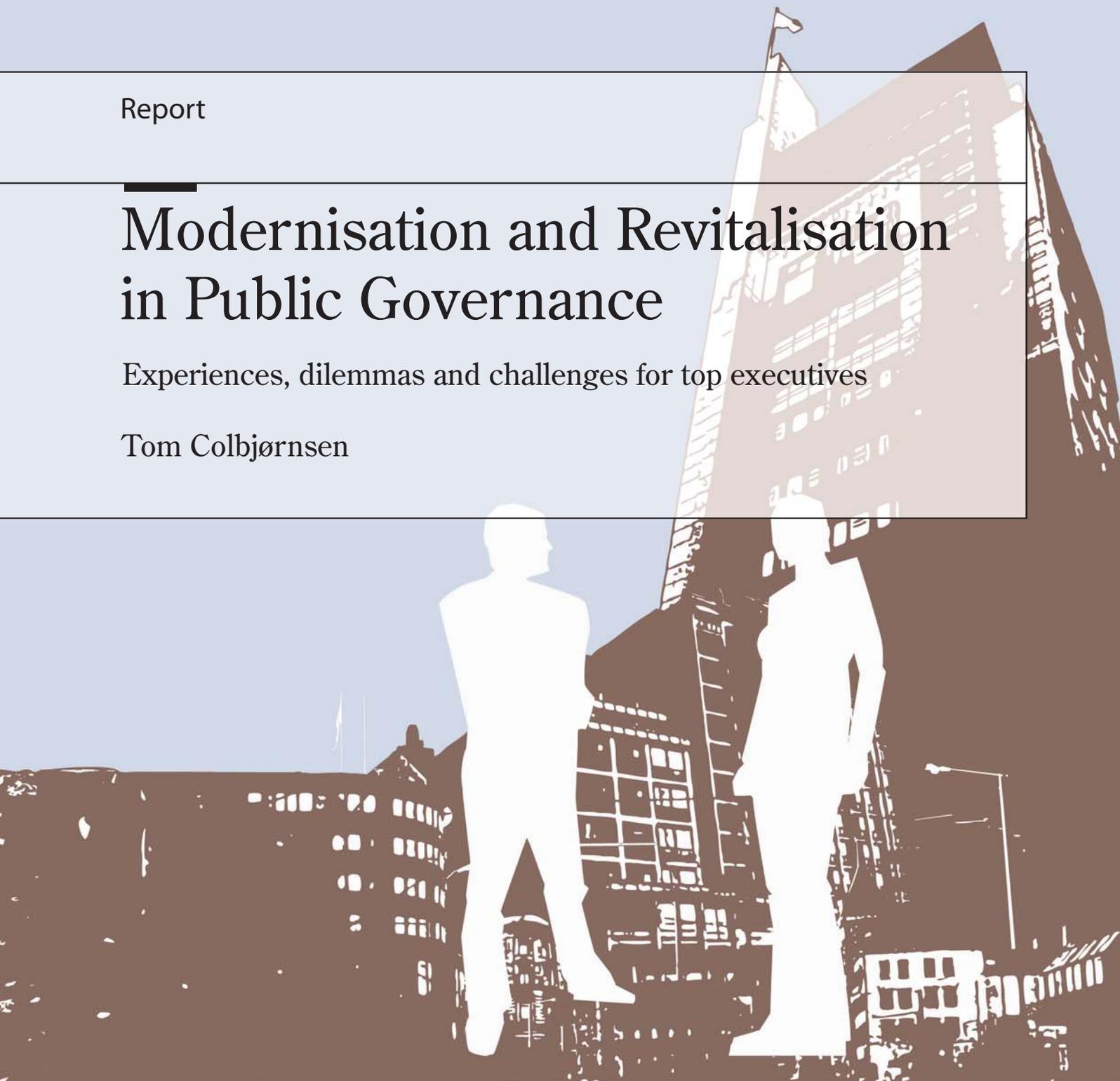


Report

# Modernisation and Revitalisation in Public Governance

Experiences, dilemmas and challenges for top executives

Tom Colbjørnsen



MODERNISERINGSDEPARTEMENTET

*Ministry of Modernisation*

## CONTENTS

Preface	<b>The Top level programme for the modernisation of public governance</b>
Chapter 1	<b>Introduction and overview</b> Purpose of the report The diversity of modernisation Modernisation in practice References Contents of the report Limitations
Chapter 2	<b>Modernisation's objectives, dilemmas and challenges to top central government executives</b> What does modernisation mean? Objectives Dilemmas Challenges to top level executives
Chapter 3	<b>User-centrism, simplification and efficiency improvement</b> Users and the citizens User-centrism The production of services The exercise of authority Simplification and user-centric services Efficiency improvement through competition and market orientation
Chapter 4	<b>Public governance, delegation and decentralisation</b> Predictability and flexibility Delegation within administrative hierarchies Independent administrative agencies Independent legal entities Indirect governance and regulation The Power Supply Industry – a combination of different forms of governance

- Chapter 5 **Modernisation and public management**  
State executives as prime movers and strategists  
Line organisation, horizontal collaboration and managerial responsibility  
State executives as agents of change  
Stress tolerance and crisis management  
Cultural management
- Chapter 6 **The dilemmas and challenges modernisation poses to top top level executives**  
Efficient administrative procedures and political legitimacy  
Balancing objectives and role confusion  
Decentralisation and red tape  
Oversight and creativity  
Conclusion: 'The tyranny of individual cases'

#### **References**

**List of speakers at the programme for Top Central Government executives**

## **PREFACE TOP LEVEL PROGRAMME FOR THE MODERNISATION OF PUBLIC GOVERNANCE**

In connection with the Bondevik II administration's programme for modernisation, efficiency improvement and simplification in the public sector, the then Ministry of Labour and Government Administration decided in 2002 to organise a programme for top central government executives. The target group for the programme consisted of directors general in the ministries, top executives in administrative entities, and county governors. A total of roughly 160 executives participated in the four groups that were organised. Each group had four two-day sessions. The programme ran from March 2003 to May 2004. The main themes were identical for all four groups. However, the first two groups placed somewhat stronger focus on user-oriented services compared with the last two, which attached more emphasis to the exercise of authority.

The purpose of the programme for top level executives was to provide a forum for the exchange of ideas and experience in order to help define and discuss the topics involved in modernisation. It was also intended to create a common frame of reference, a common language and a network of executives for the central government's further efforts to revitalise public governance. The programme for top central government executives had a thematic and professional focus, touching only indirectly on the individual participant's personal development and challenges as a leader. Most ministries, government agencies and undertakings already run their own individual- and team-oriented executive development programmes.

Each session featured lectures by experts who reported on developments on the research front in their respective fields, and by top executives who summarised their experiences from modernisation processes in which they had participated. The lectures were supplemented by group discussions about previous experiences. Each participant prepared a presentation of three modernisation projects they had implemented or were in the process of implementing, and then the projects were discussed with the other members of the group.

The purpose of this report is to summarise the topics presented and discussed at the programme for top level executives. The reason for gathering all the material together into one place is to convey the collective experience- and research-based knowledge gained in a manner that promotes continuity in revitalisation efforts, and then to

make the material accessible to top level executives and others who did not participate personally. The report is built up around different topics related to modernisation and the challenges they present to executives, i.e. the report has not been written as a chronological record of the sessions. Accordingly, the report contains no specific references to the various speakers, or to public documents referred to in the presentations. A list of the various speakers can be found at the end of this report, along with a list of official publications referred to in the text.

This report was commissioned by the Ministry of Modernisation. I have enjoyed complete freedom in compiling this report, and the ministry has not taken any position on the report's contents or conclusions.

Bergen, 20. november 2004  
Tom Colbjørnsen

## CHAPTER 1 INTRODUCTION AND OVERVIEW

### The purpose of the report

The modernisation of the Norwegian State involves making activities more user-oriented, simple and efficient through delegation and decentralisation. These efforts have been in progress more or less continuously since the early 1980s. This report discusses the dilemmas and challenges modernisation engenders for top State executives. The report summarises the experiences of top State executives with various solutions and models, for better or for worse, and discusses insights generated by research in this area.

### The diversity of modernisation

Modernisation efforts are characterised by discussions and diversity both with a view to which kinds of challenges are important and which solutions are most expedient. This topic falls into the grey area between subject and policy. Moreover, it can be viewed from different angles, depending on political point of view and technical perspective. The Norwegian State is highly diverse and complex. Challenges differ from sector to sector, and solutions in one area are not often transferable to another. For instance, models that can facilitate the more user-friendly administration of welfare schemes are not necessarily relevant for the organisation of the Foreign Service.

Despite this diversity, the State faces some common challenges across all sectors. The need for modernisation and simplification is closely linked to ensuring that the State consistently safeguards the interests of the citizens as effectively and simply as possible, as these interests are expressed by users' demand for services, political decisions about civil rights and obligations, and the need to take account of important social factors. The challenges related to user-centrism, simplification and efficiency improvement loom larger as the State's activities cover increasingly larger areas of people's lives, and call for a greater share of society's collective resources. Delegation, decentralisation and the increase in the market orientation accorded to state-controlled entities are crucial instruments for meeting these challenges. Although specific issues and solutions differ from sector to sector, the basic challenges and strategies for finding and implementing solutions often have a great deal in common, at least insofar in general and as questions of principle.

This report attempts to capture the diversity inherent in the views and challenges associated with the modernisation of the State by outlining

the main dilemmas engendered by modernisation, and discussing the decisions top State executives are called upon to take when various objectives have to be weighed against each other.

