and more focused search string—"policy capacity" AND "New Public Management"—was adopted across all three databases. This simplified approach improved the relevance of search results and provided a more consistent basis for comparison across platforms.

Table 1. Search string used in the selected database

Database	Initial Search String	Final Search String Used
Scopus	TITLE-ABS-KEY(("policy capacity*" OR "policy capability*") AND (factor* OR determinant* OR influence*) AND ("New Public Management" OR NPM OR "administrative reform") AND ("public sector" OR "public organization*" OR "public administration" OR "public service*"))	TITLE-ABS-KEY(("policy capacity") AND ("new public management")).
Web Of Science (WoS)	((((((((((((TS=("policy capacity")) OR TS=("policy capability")) AND TS=(factor*)) OR TS=(determinant*)) OR TS=(influence*)) AND TS=("New Public Management")) OR TS=(NPM)) OR TS=("administrative reform*")) AND TS=("public sector")) OR TS=("public organization*")) OR TS=("public administration")) OR TS=("public service*"))	(TS=("policy capacity")) AND TS=("new public management")
Google Scholar	("policy capacity") AND ("New Public Management")	("policy capacity") AND ("New Public Management")

Despite its effectiveness in narrowing down results, it showed that only a limited number of studies discussed both concepts together. Specifically, only seven articles were retrieved from Web of Science and 14 from Scopus. To enhance the comprehensiveness of the review, the search was expanded to Google Scholar, which resulted in 105 papers that appeared relevant after initial identification. In total, this identification process produced 126 potentially relevant articles, which were then carried forward to the next stage—screening.

Screening

Screening is the second stage of the review process, where the researcher applied specific criteria to select relevant articles. This process served two main purposes: to reduce the number of potentially eligible articles and to select those most relevant to this SLR. As shown in Table 2, three screening criteria were applied:

Table 2. Screening Criteria

Criterion	Inclusion	Exclusion
Document	Articles (with empirical data)	Review article, chapter in a book, conference proceeding, etc.
language	English	Non-English
Duplicates	Unique articles (duplicates removed)	Duplicate entries identified across databases

The inclusion criteria were kept intentionally flexible, including the decision not to restrict by publication year, as the initial number of identified articles (126) was relatively small. As such, during the screening stage, articles published between 1996 and 2024 were considered. After this initial screening, a total of 16 articles were excluded, leaving 110 articles to proceed to the next stage—eligibility assessment.

Eligibility

Next, the researcher conducted the eligibility assessment, which involved reviewing the titles and abstracts of the selected articles. The main purpose of this stage was to determine the relevance of each article in relation to the objectives and research questions of this SLR. During this process, a total of 91 articles were excluded for the

following reasons: the article did not address the research question, the full text could not be retrieved, and duplicate entries that were not previously detected. The remaining 19 articles were then carried forward to the next stage—quality appraisal.

Quality Appraisal

The quality appraisal stage was performed to ensure that the methodology and analysis of the selected studies were completed satisfactorily. This process was conducted by the lead researcher, with the assistance of two co-researchers. The evaluation was guided by six criteria adapted from Abouzahrah et al. (2020): QA1. Is the purpose of the study clearly stated?; QA2. Is the interest and the usefulness of the work clearly presented?; QA3. Is the study methodology clearly established?; QA4. Are the concepts of the approach clearly defined?; QA5. Is the work compared and measured with other similar work?; and QA6. Are the limitations of the work clearly mentioned?

To determine whether the articles met the required quality, Abouzahrah et al. (2020) proposed that only studies scoring a minimum of 3.0 or above (on a scale of 0 to 6) should be included. After applying this appraisal, the researcher confirmed that all 19 selected articles met the minimum quality threshold. Among them, 5 articles scored 4/6, 2 articles scored 4.5/6, 5 articles scored 5/6, 4 articles scored 5.5/6, and only 3 articles received full marks (6/6). These 19 articles were thus included in the next stage—data extraction and analysis (see **Error! Reference source not found.**).