## Modernisation in practice

As mentioned, efforts to make the State more user-friendly, simple and efficient through delegation and decentralisation have been in progress for several decades. Many projects have been or are being implemented, as reflected by the list of topics currently being addressed. They will be discussed later in this report.

- *More focus on users*, e.g. service guarantees, free choices for users, user evaluations, user satisfaction surveys, the reorganisation of front line services to ensure more uniform user contact, electronic user interfaces like the system for submitting income tax returns, and new schemes for filing complaints;
- *New funding structures*, e.g. performance-based and activity-based funding, funding per unit and the calculation of overall costs;
- *Exposure to competition*, e.g. the establishment of internal markets where internal suppliers must compete against independent ones, outsourcing, benchmarking, and orderer/supplier models;
- *New forms of governance*, e.g. by replacing direct orders with governance based on indirect framework conditions, corporate governance and contract governance;
- *Market orientation and the reorganisation of subordinate units*, e.g. the reorganisation of the oversight function, the reorganisation of directorates, the establishment of new units, the formation of private companies, and the establishment of 'independent administrative agencies' which, through special statutory provisions, limit a minister's right to instruct;
- *The simplification of legislation and regulations*, e.g. through amendments that augment local freedom of action for undertakings through decentralisation and delegation, and amendments that simplify regulations for the citizenry and industry.
- *Internal reorganisation within a given entity*, e.g. by introducing teams, collaborating across units, delegating authority and responsibility to co-workers, using alternative wage systems or moving all or parts of an undertaking.

## References

There is already a comprehensive body of Norwegian and international reference material available on the modernisation of the State. Many political scientists and sociologists have been concerned about the effects of decentralisation, market orientation and exposure to competition will have on State institutions' grounding in democratic processes. This literature often draws pessimistic conclusions about the effects of modernisation on democracy and representative government, and about the wisdom of applying market-type mechanisms to public sector governance. A number of economists assume that political processes and public leaders' interest in expanding their own fields and activities will reduce the efficiency of resource utilisation, and that users' needs and freedom of choice are not adequately protected by a centralised administrative structure.

This report takes exception to both those viewpoints. Rather than attaching importance to consideration for either democratic control or the nature of politics, or to efficient resource utilisation and users' needs, this report will focus on the dilemmas modernisation engenders when both aspects are taken into consideration simultaneously. For example, dilemmas are created by the need to make choices between non-sector-specific administrative procedures and policy, between centralisation and decentralisation, and between choices for users and civic duties, to mention just a few. By the same token, this report will place more emphasis on shedding light on the challenges such decisions pose to top State executives than is usually the case in the literature on modernisation.

## Contents of the report

First, Chapter 2 amplifies how this report views the expression 'the modernisation of public governance', explaining why it has been a high-priority political area since the early 1980s. The report then points out how top State executives' greatest challenge in connection with modernisation is to balance the political system's demand for change and legitimacy in democratic processes, with the public administration's need for predictable, well-grounded administrative procedures. Many of the challenges top executives face in relation to the revitalisation of the State can be traced back to this fundamental dilemma.

Chapter 3 contains a discussion of the principle of user-centrism, the primary objective of modernisation. Initially, it discusses which assumptions must be satisfied for the customer model to be relevant

for the public sector. It points out that user-centrism places different demands on the public sector, depending on whether one is talking about users seeking services or the citizenry practicing its rights and duties. However, the requirements in respect of service, respect and simplification are the same, regardless of whether the target is users or the citizenry in general. Finally, the chapter discusses the conditions that must be satisfied if competition and market orientation are to help improve the efficiency of public undertakings on users' terms.

Different models for delegation, decentralisation and market orientation are discussed in Chapter 4. Delegation implies transferring the authority to act on behalf of others to subordinate administrative levels. The authorisation can be rescinded, but superior administrative levels can maintain both overall responsibility for an undertaking and the right to instruct subordinate units.

The most important means of delegation is management by objectives and performance, combined with more financial freedom of action and the use of activity-based funding in respect of local administrative entities. Decentralisation implies transferring authority to act on a party's own behalf. This takes place partly within the framework of administrative law through the establishment of independent administrative agencies, where special statutory provisions preclude the ministries from engaging in direct governance or instruction in individual cases. The second and most common type of decentralisation consists of making undertakings independent legal entities. The establishment of state-owned enterprises has been the most common means of accomplishing this. By way of conclusion, the chapter illustrates how decentralisation and delegation are accompanied by more use of indirect instruments of governance on the part of the State. These are intended more to establish acceptable framework conditions than to dictate behaviour. Indirect governance does not necessarily mean that policy is abdicated, but rather that political influence is channelled to a greater extent through indirect policy instruments such as licences and the procurement of services based on tenders. Many of the indirect instruments represent attempts to take advantage of the efficiency inherent in market-type mechanisms.

Chapter 5 discusses which new demands modernisation places on the role of State executive. State executives must continue to be specialists in their fields, at the same time as they are duty-bound to adhere loyally to political decisions. When reorganisation and change become everyday occurrences, they result in considerable unrest and

uncertainty, causing co-workers and others to call for clear leadership. The forces working against modernisation may be well organised, and they often share the media's interest in focusing attention on problems and conflicts. Executives are called upon to act as prime movers and strategists, to combine project and line organisation, to deal with processes of change, to develop their own and co-workers' ability to cope with stress and crises, and to practise combined cultural and administrative leadership.

### Limitations

The municipalities play an increasingly more important role as public sector services expand. Hence the relationship between State and municipality and the development of the municipal sector are important aspects of modernisation work. However, that topic is beyond the scope of this report. The same applies to other countries' experiences of modernisation.

This report does not contain proprietary data on or surveys of State executives or institutions.

## CHAPTER 2      MODERNISATIONS' OBJECTIVES, DILEMMAS AND CHALLENGES TO TOP CENTRAL GOVERNMENT EXECUTIVES

Ever since the early 1980s, changing Norwegian governments have instituted programmes to reform the public sector. The programmes have had different names: modernisation, simplification and revitalisation. There have been different ideas about which objectives should be given priority and which instruments might be most expedient. The general intentions have nonetheless largely been the same, i.e. to ensure that the public sector accommodates users' needs insofar as possible, that the desired quality is supplied without unnecessary expense, that administrative procedures and services are supplied quickly and in a manner that shows respect for the users, and that the organisation makes it as convenient as possible for users to deal with the public sector.

Accordingly, there have been and will continue to be many changes made in the State. In 1990, management by objectives and performance was introduced throughout the State administration. The goal was partly to simplify the systems of public governance, and partly to facilitate decentralisation and delegation. A service declaration requirement was introduced in 2000. It was intended to simplify routines for users by reducing processing time and facilitating more ready access to public services. According to Statskonsult, 60 units changed their form of affiliation between 1988 and 1998. Since 2000, about 70 undertakings have undergone major restructuring, not counting the hospital reform and the restructuring of institutions of higher education.

What does modernisation mean?

This report uses modernisation as a general term to describe changes intended to make the State more user-friendly, efficient and accessible, e.g. decentralisation, delegation and the market orientation of undertakings. Such terminology usage is reasonably consistent with what is common at the national and international levels when discussing changes in public sector activities, and it is meaningful in such contexts.

This terminology usage differs from the sociological approach, where modernisation alludes to society being differentiated into different spheres, e.g. the market, the State, the family and education (socialisation). Each of these systems has its own logic, but that logic

is not necessarily transferable from one area to the other. For example, some would contend that it is a problem to apply market-like mechanisms, which dominate the economic sphere, to State activities, where bureaucracy rules.

However, even sociologists have more than one way of using the term 'modernisation'. Another tradition is to view modernisation as an historic process of change distinguished by increasing individual freedom, more predominance of scientific reason, and greater emphasis on humanistic values.

The term 'modern' is derived from a Latin adjective meaning 'new'. In other words, the concept is basically without specific substance; it is used in different ways and in vastly different spheres, ranging from comparisons of historic eras to comparisons of jeans with stove-pipe or flared legs. Accordingly, it does not seem fruitful to embark on any discussion of who 'owns' the true and genuine concept of modernisation. Instead, its content must be defined in each individual case, making it a good tool for communication in a specific context. The author has chosen to apply this pragmatic approach in this publication.

## Objectives

For as long as it has existed, Norway's State administration has been subject to reforms and adjustments at a pace commensurate with changing political trends and social challenges. Notwithstanding, Norway and other Western countries reached a crossroads in about 1980. At that point, growth in public sector responsibilities during the post-war years made it imperative to develop a unified policy for the organisation and operation of the public sector. In contrast to countries such as England and New Zealand, where it was considered important to reduce the scope of State activities and where privatisation was considered a goal in itself, the discussion in Norway revolved less around the total scope of the State's activities, and more around how activities can be organised and arranged. Exposure to competition and privatisation have been considered instruments for achieving user-centrism and efficiency improvement, rather than as goals in themselves. Norway's strongest focus has been on user-centrism, efficiency enhancement and simplification.

### *User-centrism*

The public administration must be more responsive to the needs of its principals. This refers to politicians who require informed advice to adopt decisions, to residents and enterprises that seek high-quality

services adapted to their needs, and to the citizens whose need for the rule of law, social order and other basic social services must be accommodated. The discussion about the public administration's responsiveness to the general public and its elected representatives is not new; it has been more or less continuous in recent history and is recognisable, for instance, in the debate on bureaucracy versus parliamentarianism. User-centrism has nonetheless become increasingly relevant as the presence of the public sector has proliferated to ever more areas of society, enveloping more of the lives of the citizenry. More and more users are also taking higher educations and becoming more aware of their rights, ably assisted by media that stand vigil to ensure that the public sector attends to needs of the general public and performs its duties in a legitimate manner. The citizenry's expectations of having its needs met by public services appear to be escalating in tandem with public sector expansion. The availability of social welfare often creates its own demand. For example, as is familiar from the public health service, new diagnoses and treatments tend to make many citizens more aware of their need for professional treatment and help.

#### *Efficiency enhancement*

Public resources must be spent efficiently if the public is to satisfy users' needs and expectations at the same time as the State's financial latitude is becoming more restricted. Efficiency enhancement involves ensuring that an undertaking is geared towards the wishes of users and the citizenry, and that the desired quality is provided at the lowest possible cost. As the scope of the public sector expands and ever more resources are tied up in earlier decisions and statutory rights, it can be difficult to find funding for new tasks. This is true even though Norway's State government finances are good, thanks to oil production in the North Sea.

Meanwhile, there are limits to how high the level of taxation can be before it erodes the motivation of employees and enterprises to contribute to value creation. In future, the State's financial freedom of action will be eroded further as a result of a demographic trend whereby fewer occupationally active people will have to support a growing number of elderly people. Simultaneously, the public sector uses labour and other production resources that might be in short supply in the private sector of the economy. Many of the services the public sector offers are labour-intensive and difficult to make more efficient without accepting an unwanted reduction in their quality, as is the case with many health and care services. As such welfare responsibilities grow, the public sector will therefore require a disproportionately large percentage of the labour force. This, in turn,

could potentially cause a labour shortage that might force wages up in the private sector, hampering Norway's competitiveness on the international arena. This is particularly important in a small, open economy like Norway's.

### *Simplification*

The public administration must be more accessible and transparent. The State's historic role as initiator of political decisions and administrator of allocations was dealt with through a significant level of centralised decisions and regulatory management. Various government agencies were established to deal with different sectoral specialities. This promoted cutting edge expertise and ensured a clear distribution of responsibility. As time passed, however, the number of tasks and agencies assigned to deal with them grew elaborate and time-consuming, and making it difficult for politicians and the citizens alike to keep track of them. Users have to deal with different specialist groups and government agencies, and they may find themselves shuttled back and forth between agencies. It can also be difficult to take advantage of co-workers' competence and the opportunities offered by new technology for new, timesaving working methods. The production of services, which accounts for a growing share of the public sector's activities compared with administrative tasks, is governed too far from the front lines. This can complicate the process of trying to adapt services to a multitude of users' needs and wishes.

### *Decentralisation, delegation and market orientation*

The instruments available for realising the objectives of modernisation will differ from one sector of the State to another. The emphasis attached to them will also vary, depending on political point of view. Although there is disagreement about which areas lend themselves to exposure to competition and market forces, there is consensus that a certain degree of decentralisation, delegation and market orientation is necessary for modernisation. Local autonomy is required to adapt changes and solutions to the formidable diversity entailed by State undertakings, and to take advantage of local initiatives and competence.

Varied and practical solutions are often found at the local level for changes that might otherwise drown in disagreements on principle and conflicts of interest if one common model were devised centrally. A prime example of this is the coordination of the Norwegian Labour Directorate Aetat, the National Insurance Service and the municipalities' public assistance programmes. Although there is general consensus about the importance of better coordination, attempts to develop a new organisational model were very time-

consuming and characterised by considerable discord. The Storting (Norway's parliament) sent a report on the issue back to the Government, which appointed a special committee to study the question further. The consultative statements on the Committee's recommendation bear witness to serious disagreement. Parallel to this process, however, the authorities offered municipalities the opportunity to coordinate the three government agencies at the local level. The result was a variety of solutions that were adapted to local conditions and fell into place quickly. This proves that modernisation has a lot to learn about more effective utilisation of local initiatives and competence.

## Dilemmas

The dilemmas inherent in modernisation are ascribable to the fact that user-centrism, efficiency enhancement and simplification, as facilitated by decentralisation and delegation, must ultimately be grounded in and legitimised by democratic political processes. It is often necessary to strike a sensible balance between political influence based on representative government on the one hand, and forms of working and governance based on objective reports, overall consequences, rational deliberations, decentralisation and predictable administrative procedures, on the other. The balance facilitates efficiency, local flexibility and variations adapted to users' needs.

Tensions can arise when politicians address individual cases and demand the rapid implementation of specific measures that are politically tempting, without stopping to make in-depth evaluations or to analyse the consequences, and without taking into account that the measures are subject to judicial review and the instruction of local undertakings. In such cases, the political system's need for and desire to take action on individual cases, caused *inter alia* by the medias' growing power to set the agenda, is at loggerheads with the public administration's emphasis on predictability, expert opinions, delegation and market orientation. Political and administrative logic are at odds with each other. It is necessary to strike a continuous balance between the workings of politics and representative government on the one hand, and the public administration's need for autonomy and predictability on the other, as illustrated by the examples below.

- How far can the public administration be removed from direct political involvement in individual cases, for example, when dealing with appeals on decisions, without undermining political governance too severely? For example, one might

argue that schemes for filing complaints that are screened from political involvement in individual cases will be able to rely on purely objective considerations as the basis for their practice of legislation and regulations. This would reduce any arbitrariness or discrimination that might arise in the wake of political involvement in individual cases, and might help guarantee the legal protection of individuals. On the other hand, independent complaints boards may not take sufficient account of the effects of their decisions outside their own sector. Without political governance of the grievance procedure, it can be difficult to weigh different sectoral interests against each other. Balancing different social goals is a political responsibility rather than a sectoral one.

- Which assignments lend themselves to competition and market forces, and which ought to be regulated by direct State governance? Competition can lead to the efficient utilisation of resources, but only under certain conditions. It may also lead to unintentional distribution-related effects and distortion. Direct State control can allow special interest groups that master the game of political decision-making to secure special arrangements and other privileges at users' expense. The political processes surrounding the State's ongoing decisions require time and other resources that could have been spent more productively, at the same time as resource utilisation by undertakings could become less efficient if competition were reduced.
- How and to what extent should employees and their organisations be involved in the restructuring entailed by modernisation? It is often difficult to distinguish between political decisions and the implementation of policy. As employees, co-workers are entitled to influence only on the way in which policy is implemented, and not on the actual framing of political decisions. Employees may have special interests and privileges linked to existing schemes, and sometimes these may be at the expense of the users, e.g. working hours that are not consistent with users' needs for opening hours. Employees may also want to retain a larger than necessary staff when new technology becomes available, thus hampering efficiency improvement and cost-cutting measures. For example, there was in-house resistance to the introduction of digital switchboards at Televerket (Norway's former telecoms monopoly). That being said, employees also possess expertise that may have an important bearing on the way in which

restructuring can be implemented. Participation can engender ownership to processes of change, making it easier to implement them.

### Challenges to top level executives

Top central government executives may get caught in the middle between what has been described above as the public administration's need for a long-term perspective, predictability, autonomy and objectivity on the one hand, and politicians' governance-related wishes on the other. Balancing on the tightrope between policy and administration is the most common characteristic of public sector management.

A great deal of top State executives' time, loyalty and attention is governed by their relationship to their respective government ministers and the Storting. Ministers often send for top State executives on short notice, and these executives spend a large part of their working days reviewing issues together with 'their' ministers. The public administration is supposed to support the minister by providing advice and implementing policy, but should also ensure the system of checks and balances, and serve as a stabilising element when individual cases that attract considerable public attention make it tempting to take swift decisions without paying adequate attention to the consequences. This requires that executives generally understand how policy is devised and legitimised, and how items can be manoeuvred through the interaction between the political and administrative systems. Public management calls for considerable insight into values and the social processes that govern the State's exercise of authority and provision of services. Top State executives' close contact with the political system makes them a tool for politicians, at the same time as it affords them the opportunity to exercise influence.

Politics are often hard to predict. Executives are often called upon to make themselves available at short notice when items in the media or other events impact the political agenda. Their tasks for the day are often laid out for them in the newspaper headlines they read on their way to work. A more open society and more active, independent media exacerbate this aspect of the role of top State executives. By the same token, situations subject to strong political and public pressures can tempt politicians to act in ways that have not been thoroughly assessed, and which may conflict with previous decisions and signals. Economic management based on annual allocations can also contribute to short-term thinking. A great deal is required of top State

executives when it comes to their ability to deal with change and the lack of predictability.

At the same time as these individuals have to deal with change and the nature of the political system, they have to manage an administrative system. In principle, this can be accomplished by setting clear objectives for subordinate units, making allocations, formulating general rules, statutes and regulations, engaging in management dialogue and developing expedient organisational solutions. Modernisation processes largely address this area of executives' responsibilities in an effort to make changes in procedures and practices that enhance user-centrism, simplification and efficiency through delegation and market orientation.

Traditionally, modernisation has been limited to making adjustments to the workings of the public administration, and has only to a modest extent attempted to modify the interaction between the public administration and the political system. That may mean that top State executives do not consider some of the schemes that have been introduced, and that appear to have been inspired by systems that have proven effective in private enterprises, particularly relevant. One example is business planning, i.e. that the public administration sets short- and long-term targets, then draws up investment plans for reaching those targets. Strategic planning in private undertaking has inspired this methodology. However, while senior executives in private companies can get binding pledges from owners and their Board regarding future investments, doing so is difficult in a system based on annual allocations and ever more rapid shifts in political priorities. Executives do not ensure funding for long-range objectives as much through long-range planning, as by making laborious efforts to rally political support, forging alliances within the public administration and influencing the public through active information and public relations efforts. Accordingly, mandatory business plans may not seem very relevant. Eventually, they could even risk becoming a symbolic activity carried out solely to comply with regulations for public governance, but which have minimal consequences on the way State executives work.