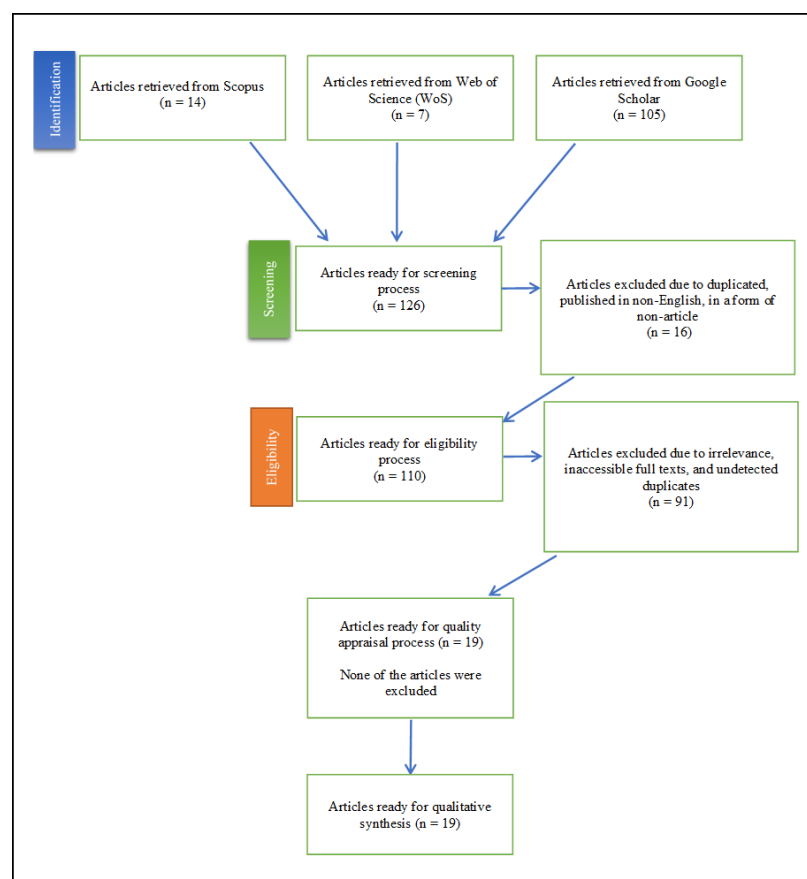


Figure 1. SLR Flow Diagram

Data Extraction and Analysis

To guide the theme identification process, the researcher referred to suggestions generated using AI (ChatGPT), as well as insights gained through long-term engagement with the literature. Over the years, a noticeable trend was observed in which several studies—such as those by Brenton, Baekkeskov, and Hannah (2022); Painter and Pierre (2005); and Wu, Howlett, and Ramesh (2018)—have, to some extent, discussed how New Public Management (NPM) can erode policy capacity. This observation helped inform the initial theme development for this SLR, which aims to explore not only how NPM reduces policy capacity, but also the various other ways it may influence it. Through this process, three potential themes were identified. These themes were then presented to several reviewers for validation. The reviewers agreed that all three themes were relevant and suitable for inclusion in this review.

Next, the researcher carried out a data extraction process, where the focus was on identifying relevant information from the results and discussion sections of the selected articles. All relevant data were extracted and compiled into a single table to systematically organise the findings. For the analysis phase, a deductive thematic analysis was employed. In conducting this analysis, the researcher followed the theme development criteria proposed by Braun and Clarke (2006). These criteria include identifying themes and sub-themes, validating the themes and sub-themes, extracting data for thematic analysis, and reporting the themes in the SLR article. In the final stage, the themes were presented in the findings section and summarised in table form (see *Table 3*).

FINDINGS

Background of the Selected Studies

This SLR was based on 19 selected articles. In terms of publication years, the distribution is as follows: four articles were published in 2005, one in 2009, one in 2011, two in 2015, one in 2016, two in 2017, three in 2018, one in 2019, two in 2020, two in 2021, two in 2022, and one article was published in 2023. Geographically, the majority of the studies were conducted in Australia. Other studies were carried out in countries such as Canada, Mexico, Norway, and New Zealand.