Another example of how modernisation can clash with the very nature of the public administration involves the introduction of flexible forms of organisation. Projects, teams and horizontal networks have been suggested to replace hierarchies that feature vertical, unambiguous reporting channels. The justification for the change is that traditional administrative hierarchies are not very appropriate for exploiting the opportunities for new working methods inherent in new technology.

Also, they are not conducive to cooperation across specialist groups, ministries and government agencies, and they afford few possibilities for decentralisation and market orientation. Thus they are not well suited to adapting decisions and services to accommodate local differences in users' needs. Organisational models developed by business and industry in the 1990s, inspired this mindset. It has been especially widespread in knowledge enterprises, including IT, media and consultancy services.

Many of the flexible organisational principles can also be applied in public administration. Nonetheless, their use must take into account that the traditional administrative hierarchies deal with functions that are peculiar to the State and the public sector. Consideration for citizens' legal rights dictates that legislation and regulations should be practised in a predictable manner. Political decisions can impose duties on the citizenry to which there are strong individual objections, and which call for the exercise of authority in addition to user-friendly service production. Taxes are an obvious example. The public administration and the civil service are also supposed to be 'available to' the cabinet ministers, which requires a significant amount of 'top down' control and assignment of responsibilities. Such considerations can be taken into account more efficiently by hierarchies than by horizontal or network-driven organisational forms.

If modernisation is based on flexibility rhetoric that fails to take into account the characteristic functions performed by administrative hierarchies in the interface between policy and administration, many State executives might feel that proposals for new procedures and organisational forms lack relevance. Or perhaps the upshot might be a culture of irony, where modernisation projects are implemented as a result of blind loyalty to decisions to introduce them, without having any practical consequences at all on the way the work is done. In organisational theory, this is known as a decoupling between an undertaking's symbolic and operative systems: At the symbolic level and in the rhetoric, changes are made mandatory and expected of politicians and other important stakeholders; at the same time, buffers are put into place to protect routine operations from symbolic interventions.

The challenges modernisation implies for top State executives revolve in large part around achieving more user-centrism, efficiency and simplification in the interface and the conflicts between politics and public management. Most of the challenges facing executives are not new, but are rather based on an extension and reinforcement of the

efforts initiated to develop a new role for State executives in about 1990.

- Traditionally, public management has focused on drafting and implementing political decisions, and ensuring that services are provided in accordance with guidelines adopted at the central level. State executives have often focused more on implementation than influence. However, internationalisation, market orientation, delegation and competition mean that State executives are increasingly forced to think in terms of strategy, and proactively to exert influence on international bodies, owners, users and competitors. This is nothing new. History affords us several examples of top State executives with tremendous influence, e.g. Norway's former Director General of Health Karl Evang. However, his brand of leadership can hardly be described as typical for Norway's State administration.
- The traditional bureaucratic management model implies that instruction and reporting follow a vertical line. Combined with the norm entailing that administrative procedures follow official channels, this makes it possible to delegate authority without clarifying the question of ultimate responsibility. Horizontal forms of cooperation are increasingly challenging such an approach. The need to coordinate the services available to users and to be flexible enough to set up interdisciplinary, inter-agency groups that can deal with changing and unexpected tasks, calls for the use of projects, teams and networks that transverse the established line organisation. While this enhances flexibility, it blurs leadership responsibility and opens the way for grey areas of overlapping responsibility. The need for legal protection, the exercise of authority and the secretariat function for the political leadership call for the continued use of hierarchical organisational forms as well.
- State leadership has largely involved ensuring that administrative procedures are followed and that services are provided in a responsible manner, both technically and administratively speaking. Supervision, instruction and regulatory management have been an important platform for practicing management within a framework of fairly predictable conditions. Increasingly, however, modernisation is demanding that State executives front and lead extensive processes of change. This is true, for example, in connection with the relocation of government agencies, the conversion of

administrative entities to business activities, and the implementation of comprehensive downsizing measures. Such changes require, among other things, that leaders can instil in their co-workers a willingness to change, can deal with resistance of a fairly strong emotional nature, and can involve employees and their shop stewards in a process based on established ground rules between employers and employees.

- Prolonged processes of change and efficiency enhancement requirements exacerbate the strain placed on individuals. The stress ensuing from such strain need not be harmful or detrimental if people are able to cope with it. Thus leaders have an important job to do in raising the threshold for stress tolerance among co-workers. Regardless, however, modern society is vulnerable to natural disasters, terrorism and accidents that can have dramatic consequences. Public sector executives must be prepared to assume leadership in such crisis situations.
- For a long time, the need to ensure that administrative procedures and the provision of services comply with political decisions and framework conditions compelled the State administration to rely heavily on administrative mechanisms such as regulations, circulars and earmarked allocations relating to detailed descriptions of positions and other resources. More delegation, decentralisation and market orientation, where detailed governance has to some extent been replaced by management by objectives and performance, have engendered a need for leadership mechanisms that can ensure that local activities comply with general intentions and objectives. Leadership must increasingly be based on values, culture and standards in addition to traditional administrative mechanisms.
- In principle, the parliamentary model of government is based on 'The Storting holds but one person responsible - the minister'. A cabinet minister is responsible for everything that takes place within his/her administrative sphere, and must also front issues in the public arena and the media. Several cabinet ministers have had to resign their posts for trying to shield themselves from blame by hiding behind civil servants in response to criticism from the Storting. As time has passed, many top State executives have nonetheless become more visible to the public and the parliament. Market orientation and delegation make them responsible in new ways. The public

administration's work is subject to more intense scrutiny. More transparency in public sector work means that administrative procedures are becoming politicised. It appears that State executives will have to prepare themselves for more visible, accountable and conflict-filled roles.

## CHAPTER 3 USER-CENTRISM, SIMPLIFICATION AND EFFICIENCY IMPROVEMENT

User-centrism is an important criterion for success for public sector activities. The public sector must supply decisions and services that are commensurate with the wishes of the general public, as weighed and expressed through democratic processes and the demand for services. User-centrism is the most important objective of the modernisation of the State; this chapter will discuss different ways of achieving it.

### Users and the citizens

As public sector activities expand in scope, the general public's needs change at the same pace as societal trends. There is, however, a danger that the public sector's ways of working and services will fall out of synch with the wishes of the general public. Granted, surveys indicate no general distrust of political bodies and public undertakings. On the other hand, there is a tendency over time for the public to call for a wider range of solutions and a choice of suppliers. This is why better adaptation of public sector undertakings to differences in users' needs and situations is an important objective of modernisation.

Private enterprises can also fall out of synch with their customers if market communication is poorly developed, or the enterprises have some sort of market power that allows them to enjoy additional profitability or other privileges at the customers' expense. Nonetheless, user-centrism in the public sector is more complex than customer-centrism in private markets. This is because the public sector's users are not merely 'customers' who demand services, but also citizens who grant each other rights and place responsibilities on each other through political processes.

Experiences in Norway and abroad with user-friendly public sector activities have raised four important questions that will be discussed in more detail in this chapter.

- How can the production of public services be organised to facilitate the greatest possible satisfaction in respect of the citizenry's subjectively experienced needs?
- How can the exercise of authority be handled to achieve the greatest possible compliance with the citizenry's interests, as weighed and expressed through democratic processes on the one hand and the public administration's independent objective assessments on the other?

- How can the production of services and the exercise of authority be made as convenient as possible to allow users to take advantage of them?
- In which situations would it be expedient for the public sector simply to accept responsibility for funding and the provision of services, while production *per se* and interfacing with users is left to private contractors?

Before shedding light on these questions, it is necessary to explain in more detail what is meant by the term user-centrism.

### User-centrism

A standard definition of user-centrism would involve letting the needs of the individual user and user group control to a greater extent which services are offered and how they are offered.

#### *User-centrism, user participation and user satisfaction*

User-centrism is not the same as user participation. The latter indicates that the users themselves participate in the shaping of public services, and help decide how they will be designed. This often takes place through organisations that represent different user interests. Other times, this takes place by individuals engaging in direct dialogue about the design of the services, as is the case when job-seekers draw up plans for their personal development in collaboration with a case officer at the employment office, or under the auspices of one of the Norwegian Labour Directorate Aetat's employment programmes.

That being said, user participation is no guarantee of user-centrism. First of all, different users' opinions and interests must often be weighed against those of others through political processes. When the role of customer transforms into the role of citizen, there is no guarantee that it will be expedient to let the users that are most active on their own behalf have the most say. Secondly, users' opinions must be weighed against the opinions of independent experts about what will best serve the users. Many health and welfare services are distinguished by the fact that it can be difficult for users to know what kind of treatment is best for them. It is also difficult for the public sector to tailor its activities to users without access to information about what users themselves feel would be in their own best interest. User participation is thus a necessary, but not sufficient condition for user-centrism. To put it differently: User participation is one of several instruments for achieving user-centrism.

User-centrism is also not the same as user satisfaction. There is no straightforward connection between the quality of public sector activities and user satisfaction. There are a myriad of reasons for this. As in all other activities, satisfaction is a function of quality as well as expectations. Where expectations are especially high, good quality products can still be disappointing if expectations are not met. Greater expectations that the welfare state will deal with ever more of life's challenges may have helped raise general expectations of public undertakings, thus raising the threshold for satisfaction. There are also several elements that are peculiar to public sector undertakings.

The first difference between public and private undertakings is that being a citizen of a society entails obligations such as paying tax and doing compulsory military service. Dissatisfaction with the obligations *per se* can thus have an impact on the way in which an undertaking is run.

The second reason that high quality can be coupled with low satisfaction is that many public services are free of charge or heavily subsidised. Thus there is no price mechanism that can be used to regulate demand. Instead, public priorities will decide the length of the queues and an individual's place in the queue. In other words, the better a service is and the more it satisfies users' needs, the longer the queue. This creates a potential paradox: The higher the quality of a public undertaking, the more frequent the expressions of dissatisfaction, especially from those who do not have access to the service. This is supported by user surveys indicating that satisfaction is generally greatest among those who have actually used the service. To the extent these expressions of dissatisfaction appear in the public arena, they can give the impression that a public undertaking is less user-friendly than it really is.

#### *The production of services and the exercise of authority*

User-centrism is a multi-faceted phenomenon. Public sector responsibilities are complex. Supplying user-friendly services at an employment office is very different from supplying user-friendly services at a tax office.

One common approach to diversity in the public sector is to distinguish between the production of services and the exercise of authority. The objective of the production of services is to satisfy users' needs, e.g. measures to improve labour market opportunities for the unemployed. The exercise of authority is intended to ensure that political decisions enshrined in legislation, regulations and allocation decisions are implemented and followed up according to intentions,

e.g. to ensure the calculation and collection of tax. The production of services faces users with individual needs and rights, while the exercise of authority encounters the citizenry with rights and obligations as members of society.

The distinction between the exercise of authority and the production of services is not practised consistently in the public sector. Most public undertakings include elements of both, although their centre of gravity varies. For example, the police, who generally engage in the exercise of authority by ensuring compliance with laws and by maintaining law and order, also deal with problems by having contact with and providing advice to individuals. They try to prevent people from getting involved in crime and disturbances of the peace. The riot police make a lot of drug-related arrests, but they also provide moral support for some of the young people involved. The police have to balance between being the authority that makes arrests, conducts investigations and prosecutes, and being a service provider and exhibiting respectful behaviour in respect of the public and suspects. For example, the police in Oslo sent a text message to young people in Oslo, asking them to keep an eye on their mobile phones if they were going to be in the city on a given weekend. Such service-mindedness helped earn the agency credibility and the trust needed in its role involving the exercise of authority.

Another example of overlapping between the exercise of authority and the production of services involves the Directorate of Customs and Excise. This agency exercises authority by collecting direct and indirect taxes, at the same time as it provides services to enterprises and individuals. On the one hand, the agency engages in efficient tax and oversight operations. On the other, it ensures that it is possible for enterprises and others to engage in efficient trade by minimising waiting time at border stations. Since a growing number of enterprises practise the 'just in time' principle, meaning goods will be supplied at an exact point in time so that they can be put directly into production without spending time in storage, it is of the utmost importance that a minimal amount of time be spent in customs.

### The production of services

One point of departure for illustrating the user-centric production of services is the customer model. It specifies the assumptions that have to be met for enterprises in a market to organise their production on the basis of customers' wishes, and to supply the desired quality in a cost-effective manner. Since the modernisation of the public sector is intended to organise the production of services insofar as possible on

the basis of users' needs, this may be a fruitful point of departure. By examining whether the model's assumptions are met, it is possible to determine whether and possibly where the approach to the customer offers a fruitful way to achieve user-centrism in different parts of the public sector.

#### *The customer model*

The model posits that services of the desired quality will be produced at the lowest possible cost when the following assumptions are satisfied:

- Customers must know their own needs, and they must have the information and competence to know how those needs can be met.
- There must be alternative suppliers so that users have a choice.
- There must be competition for customers that motivates and pressures service providers to offer services that comply with users' wishes at the lowest possible cost. Competition should help ensure that costs reflect customers' propensity to pay, rather than customers simply paying whatever services cost.
- It should not be expensive to switch suppliers. Loyalty, domicile and age are some of the factors that should not affect the choice of the most appropriate supplier.
- Consideration for customers is more important than other considerations and other players when determining working methods and quality.

If these assumptions are met, the public sector can be confined to funding public services, for example, by refunding providers at a unit price, or by issuing vouchers that users can use to pay the supplier of their choice. The market will then ensure user-centrism by giving users freedom of choice. The model does not necessarily imply that the public sector will stop producing services, but rather that public undertakings will be exposed to competition from private players. In many sectors, public undertakings have done well against competition, e.g. in property management, where Entra Eiendom AS, formerly part of the Directorate of Public Construction and Property, wins many competitive tenders.

Whether or not the customer model is appropriate for the production of public services depends on whether or not its assumptions are satisfied. These will vary, depending on which sector of public governance is in focus.

*Do customers know their own needs?*

The customer model is based on an 'outside in' way of thinking. Providers must consider customers' wishes from the outside, rather than on the basis of providers' and employees' views and needs. However, users of public services do not always know their own needs, the best way to accommodate them, or the extent to which different providers can accommodate them. Many public services are 'experience benefits', that is, users must experience them before they are in a position to assess their effects and quality. Consider, for example, the many health and care services, and higher education. Providers and their staffs will often have more understanding and expertise about the best interests of users than the users themselves will have. For example, a job-seeker may lack sufficient insight into what is in demand on the labour market, and be tempted to maintain or acquire competence that offers little chance for getting a new job. This speaks in favour of public undertakings having considerable influence on the content of services. However, in that case, providers and their employees may be tempted to imbue the services with a content, quality and level of service more adapted to their own needs than to users' situations. For example, suppliers might be tempted to compromise quality to free up resources for other purposes.

There are mechanisms in a market that can counteract providers' tendency to supply poor quality. One possibility is to assume that providers' reputations are a motivating, disciplinary factor. Providers interested in remaining in the market over time will, in their own interest, realise the importance of providing quality and content that are commensurate with users' needs. Those who provide poor service can be adversely affected themselves in the next round, reducing future allocations as users fade away. The advantage of this mechanism is that it requires little administration and monitoring on the part of the public sector, since providers will recognise that they are best served by providing the desired quality. The disadvantage is that the provider may be tempted to use creative means to conceal the real quality, deluding users and thereby putting the reputation mechanism out of play. This can be counteracted by the transparency assumed to exist in respect of public undertakings, and by the great interest the press takes in the health and the health care sector in particular. However, it offers little consolation to those who have been subjected to poor quality by the provider that the provider will try to protect its reputation by avoiding similar lapses in quality in future. This is especially true when the lapse in quality has adverse effects on health, safety and the environment.

Lapses in quality can also be prevented by public supervision to monitor legislation and regulations in this area, the certification of providers, and publicly stipulated minimum standards. The advantage of such instruments is that they can prevent adverse actions from being taken by the providers in advance. Especially where life and health are concerned or substantial financial assets are at stake, it can be too risky to count on providers' defence of their reputation as a disciplinary mechanism. The disadvantage, as will be discussed later in this report, is that inspection and certification schemes can entail needless administrative work and do not take adequate consideration of relevant elements outside a supervisory body's own sphere of sectoral responsibility. Minimum standards can reduce opportunities for local adaptations, and make it difficult for the users themselves to weigh different levels of quality against other features of the service.

Another means of guaranteeing quality is to let professionals set quality standards and ensure compliance. Norms and '*esprit de corps*' among professionals can also perform such a function. Such schemes are less bureaucratic than public regulations and inspection schemes, at the same time as they take advantage of specialists' quality assurance expertise. The public health service takes advantage of such mechanisms to a certain extent, for example, when physicians' and psychologists' professional organisations promote quality standards and the certification of specialists. On their own, however, such schemes can entail considerable disadvantages. There is no guarantee that professional and collegial norms will invariably have the patient's best interests in mind. Norms are difficult to govern from the top down, and positive cultures can become negative cultures. Combined with public oversight schemes, such schemes can nonetheless fulfil important functions in terms of quality assurance.

#### *Alternative providers and competition*

For a variety of reasons, there may be few providers to choose from or limited competition between the providers that exist. In some areas, conditions do not lend themselves to competition. This may be because the infrastructure will not support more than one supplier, as is the case with the infrastructure for the railway network and or power supply grid. In some classic network industries, this element has nonetheless become less relevant, e.g. telephony and postal services. By the same token, the public sector wants to prevent its undertakings from going bankrupt. This applies, for example, to hospitals since they cannot be allowed to go bankrupt out of consideration for local health services. Thus the consequences of competition are less perceptible to the providers.

In other areas in which the production of services and government administration are closely interwoven, e.g. social security offices where advice is linked to the public administration of benefits, it is not feasible to let local offices compete for users. In such cases, 'benchmarking' may be a better option, where local offices are measured against each other with a view to customer-related quality standards, e.g. the number of overdue payments in the welfare sector. This mechanism is also practised by the Norwegian Directorate of Immigration (UDI). That agency's activities are divided into case processing units that compete with each other when it comes to processing time. Another example is the so-called 'Quality Portal' on the Internet, where different schools' examination results can be compared. In principle, such competition can have consequences for allocations to local units through activity-based funding, although this is not practised consistently, at least not for the moment. Notwithstanding, benchmarking can impact employees' motivation.

#### *Switching costs*

Users may hesitate to change providers if switching is too expensive. For example, many find the cost of opting for hospital services in other districts a burden, partly because of travel expenses, but also because hospital services are a benefit where confidence and assurance depend on knowledge of the provider. Surveys in the US indicate major price differences between physicians in the same area. This is because their reputations are different. Patients in the US are willing to pay extra for physicians' reputations, while Norwegian patients are willing to wait to have their surgeries performed at their local hospital. Thus the cost of switching can apply to services where it is difficult for users to assess quality in advance, and where the consequences of poor quality and misjudgements can have serious consequences, meaning there is a great need for confidence and assurance.