The Developed Themes

This review explored the connection between NPM and policy capacity. While traditional discussions often emphasise how NPM reforms have weakened policy capacity, the literature reveals a more complex and nuanced interaction. In many cases, NPM and policy capacity intersect and influence each other in meaningful ways. Based on the thematic analysis, three themes were developed, namely erosion of policy capacity under NPM reforms (comprising six sub-themes), enhancement of policy capacity through NPM practices (comprising three sub-themes), and the role of policy capacity in supporting NPM implementation (comprising one sub-theme) (see *Table 3*). Together, these themes illustrate the complex and sometimes contradictory relationship between NPM and policy capacity, moving beyond a simple narrative of decline to a more balanced understanding of how these concepts interact.

Table 3. Primary Themes and Sub-Themes

Authors	Country	Main Themes/ Sub-Themes										
		NPM erodes policy capacity						NPM enhance policy capacity			NPM requires policy capacity	
		O	PM	D	S	A	P	O	S	ACC	PM	others
Perl and White (2002)	Canada	/	/					/				
Christensen & Løegreid (2005)						/						
Painter & Pierre (2005)				/								
Verhoest & Bouckaert (2005)					/				/			
Edwards (2009)	Australia	/					/					
Eakin et al. (2011)	Mexico, Norway	/	/	/			/					
Head (2015)	Australia	/										
Lægreid et al. (2015)				/								
Saguin (2016)												/
Akcay (2017)										/		
Peters (2018)			/			/						
Bettini and Head (2018)								/				
El-Taliawi and Van Der Wal (2019)			/			/						
McGann et al. (2019)	Australia, New Zealand	/										

Drew (2020)		/	/									
Walter et al. (2020)								/				
Faulkner (2022)		/	/								/	
Mirzamani et al. (2022)											/	
Head (2023)								/				

Main Themes	NPM erodes policy capacity	NPM enhance policy capacity	NPM requires policy capacity
Sub-Themes	O= Outsourcing PM= Performance Measurement D= Decentralisation S= Specialisation A= Autonomy P= Privatisation	O= Outsourcing S= Specialisation ACC= Accountability	PM= Performance Measurement

Erosion of Policy Capacity under NPM Reforms

The adoption of NPM reforms has, in many contexts, eroded elements of policy capacity, despite their original intention to improve public sector performance (Christensen & Lægreid, 2005; Painter & Pierre, 2005; Eakin, Eriksen, & Eikeland, 2011; Head, 2023). While NPM emphasises internal efficiency, such as performance metrics and cost-effectiveness, effective policy capacity requires a balance of both internal and external effectiveness—including responsiveness, coherence, and strategic governance outcomes (Painter & Pierre, 2005). This section critically explores how key features of NPM—while beneficial in some respects—have, in practice, contributed to the weakening of analytical, operational, and political capacities in the public sector.

Outsourcing

One of the most widely critiqued outcomes of NPM is the gradual hollowing out of the state, where governments become less directly involved in service provision and policy development, relying instead on external actors (Head, 2015). A key mechanism in this process is outsourcing—the practice of contracting private organizations to carry out functions traditionally managed by the public sector, including policy advice and service delivery (Head, 2023). Outsourcing is often justified as a way to bring in external expertise, offering new knowledge and technology that supposedly supplements the public sector's capabilities (Perl & White, 2002). However, its overuse has had unintended consequences that erode policy capacity (Perl & White, 2002; Faulkner, 2022).

First, outsourcing leads to a loss of internal expertise. As more policy functions are transferred to private consultants, public servants are relegated to routine administrative tasks or, at best, serve as "brokers" or "navigators" between the private sector and policy outcomes (Perl & White, 2002; Eakin et al., 2011; Drew, 2020). Over time, this reduces their direct engagement in policy formulation, weakening their overall analytical capacity—knowledge, skills, and expertise in policy making, as well as institutional memory (Faulkner, 2022; Head, 2023; Eakin, Eriksen, & Eikeland, 2011; Drew, 2020). As they become more central to overseeing outsourced services, bureaucrats lose their value as the focus shifts to managing external contracts rather than developing policy expertise (McGann, Wells, & Blomkamp, 2019; Head, 2015). Yet the private sector, while possessing specialised knowledge, often lacks a nuanced understanding of governmental contexts and the intricacies of public policy, leading to a disconnect between policy needs and the solutions provided (Head, 2023). In this regard, Head (2015) notes that the effectiveness of external expertise is context-dependent. It can only enhance policy capacity when the public sector retains sufficient internal capacity to absorb, evaluate, and apply that external input. Without this foundation, outsourcing risks weakening—not strengthening—the public sector's capacity for policy development and governance.

Secondly, the cost-efficiency argument for outsourcing is not always supported by evidence. While outsourcing is often promoted as a way to reduce public spending¹, it can generate hidden costs. Perl and White's (2002) study of Canada's public sector found that downsizing administrative staff created space for increased spending on external consultants—but this didn't necessarily reduce costs. In fact, it shifted the workload: remaining managers and administrators had to spend more time supervising and evaluating outsourced work, introducing a new layer of administrative burden. What was intended as a cost-saving measure ultimately reshaped, rather than reduced, internal workload—while also degrading internal policy capacity.

Lastly, outsourcing can also reduce political capacity by weakening accountability. Outsourcing often prioritises profits over public interests, with contractual terms that may prioritise efficiency or cost-cutting over equity and public service values (Eakin et al., 2011). Such practices can erode public trust, particularly among marginalised or less vocal groups who may feel excluded from the decision-making process. Consequently, declining public trust could make it difficult for policymakers to secure public support for reforms or new policies, which indirectly weakens policy capacity (Walter, Tiernan, Head, & Meredith, 2019). As accountability structures weaken, so does the legitimacy and responsiveness of the state.

Performance Measurement

The emphasis on performance measurement under NPM has led governments to prioritise quantitative assessments—such as standard reporting and contractual compliance—and tie rewards and funding to measurable outcomes (Peters, 2018). Intentionally promoting efficiency and accountability, this approach has inadvertently eroded policy capacity. Organisations increasingly shift their focus toward meeting predefined indicators and delivering tangible, one-dimensional outcomes, shifting away from addressing complex, long-term policy challenges (Peters, 2018; Faulkner, 2022; Drew, 2020; Eakin, Eriksen, & Eikeland, 2011).

Peters (2018) argues that performance management compromises analytical capacity by replacing in-depth policy analysis. The assumption that well-implemented programmes equal to good policy has diminished concern for the actual content and quality of policy decisions. This shift has led to a superficial understanding of policy, often resulting in incomplete or inaccurate assessments. Besides, it can stifle innovation, reduce the ability to respond to emerging or long-term issues, and ultimately erode public trust in governance.

Drew's (2020) study highlights how performance measurement can weaken operational and analytical capacity, especially in organisations dependent on government funding. In order to secure continue government support, these organisations face strong incentives to align their operations with bureaucratic demands. Consequently, their attention has shifted from community-based problem-solving to compliance and reporting. Administrative survival sidelines their original strengths, such as creativity, local knowledge, and contextual responsiveness. Over time, such behaviour undermines their analytical capacity by reducing their ability to assess needs, diagnose problems, and design effective interventions.

This shift does not just affect community organisations—it has broader implications. When organisations become overly aligned with government rules and targets, they risk losing their unique identity and purpose. Instead of being independent actors with their own unique contributions to the policy process, they begin to resemble administrative extensions of the state. This loss of distinctiveness can weaken collaboration, which is a core component of policy capacity—especially in terms of organizational operational capacity in the public sector (Drew, 2020).

Effective policymaking often relies on strong tri-sectoral coordination—collaboration between government, private, and community sectors. However, when NPM reforms turn organisations into rigid, rule-bound service providers, it limits their ability to engage as equal, creative partners. As Drew (2020) and El-Taliawi and Van Der Wal (2019) emphasise, restricting these organisations to narrowly defined, compliance-focused roles limit their ability to fully engage in the policymaking process. Consequently, the exclusion of valuable insights, practical knowledge, and innovative contributions from these actors weakens the overall quality and inclusivity of policy outcomes.

In sum, while performance measurement aimed to strengthen governance, it has often constrained it. By narrowing organisational focus to what is easily measurable, it has diminished the analytical and collaborative capacities needed for responsive, adaptive policymaking.