#### *Users' needs and employees' rights*

The role of user can conflict with the role of employee. Conflicts between employees and users are not conflicts between two separate groups; to a great extent, the same individuals can be found on both sides of the table. As an employee, an individual is interested in getting the highest possible salary and having the best possible working situation. Yet when that same person is a user, the opposite may be the case; the individual wants the best possible services with the best possible quality and easy access through long opening hours. The customer model requires that customers' interests take precedence in such cases. Competition means that customers' interests are given priority at the expense of the employees' interests, in the event there are conflicts of interest. However, this should not necessarily always

be the case. Granted, employees can acquire privileges at the users' expense when they are protected by a monopoly. On the other hand, there are situations where consideration for the employee obviously ought to supersede consideration for the user, for example, when giving priority to users' needs will have an adverse effect on employee health, safety and the environment. It is also conceivable that many gainfully employed people would like to cash in on some of the increased wealth creation in the community by having certain privileges at work, rather than by securing as many high-quality services as possible more or less 24/7.

Trade-offs between users' interests and employees' interests are made, for example, during negotiations and in the co-determination system where both employers and employees are represented. This system establishes important conditions for service content as reflected by business hours, working hours and working conditions otherwise. Nonetheless, users are not present at the negotiating table. Without competition between undertakings for users' patronage, users' interests will be poorly represented compared with employees' interests. One alternative means of weighing employees' interests against users' interests is to let employees' rights be protected by legislation and regulations that are followed up and checked by public oversight, and then let users' interests be protected by competition and free choices for users within the parameters established by regulations.

At the international level, there is a growing tendency to let employees' interests be protected more through statutory rights and less through cooperation and the bargaining system in enterprises. The advantage of this is that the legislators, i.e. democratically elected individuals, are supposedly better at weighing employees' interests against other social considerations, including consideration for users, than what is the case for employers and employees alone. Such a development may serve to undermine the cooperation and co-determination system in undertakings.

*Where is the customer model appropriate?*

All in all, the customer model appears to have the most relevance for areas of service where the users themselves are well-qualified to evaluate the content of services and their relevance for the individual user's needs, where the situation is appropriate for competition, where the financial and psychological cost of changing providers is not excessive, and where employee rights related to health, safety and the environment are adequately taken into account. In and of itself, this means the customer model is most appropriate where information

about quality is easily accessible, access to alternative providers is good, and the cost of switching providers is not experienced as prohibitive. For example, the customer model is probably more relevant for higher education than for health services.

The assumptions underlying the customer model are not either realised or not realised once and for all. If so desired, the customer model can be used because it is considered appropriate for giving users' interests considerable support with a view to the provision of public services, facilitating efforts to ensure that its requirements are satisfied insofar as possible. An executive's job will then be to ensure that as much information as possible reaches users, to develop competition within his or her own State sector, to facilitate reduced switching costs, and to ensure that employees' most fundamental rights are protected.

### The exercise of authority

The exercise of authority is linked to the rights and obligations incumbent upon the role of citizen. In this context, user-centrism refers to the rights and obligations accorded to the individual as a result of legitimate political processes. The exercise of authority to the benefit of users is therefore largely a question of establishing lines of delineation and relationships between political institutions.

#### *The parliamentary chain of command*

In Norway, discussions about political institutions often take their point of departure in the concept of the parliamentary chain of command. The people elect representatives of political parties to the Storting. In turn, MPs adopt legislation and make allocations, oversee the public administration, and progressively more often instruct the Government in individual cases. The public administration ensures that the Storting's decisions are followed up through rules, regulations, allocations, oversight and individual decisions. The Government also takes initiatives to bring items before the Storting.

The Power and Democracy Report submitted in 2003 concluded that the democratic element in the parliamentary chain of command is being eroded. This is partly because political parties are becoming professionalised, because parts of the public administration and the production of services are being decoupled from democratic processes, and because more of the development of law is being moved away from elected bodies (legislators) to courts and court-like bodies in Norway and abroad. The background for such judicialisation is *inter alia* that users are gaining more statutory rights. Nonetheless,

such rights are often rather vaguely worded in legislation, which may actually be a prerequisite for getting laws and conventions adopted. Rights can conflict with each other. There may be ambiguities, latitude for interpretation and considerations to be taken in the judicial system, resulting in a shift of power away from elected bodies. To the extent that everyone's rights are not judicialised, this can result in a certain arbitrariness in the state of law.

Meanwhile, it might be argued that it is desirable for the public administration to have a certain independence in relation to elected bodies. This is the background for the classic distinction between legislative and executive power. The treatment of individual cases can be characterised by arbitrariness as well as slowness if it takes place in overly close proximity to political processes, in the sense that the system can become overloaded, the competence to assess the overall consequences of decisions may be weak in elected bodies, and the fickle nature of today's media society can make it arbitrary which cases reach the political agenda. This indicates the dilemma of modernisation between consideration for legitimate and democratic influence for the citizenry on the one hand and the wish to prevent arbitrariness and poorly informed decisions that favour certain citizens in inopportune ways on the other.

#### *The role of the Storting*

The Storting has increased its involvement in individual cases. Instructing the Government by issuing so-called 'request decisions' has increased from fewer than five times per year in the early 1980s, to more than 200 in 2003. During the same period, there has been a steep rise in so-called 'document 8' proposals, where individual MPs submit private proposals, including private bills, that are put before the Storting after treatment by one of the standing committees. The number of document 8 proposals increased from a couple per year in the early 1990s to about one hundred in 2001.

The background for growing parliamentary involvement in individual cases is partly a result of minority governments that make it possible for opposition parties to join forces in individual cases to oppose the Government. Although instruction can be appropriate in some cases, there is broad consensus that the current scope of instruction has unfavourable effects. As a parliamentary body, the Storting is not a very appropriate venue for engaging in administrative procedures or drafting legislation. The division of responsibility between the Storting and the Government may also be ill-defined. Thus it can be difficult for voters to know who to hold responsible on election day. In the light of this, there is currently discussion of several constitutional reforms to

counteract too much erosion of the Government and the executive, including different variations of the Storting endorsing the Government when it is sworn in, i.e. investiture, and that the Government has the right to dissolve the Storting during an election period under certain conditions.

However, there are development trends in the community that may indicate the Storting's involvement in individual cases should continue, even with a majority government, and even given the constitutional amendments mentioned. This is because active media and greater administrative transparency are making individual cases more visible to the general public. This can exert strong pressure on elected politicians to intervene by issuing binding statements that effectively cement the Government's position even before the case has been sufficiently studied on an objective, comprehensive basis. To redress this, the Storting can decide to limit both its own and the Norwegian Government's possibility to intervene in the treatment of individual cases. This will establish a 'firewall' between politicians and individual cases, as is the case with immigration cases. Nonetheless, there are limits regarding the extent to which it is desirable to put such restrictions on political governance without weakening the opportunity for democratic influence too much.

#### *The ministries*

The ministries' role has not been discussed much against the backdrop of modernisation. Their assignments vary from sector to sector, but normally include the secretariat function for the political leadership, administration of the Storting's decisions, appellate body for grievances on individual decisions, and making studies and reports. The main tendency appears to be towards more concentration on serving as a secretariat for the political leadership, combined with growing delegation and decentralisation to subordinate government agencies and undertakings when it comes to the administration of decisions, allocations, grievance procedures and studies. At the very least, such a shift of focus and efforts is a stated objective for many ministries.

The role as secretariat for the political leadership entails providing support for the minister's behaviour in the Storting and in the public arena, the preparation of White Papers and Government memoranda, and monitoring to look after the minister's sectoral responsibilities, i.e. the minister's obligation to stay informed and to take political initiatives in his or her sector when the situation so requires. The role as steward of the Storting's allocations, laws and decisions is exercised through the governance of directorates and other subordinate units,

and through corporate governance of units that have been made independent legal entities. Governance is in the process of being shifted from public management based on the oversight of inputs such as authorised positions and earmarked grants, to governance based on orders for specific results and activities. The directorates will have more independence to accommodate orders, taking over, at the same time, parts of governance with the regional line organisation. This supports the tendency for the ministries to delegate responsibilities and authority to subordinate administrative entities, and to decentralise authority and responsibility to units that have been made independent legal entities.

Yet the tendency towards decentralisation and delegation is not unambiguous. In association with the ministry's ordering of results, subordinate administrative entities receive an allotment letter that may often contain highly detailed instructions about where and how funding is to be used. Most of the independent undertakings that continue to be State-owned also have provisions in their articles of association stating that questions of substantial social significance shall be put before the minister, who also has the opportunity to instruct the units by virtue of corporate governance.

The ministries serve an important function in terms of balancing different objectives and considerations against each other within their sectors. Such trade-offs are political by nature, as is the case when the Ministry of Transport and Communications distributes scarce funding between air safety and road safety, or when the Ministry of Foreign Affairs coordinates the roles of NORAD and foreign stations in development cooperation policy. When subordinate units that handle a limited number of tasks are made independent, e.g. when the minister's opportunity to issue instructions in individual cases is limited or the ministry is precluded from the opportunity to influence the treatment of appeals, the opportunities of the minister and the ministry to coordinate and balance different objectives is eroded at the ministerial level. The opportunity for political control based on decisions involving different considerations within the individual state sectors limits how far it is prudent to go in making subordinate units independent.