Decentralisation

Decentralisation in the NPM was intended to enhance efficiency by delegating authority and decision-making powers from central bodies to individual agencies and managers (Painter & Pierre, 2005). By giving them greater

¹ The rationale behind outsourcing in NPM aligns with the concept of policy capacity. NPM views outsourcing as a cost-saving strategy that allows governments to redirect savings toward higher-priority areas. This argument reflects the policy capacity perspective, where sufficient financial resources enhance operational capacity by enabling governments to focus resources on what matters most.

autonomy, the goal was to reduce bureaucratic rigidity, improve responsiveness, and enhance service delivery (Eakin, Eriksen, & Eikeland, 2011; Læg Reid, Randma-Liiv, & Rykkja, 2015). However, in practice, decentralisation has also led to administrative fragmentation. As responsibilities were divided among multiple specialised, single-purpose agencies, coordination across ministries and sectors became increasingly difficult (Læg Reid, Randma-Liiv, & Rykkja, 2015; Eakin, Eriksen, & Eikeland, 2011).

Rather than promoting integration, decentralisation often resulted in siloed operations, where agencies worked in isolation. Læg Reid et al. (2015) describe this scenario as “negative coordination”—a situation where ministries and agencies avoid interfering with one another, rather than actively cooperating. This lack of coordination weakened policy coherence and made it harder to tackle complex, cross-cutting issues. As agencies concentrated more on their own narrow mandates and performance targets, the ability to build system-wide synergy and pursue a shared strategic vision declined. In this way, decentralisation—despite its intention to increase flexibility—often contributed to over-specialisation and institutional disconnection, ultimately undermining collective policy capacity.

Specialisation

While specialisation, a core mechanism of NPM, is intended to improve performance by promoting clear objectives, accountability, autonomy, and flexibility (Verhoest & Bouckaert, 2005), its impact on policy capacity is uneven. At the organisational level, specialisation may strengthen policy capacity by allowing agencies to narrowly focus on specific tasks. However, this micro-level improvement often comes at the expense of macro-level policy capacity. As agencies become increasingly inward-looking and performance-focused, they may disengage from broader policy coordination, weakening the integration of policy centres and disrupting the coherence of policy cycles. As a result, when organisations operate in silos, they are less likely to collaborate or share insights across government, undermining the collective ability to craft and implement cohesive, system-wide policy responses (Verhoest & Bouckaert, 2005).

Autonomy

Autonomisation in NPM refers to the separation of roles between politicians and bureaucrats. The idea was that politicians would focus on policy-making, while bureaucrats would concentrate on the implementation of those policies (El-Taliawi & Van Der Wal, 2019). By granting bureaucrats more autonomy, it was meant to empower them as capable and neutral experts, able to build their expertise and strengthen their contribution to policy capacity (Christensen & Læg Reid, 2005; El-Taliawi & Van Der Wal, 2019). The assumption was that if public managers were given sufficient authority and freedom, they could perform more effectively than if they were micromanaged by political leaders (Peters, 2018; El-Taliawi & Van Der Wal, 2019; Christensen & Læg Reid, 2005). This autonomy was meant to create a form of internal deregulation within the public sector, reducing strict administrative controls and encouraging innovation, policy entrepreneurship, and more independent decision-making without political micromanagement (Peters, 2018).

However, in practice, this ideal did not always materialise. In some cases, autonomy was exploited for political or personal gain rather than used to enhance governance. For example, in Italy, El-Taliawi and Van Der Wal (2019) found that bureaucrats did not become more professional with increased autonomy. Instead, many became politicised—aligning themselves with political elites for personal advantage rather than public service. This re-politicisation diverted focus away from solving policy problems, reducing their contribution to effective governance, thereby undermining policy capacity.

In addition, autonomisation contributes to fragmentation across the public sector. As agencies became more independent, they started operating in silos, prioritising their own goals and turf rather than collaborating across institutional boundaries. This diminished institutional synergy—an important component of policy capacity—because the system no longer worked cohesively (Christensen & Læg Reid, 2005). According to Christensen and Læg Reid (2005), even when individual agencies retain a degree of policy capacity, the overall political control weakens as central authorities struggle to steer these autonomous bodies. The result has been described as a “supermarket state”, where numerous actors operate with different agendas and little coordination. In response, governments have attempted to reassert central control through initiatives like “joined-up government” (Peters, 2018), seeking to restore coherence and address the erosion of central leadership capacity that autonomisation had caused.

Privatisation

Another core feature of NPM—privatisation—was intended to make public service delivery more efficient by involving private sector actors. However, this reform has often weakened state institutions instead of strengthening them. Eakin, Eriksen, and Eikeland (2011) argue that privatisation has made government institutions

thinner and more fragile. These reforms have reduced the government's regulatory capabilities, weakened its ability to uphold social values, and undermined its capacity to interpret and respond to complex societal challenges.

The privatisation of Australia's rail industry serves as a concrete example of this erosion. Edwards (2009) found that after privatisation, the government's analytical capacity suffered significantly. Private operators withheld key operational data by citing commercial confidentiality. Without access to this data, public servants were unable to effectively plan, evaluate, or advocate for necessary infrastructure funding. To compensate, the government had to rely on expensive external consultants to carry out studies. Even when some data was eventually shared, it was too late—internal expertise had already deteriorated. Government departments no longer had the analytical skills or experience to use the data meaningfully. Together, these findings show that instead of enhancing the state's performance, privatisation can dismantle the very capacity governments need to govern effectively—especially their ability to analyse, plan, and respond strategically to public needs.

Enhancement of Policy Capacity Through NPM Practices

Although many NPM reforms have been criticised for weakening certain aspects of policy capacity, it is important to recognise that some NPM-inspired practices have also contributed positively to the development of policy capacity in the public sector. This theme highlights how NPM can strengthen various dimensions of policy capacity through specific mechanisms, such as outsourcing, specialisation, and accountability reforms.

Outsourcing

Although outsourcing has often been criticised for eroding internal policy capacity in the public sector (as discussed in earlier sections), it is important to acknowledge that it can also enhance policy capacity, particularly analytical capacity. By outsourcing, governments are able to tap into external expertise that complements internal knowledge—especially in domains where expertise largely resides outside the public sector, such as health, education, technology, and the environment (Head, 2023).

Policy analysis activities often engage external experts in policy consulting. These include tasks such as providing feedback on existing policies and evaluating the costs and benefits of different policy options (Perl & White, 2002). This external input supports evidence-informed policymaking by broadening the range of perspectives and technical knowledge available to decision-makers.

Outsourcing also helps diversify the policy community, encouraging collective learning, professional development, and innovation (Bettini & Head, 2018; Head, 2023). Through this process, governments are better equipped to respond to complex and cross-cutting challenges by designing more tailored and innovative policy solutions.

A variety of external factors contribute to this enhanced capacity, including business lobbies, consultants, think tanks, advocacy groups, university research centres, and international organisations—such as the World Bank, International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD), World Health Organization (WHO), etc. These bodies possess strong analytical capabilities, particularly in gathering and synthesising information into actionable policy recommendations (Head, 2023). These actors provide different forms of expertise and input depending on the nature of the policy issue.

Head (2023) also categorises several types of expert policy advisory bodies that play distinct roles in policymaking:

- Specialised public agencies – Provide continuous, in-house research and policy advice.
- Expert advisory committees – Offer long-term, evidence-based advice on specific issues.
- Scientific panels – Deliver technical or scientific insights, often for complex policy challenges.
- Public enquiries or royal commissions – Conduct independent investigations into controversial or sensitive issues, drawing on expert and stakeholder input.
- Parliamentary or legislative committees – Seek expert advice to support deliberation on legislative matters.

Furthermore, the involvement of multiple external actors not only brings specialised expertise, but is also necessary to support innovative learning processes that can improve the creativity of evidence-informed policymaking (Head, 2023). These external actors often have their agenda, which they may subtly embed in their advice, aiming to steer decisions in ways that also serve their interests. With this agenda in mind, this dynamic creates a form of competition, which is generally a good thing because it would encourage innovation, as actors strive to present the most attractive or innovative policy solutions to increase the chances that their advice will be adopted by the government. Such competition can energise decision-making processes and enhance policy responsiveness (Walter, Tiernan, Head, & Meredith, 2019; Head B. W., 2023).