#### *Directorates, supervisory bodies and grievance procedures*

The directorates are important administrative agencies with national responsibilities, and they are fully subordinate to the ministries. They are nonetheless organised as separate units, and they perform a number of different tasks. The directorates implement decisions adopted by the ministry, e.g. by administering legislation and

regulations, and they may have the power to frame more detailed regulations. They give professional advice to ministries and are frequently responsible for status reports in their spheres of responsibility. Finally, they perform governance functions in respect of the regional line organisation. There is a tendency for the directorates to be delegated increased authority and more responsibilities by the ministries. For example, the Norwegian Labour Directorate Aetat has been granted the authority to determine its own organisational structure, and the agency has been assigned more governance responsibilities in respect of the regional line.

Most directorates also have supervisory responsibilities, and most supervisory bodies have been accorded status as directorates. This refers *inter alia* to the recently established Norwegian Food Safety Authority. It will develop, influence and administer regulations, keep abreast of the status and development of the state of the field, exercise oversight to ensure compliance with legislation and regulations, and provide advice on the regulations. Oversight responsibilities are also exercised by other agencies than those defined as public surveillance bodies, including by the Gender Equality Ombudsman, Consumer Ombudsman, the Parliamentary Ombudsman for Public Administration and the Complaints Board for Public Procurements. The county governors have widespread oversight responsibilities on behalf of the State in respect of the municipalities. This applies in particular to municipalities put under State administration due to poor economy.

A modernised State based on decentralisation and market forces will often be distinguished by far-reaching oversight and control functions. Decentralisation, delegation, exposure to competition and additional elements of local discretion, together with users' lack of opportunity to evaluate the quality of administrative procedures and the production of services, entail a substantial need for objective quality assurance. One example is public procurements. While there used to be central control over what should be purchased in many sectors, local units now have extensive authority to choose their own suppliers, based on tenders conducted in accordance with national and international rules. Parallel to this, a separate agency has been established, the Complaints Board for Public Procurements, to ensure that public procurements take place pursuant to the regulations for public procurements. Another example is the governance of enterprises that used to be monopolies and that perform important social services with a view to telecommunications and transportation. Since the public governance of such units is changing from detailed administrative governance to corporate governance combined with the stipulation of

framework conditions through legislation, quality standards, licences and allocations, the need for ensuring compliance with framework conditions and regulations is growing. This is increasing the sphere of responsibility for e.g. Norwegian Post and Telecommunications Authority, the Civil Aviation Authority and the Norwegian Railway Inspectorate.

Supervisory responsibilities often imply consultancy as well as the drafting and enforcement of regulations. The supervisory bodies are often authorised by the ministries to draft provisions. This is intended to ensure that those who draft the regulations have close contact and a good understanding of how practices develop in the agencies subject to supervision. By the same token, the users of supervisory bodies are not merely agencies subject to oversight and in need of supervision and information, but also, and possibly primarily, citizens that require bodies to look after important societal interests, oversight tasks and quality standards on their behalf. Dealing with the citizenry's interests makes it imperative that the supervisory bodies are independent of the agencies subject to oversight, and that the role of adviser and supervisor does not make the supervisory bodies in any way responsible for the actions of the agencies subject to oversight. This is taken into account by the way in which the supervisory bodies are organised internally. The drafting of rules and the awarding of licences are assigned to departments other than the ones that check to see that the rules are followed.

There have been discussions about whether it is expedient to grant supervisory bodies more independence in relation to the political decision-making system. The argument that favours this is that when general acts of legislation, regulations and allocations are stipulated, it is a technical rather than a political question whether and how the intention of the political decision can best be satisfied. When, for example, the Storting adopts a Competition Act intended to promote active competition that takes special account of consumer interests, it is a technical question how this can be achieved in different industries. Meanwhile, it may be necessary to protect administrative procedures from enterprises that lobby to influence politicians to introduce special arrangements that give their enterprises a pre-dominant position in the market. Independent supervisory bodies can also protect administrative procedures against *ad hoc* and media-initiated political interventions in individual cases, with the danger of arbitrariness such interventions entail. In this vein, the new Competition Act and the Act relating to Electronic Communication give the Norwegian Competition Authority and Norwegian Post and Telecommunications Authority more independence than is granted under the normal model in the

Public Administration Act. The argument against making market orientation into a more general model is that the distinction between subject and policy is difficult to draw in an objective, consistent manner. Thus there is a danger that important questions that are political by nature will be left to agencies not under direct political governance.

The question regarding the supervisory bodies' independence cannot be decided at the national level alone. Several EEA directives contain guidelines that call for a substantial degree of market orientation in relation to political influence and political decisions. This applies, for example, to Norwegian Post and the Telecommunications Authority. At present, efforts are also being made to devise European regulations to ensure that the authoritative agencies that grant broadcasting licences are politically independent.

One and the same supervisory body may have several purposes. For example, the Banking, Insurance and Securities Commission of Norway checks financial institutions' financial strength as well as whether there is sufficient competition in the industry. This may give rise to difficult trade-offs that are political in nature, and it can make it difficult for the supervisory body to develop cutting edge expertise in a limited area. On that account, it has been suggested that the supervisory bodies be organised on the principle of 'one objective - one supervisory body', combined with regulations that guarantee political governance of the balance between different objectives. The disadvantage of organisation by objectives is nonetheless that it would lead to a huge number supervisory bodies, and to the agencies subject to oversight having to deal with multiple supervisory bodies. For example, under the Working Environment Act, there are 20+ supervisory bodies involved in HSE work in the enterprises. Besides making the situation overly complex and time-consuming for the agencies subject to oversight, this could also cause problems related to the distribution of responsibility to the extent there are grey areas of overlapping responsibility between the supervisory bodies.

Organisation of the inspection function based on the principle 'one objective - one supervisory body' can also, if combined with additional independence for the supervisory bodies, facilitate a 'blind-spot' problem. This means that the individual supervisory body might benefit from optimising the use of resources in its sector, without taking sufficient account of the 'fallout' this might have for the use of resources in other areas. The result can be that too many resources are allocated to oversight activities all in all, making it difficult to strike an expedient balance between resources for different objectives. For

instance, weighing road transport standards against air safety standards is a political question. The supervisory bodies will ordinarily attach the utmost importance to safety. By making supervisory functions partially independent of ministerial coordination, it can be difficult to ensure that other considerations are also factored into the decision. This undermines political governance. The same can occur if a supervisory body engages in a practice that causes the agency subject to oversight to implement initiatives that are at loggerheads with the Storting's intentions. For example, there is no political will in the current Storting to introduce minimum standards for staffing nursing homes. Nonetheless, the Norwegian Labour Inspection Authority has asked a number of health care institutions to consider how they can achieve better correspondence between the level of staffing and employees' responsibilities. The Norwegian Labour Inspection Authority has not ordered any particular staffing, nor has it formulated particular staffing standards. Notwithstanding, a supervisory body's advice can be perceived as an order by the agencies subject to oversight, causing initiatives to be implemented locally that may be at odds with the Storting's intentions.

Organisation based on the principle of 'one objective - one supervisory body', which in actual practice would mean that a supervisory body would only have one act of legislation to deal with, would lead to many small oversight bodies. For example, the Norwegian Media Ownership Authority has just six employees. This makes the staff vulnerable to an individual's decision to quit, for example. At the same time, it is more difficult to accommodate different types of specialists in a small specialist environment.

The opportunity to appeal decisions adopted by the public sector is a significant element in the user-centric exercise of authority. The general rule is that complaints about individual decisions in subordinate agencies, so-called first instance grievances, will be decided by the superior administrative agency, so that grievance procedures follow the authority to issue instructions. To ensure independent grievance procedures and to establish a clearer dividing line between policy and technical questions in administrative procedures, the ministry's authority to issue instructions to the complaints board can be limited. This is what has been done in relation to immigration. There, grievance procedures used to be the province of the Ministry of Justice. This caused a case back-up, resulting in considerable media focus on individual cases, since decisions often had a profound impact on the fate of individuals. The consequence included arbitrariness in individual cases, and there was a danger of setting precedents that entailed unintentional

consequences. This led to the establishment of the Immigration Appeals Board (UNE). Given current legislation and regulations in the field, the Board can use its discretion in grievance procedures, and provide assistance to ensure good practice under the rules. Sectoral ministries cannot intervene in individual cases, unless a case threatens the safety of the realm or involves foreign policy considerations. Thus far, however, there has been no political support for applying the UNE model on a more general basis in central government administration. One alternative to creating independent tribunals is to use the courts as appeals bodies, as is the case in the area of social security. Decisions adopted in the first instance are appealed to the National Insurance Appeals Council rather than to the relevant ministry.

In today's media society, there is a growing tendency to use the Storting as an appeals body. An individual case that has been dealt with by the public administration and ended with a decision against the claimant, e.g. immigration cases that end with deportation decisions, and that have been handled in compliance with adopted policy and the rules that apply can, as a last recourse, be exposed in the media, which will then bring the case before one or more MPs, preferably from the opposition. This type of 'venting' of cases can be useful for illustrating that current rules and practices may have unfortunate consequences and may possibly require amendment. The disadvantage is that this can result in decisions on individual cases without adequate attention being paid to the overall consequences. This can set unfavourable precedents, at the same time as it undermines the authority of the administrative agency involved.

### Simplification and user-centric services

The production of services and the exercise of authority are both efforts to achieve user-centrism through simplification, good service and accessibility. Many instruments have been used continuously for quite some time to make users' situations easier.