Another key element in improving policy capacity through outsourcing is the credibility and transparency of expert appointments (Head, 2023). Leaders must carefully select expert advisors, as their legitimacy and professional standing are essential to producing high-quality advice. Transparent appointment processes help build public trust and legitimacy, contributing to enhanced political capacity (Head, 2023).

Lastly, outsourcing can also improve operational capacity by promoting a culture of cross-sector collaboration. Ideally, government agencies work together with external actors to co-develop research-informed and innovative policy ideas (Bettini & Head, 2018; Head, 2023). These experts bring in up-to-date technical knowledge and independent perspectives, enriching the policymaking process overall.

In summary, NPM's emphasis on outsourcing and reliance on external experts—when managed well—can enhance analytical, operational, and political capacity by expanding expertise, fostering collaboration, and improving the quality and legitimacy of policymaking.

Specialisation

Within the NPM framework, specialisation is seen as a key strategy for improving public sector performance (Verhoest & Bouckaert, 2005). By assigning specific tasks or functions to distinct agencies or units, specialisation allows organisations to focus on simpler objectives with clearer lines of accountability—often enforced through performance contracts. This greater focus can lead to better results by increasing organisational autonomy and flexibility.

Specialisation enhances operational capacity at the organisational (micro) level by making agencies more result-oriented and improving internal coordination (Verhoest & Bouckaert, 2005). Each agency or unit becomes more efficient within its specific area of responsibility, as roles are clearly defined and resources are better aligned with focused goals.

However, specialisation might also enhance operational capacity, as it increases the need for external coordination across government agencies. While specialisation strengthens individual units, it can also create challenges, such as duplication of efforts, policy gaps, or inconsistencies between programmes. This is especially true when specialisation is accompanied by other NPM reforms, like decentralisation, increased accountability mechanisms, performance-based evaluations, and the inclusion of non-government actors in service delivery—all of which can further fragment the system. For example, in the Netherlands, tasks were devolved to smaller, specialised agencies as a way to improve coordination among the remaining central ministries. This approach, known as vertical specialisation, helped clarify roles and responsibilities but also required new mechanisms to manage inter-agency coordination (Verhoest & Bouckaert, 2005).

Verhoest and Bouckaert (2005) describe this process as a “problem–solution=new problem–new solution” cycle. In other words, while specialisation solves certain organisational problems (like inefficiency or a lack of focus), it can also create new coordination problems that require further reforms.

Accountability

NPM reforms have also contributed to strengthening political capacity by improving accountability and responsiveness to citizens. In Turkey, for example, the top-down NPM-inspired reforms during the European Union integration process prompted a shift in administrative culture within the Ministry of Interior (MoI) (Akçay, 2017).

Historically, prefects showed little accountability to citizens. However, NPM reforms prompted a cultural change, where prefects became more attuned to public opinion and more responsive to citizen needs. This change in mentality was not just symbolic—it translated into improved public accountability and enhanced the organisational political capacity of the MoI.

Increased accountability and responsiveness also helped foster greater public trust, thereby improving the Ministry's ability to address political demands in a more transparent and effective manner. These reforms simultaneously contributed to operational systemic capacity by reinforcing structures and routines that support citizen engagement and institutional learning.

The Role of Policy Capacity in Supporting NPM Implementation

While NPM reforms are often viewed as attempts to modernise and strengthen the public sector, their success does not solely depend on the reform design. Rather, they heavily rely on the existing level of policy capacity within public institutions. This section argues that policy capacity—especially analytical, operational, and political dimensions—is not just a potential outcome of NPM but a prerequisite for its successful implementation.

As Saguin (2016) observed in his analysis of 20 administrative reform projects, analytical capacity played a crucial role in the design phase of reforms in 18 of them. Operational and political capacities were also evident in 15 cases, underlining their importance during the implementation phase. Coordination among agencies (operational capacity) was particularly vital in ensuring smooth execution, while stable legal and political

environments (political capacity) were necessary to avoid reform derailment. For instance, two failed reform projects in Pakistan were attributed to unstable policy environments and unclear legal frameworks—demonstrating how weak political capacity can undermine NPM reforms regardless of their initial promise. In short, the interaction of different dimensions of policy capacity determines whether NPM reforms are amplified or weakened during implementation.

Performance Measurement

Among the many NPM practices introduced worldwide, performance measurement reforms—such as performance-based budgeting and performance management systems—are some of the most widely implemented. However, these reforms do not automatically build policy capacity. Instead, they presuppose the existence of capacity, particularly in analytical and operational terms.

Several studies highlight that performance measurement reforms tend to fail or stall when such capacities are weak or underdeveloped (Mirzamani, Naderi-Beni, & Mohammadian, 2021; Faulkner, 2022). For example, while these reforms aim to improve accountability and decision-making, they require strong analytical capacity to interpret data, assess outcomes, and link performance information to policy decisions. They also demand operational capacity—including robust administrative systems, trained personnel, and coordination mechanisms—to implement and monitor the reforms effectively.

Mirzamani et al. (2021) and Faulkner (2022) found that, in the absence of such capacities, performance measurement reforms often led only to superficial changes. Performance-Based Budgeting (PBB), for instance, increased awareness about necessary policy skills like data analysis and negotiation, but this awareness did not translate into actual capacity development. Without sufficient resources, systems, and training, the reforms struggled to take root.

Moreover, Faulkner (2022) observed that without clear guidelines, sustained leadership commitments, and adequate support, performance measurement systems failed to reward or reinforce the behaviours necessary for improved policymaking. This highlights a critical issue: while performance measurement is often treated as a cornerstone of NPM reform, its implementation success depends heavily on pre-existing policy capacity. It is not a standalone reform—it relies on a foundation of skills, coordination, and institutional readiness.

In essence, performance measurement is one of the clearest examples of how NPM reforms are not only shaped by policy capacity but also contingent upon it. When that capacity is missing or fragmented, reforms are unlikely to meet their intended objectives and may even create new problems.

CONCLUSION

This review has explored the multifaceted relationship between NPM reforms and policy capacity. Drawing on 19 studies spanning various settings and reform experiences, the analysis reveals that the effects of NPM on policy capacity are neither linear nor uniform. Instead, they are deeply context-dependent and shaped by pre-existing institutional strengths and weaknesses.

Three core patterns emerged: NPM erodes policy capacity, NPM enhances policy capacity, and NPM requires policy capacity to be successful. First, NPM can erode policy capacity when reforms such as outsourcing, decentralisation, and specialisation are poorly designed or implemented. For example, outsourcing may reduce internal expertise (affecting analytical capacity), and too much decentralisation may break down coordination (affecting operational capacity). It can also weaken political capacity by reducing space for dialogue and long-term thinking.

Second, NPM can enhance policy capacity—particularly analytical and operational capacity—only if these NPM tools were designed carefully. They can bring in new expertise, make organisations more focused, improve service delivery, and encourage collaboration across sectors.

Third, this review shows that policy capacity is not just an outcome of NPM reforms—it is also a necessary foundation for their success. For instance, reforms like performance measurement only work well when analytical and operational capacities are already in place. Without such capacities, reforms might just be a way to tick off boxes instead of really improving performance.

These insights are especially important for policymakers. NPM should not be treated as a one-size-fits-all solution. Instead, each reform must be matched with the system's existing capacity. Policymakers must assess and strengthen policy capacity—across analytical, operational, and political dimensions—before and during the rollout of NPM reforms.

To conclude, this SLR offers a useful entry point for researchers, practitioners, and public officials who are new to the topic of policy capacity. It brings together key knowledge from around the world and across disciplines, helping readers understand how policy capacity and NPM reforms interact. However, more empirical research is still needed to understand how to make these two concepts work together in practice. While both have strong

theoretical foundations, they can lead to unintended consequences if not managed carefully. Future work should explore how to balance reform and capacity-building to improve public policy and governance in real-world settings. By doing so, scholars and practitioners alike can better design reform trajectories that enhance, rather than undermine, the resilience and effectiveness of public governance.

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Declaration of Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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