#### *Accessibility*

Public services are being made more accessible. This can be accomplished through opening hours adapted to the users, the development of Internet-based services, and a front line organisation that entails that users can go to one place and deal with a single contact, even though a variety of government agencies are involved. The Norwegian Revenue Service's efforts with pre-completed income tax returns that can be confirmed on the Internet or by text messages, and locating the social security, employment and social welfare offices

all in the same place, are examples of this type of user-centrism. The same is true of the police's increased use of the Internet, for example, so that simple complaints can now be filed using the Internet.

#### *Use of discretion and respectful behaviour*

Employees have more latitude for applying discretion within the framework of legislation and regulations, so that services can be tailor-made insofar as possible to users' individual wishes. The Norwegian Labour Directorate Aetat's growing focus on individual follow up of job-seekers who do not find jobs quickly is a good example of this. Such tailor-made solutions call for extensive authorisations for employees, so services can be developed in close interaction with the users. By the same token, co-workers are taught to interact with the users in a manner intended to look after the respect and dignity of employees as well as users. The level of service is followed up with user surveys, and many bodies draft action plans for carrying out improvements.

#### *Simplification*

Administrative procedures can be simplified at the same time as the level of service is raised. IT can be used to cut processing time. Norwegian Customs and Excise's principle of self-declaration illustrates how this can be accomplished. Instead of the Customs Service clearing everything, users themselves file reports, and spot checks are made. An electronic clearing system has been developed and incentives have been introduced for promoting it: All enterprises taking advantage of electronic clearance get one month's free credit. In future, consideration will be given to introducing different levels of self-declaration. The better an enterprise is considered to be, subjectively speaking, the more it can be authorised to do things itself. A tax calculation program is now available on the Internet so that the users themselves can calculate how much they owe in duty and excise taxes.

Simplification is not necessarily a question of eliminating as many rules as possible. For instance, reducing the number of traffic rules would not make it easier to move in traffic. Simplification is partly a question of eliminating rules that are no longer useful, and partly of making rules that are as simple as they can be with a view to the function they serve. Expedient rules and regulations ensure predictability for users, and this is essential for their chances to make rational decisions. The former Norwegian Regional and Industrial Development Fund conducted a user survey that showed that beside easy access, predictability with a view to the authorities is the most

important requirement for user-centrism from enterprises' point of view.

#### *The front line*

The front line that meets users is organised to make it as easy as possible for users to locate the office and the service they need. Many local variations are possible. Local experiments to coordinate State labour market and social security agencies with municipal public assistance have shown that there is no single 'right way' to organise the front line in a way that will work best under all circumstances. This also implies that the best solution is not necessarily to gather all public services in a common service office. Such public 'one-stop shopping centres' can be difficult to deal with, especially in big places. One criterion for whether the front line is user-centric revolves around whether users need to be familiar with the public sector's organisation chart to find what they are looking for.

#### *The calculation of overall costs*

The calculation of overall costs takes users' expenses into account when the public sector takes decisions regarding the organisation and location of the services. This means that if there is talk of closing down a school, for example, the extra expenses incurred by the users because of longer commutes should be factored into the calculation to decide whether moving would be profitable. The loss of time and the cost of time are often among the largest costs the public sector inflicts on users. Failure to calculate overall costs can entail a danger that the economisation of undertakings through the centralisation of services ultimately simply shifts expenses over onto the users.

#### *Focusing on aberrations and regulatory management*

One phenomenon that works against simplification is that there appears to be growing focus on aberrations among the media, supervisory bodies, special interest organisations and politicians. This means players are seeking out and calling attention to individual cases that illustrate unintentional consequences of regulations and current practices. For example, they may focus on differences in access to public benefits owing to differences in local priorities, and unintentional outcomes in individual cases owing to current regulations. To redress any proven 'incongruities', motions are made for new, more detailed rules to prevent the phenomenon. Trying to prevent every single unwanted result by making new rules can, however, be extremely complicated and result in impervious regulations that require legal expertise to understand. Thus judicialisation is strengthened by the relationship between users and

the public sector, and the lawyers get a more pre-dominant role in fields that were previously the province of political processes.

## Efficiency improvement through competition and market orientation

### *Expansion of the State*

There are different technical explanations for the public sector's strong expansion in the 20th century. Early on, economists developed a welfare theory that viewed the State's justification as compensating for market failure. Where economies of scale, collective benefits, natural monopolies and external impacts meant that a market could not serve the common good, it was recommended that the State take responsibility for the funding and production of the relevant benefits. Legal analyses of the importance to a constitutional state of predictability, equality and safety in financial and social terms led to expansion in public legislation and regulations. Sociological analyses of living standards paid unwanted attention to distributional effects, and caused the public sector to undertake more responsibility for safeguarding the citizenry's welfare in ever new areas. The State undertook a growing collective responsibility for insuring the citizenry. This took place at the same time as representatives of strong professions in the health, social and education sector became more vocal among public employees.

In the 1960s and 1970s, economists reacted in a way that came to have an impact on the importance of modernising the State. It was contended that although the market is not perfect, it is not certain that public employees have the right incentives for handling responsibilities better than the market. Just as the market can fail, the State can fail, especially as a result of bureaucrats who, in addition to their other responsibilities, would like to maximise the size of and access to resources for their particular unit. Although the market is not appropriate for ensuring efficient resource utilisation and equitable distribution, this does not mean that the public sector is automatically more appropriate. The result can be that the public sector is expanding too rapidly, not primarily as a prudent response to market failure, the rule of law and collective insurance needs, but as a result of public employees' self-interests and professional considerations. It was contended that the welfare state's consolidation, where strong professions came to play a dominant role, was at the root of these challenges.

### *The public sector's responsibility for supply and production*

Today's debate is distinguished by the distinction between the public sector's responsibility for supply and production. The former reflects the public sector's responsibility for funding and procuring services,

while the latter applies to its responsibility for producing them. Although market failure and the demand for welfare may dictate that the public sector should fund a welfare benefit, and regional factors may dictate that the public sector takes responsibility for ensuring that a benefit is accessible to the citizenry all over the country, this does not necessarily mean that the public sector has to be responsible for production. When the public sector loses political control by outsourcing production to others, it can try to compensate by controlling contracts, regulating the market, and sharing ownership with private players of the undertaking engaged in production.

There are strong indications that the public sector's limits are being expanded when it comes to responsibility for supply. The general public's expectations that the public sector will meet their needs are increasing. This is expressed, for example, in surveys indicating that voters attach less importance to ideology and values and more importance to access to benefits, when casting their ballots. The general public gets more rights relative to the public sector, and with the increasing level of education among the general public, users are becoming more aware of which rights they have, and are more able to claim them in respect of the public sector. There is also more transparency and information available through the media about which rights the citizenry has.

Ever more frequently, these rights are warranted in legislation; this also applies to a number of international laws and conventions. As mentioned, the rule of law permeates the welfare state. There are different opinions about whether such rights undermine or strengthen democracy. On the one hand, it is asserted that rights established by law are necessary to protect the interests of minorities in particular that find it difficult to make progress in the political system. Rights translate into predictability and security for the users. By the same token, it is up to elected and legislative bodies to make the laws that warrant the rights, as well as to amend them if the stipulation of these rights has unwanted consequences. From this perspective, the rights are subject to democratic governance. Conversely, it is contended that the international bodies that frame conventions that are legally binding also on Norwegian courts are characterised by democratic deficits. Meanwhile, laws and conventions are often designed with an extremely high level of generalisation and many possible interpretations, as this is often a prerequisite for getting different countries to endorse them. Thus provisions must be made more concrete through case law and the development of regulations, implying a shift of power from legislators to the courts and court-like bodies.

While the responsibility for supply indicates that the public sector's limits are expanding, the growing tendency to outsource the responsibility for production narrows the public sector's limits. This takes place partly by the public sector using external suppliers exposed to competition where it once used proprietary units, and partly by production units that used to be under State administration being separated and made into independent legal entities. There is also a growing tendency to give private owners full or partial access to State-owned limited companies.

*The responsibility for production in connection with the exercise of authority*

The exercise of authority involves standardisation, supervision and sanctioning. Standardisation implies the establishment of rights and obligations generally through regulations or specifically through individual decisions. The exercise of authority also revolves around the use of public funding. The exercise of authority will ordinarily be under the auspices of public management, since this is best-suited for promoting the rule of law, legal decisions and quality assurance. Administrative control offers a possibility for direct political influence and control through the exercise of authority. As a general rule, it would therefore not be feasible to outsource the exercise of authority to other agencies.

Nonetheless, general rules are not absolute. For example, the private foundation Den norske Veritas (DnV) performs control work which, in principle, could just as well have been performed by a public supervisory body. The work involves the certification of vessels and oversight of cableways and fun fairs. There has also been talk, for example, of private lawyers' offices assuming responsibility for some of the case load of the public administration. Such outsourcing of individual decisions would require statutory authority. Reports underlying the exercise of authority can nonetheless be ordered from external suppliers without ceremony. Meanwhile, authorities are also typically involved in the production of services, and this can in principle be outsourced to external suppliers. This applies, for example, to the Armed Forces. In connection with the far-reaching reform of the military, the Armed Forces defined its strategic core as being all activities that have a combat effect at the 'sharp end', i.e. all units that can in principle become directly involved in acts of war. All other tasks are defined as support functions and can in principle be outsourced. The US has come furthest in this respect, as roughly 40 per cent of the staff participating in operations in Iraq are affiliated with private companies. The Norwegian Directorate of Immigration,

which adopts decisions regarding residence permits for foreigners, is also responsible for providing refugee centres, while the operation of the centres has been outsourced to municipalities, not-for-profit organisations and private enterprises.

*Economisation and the use of external suppliers*

Production is cost-efficient if the desired quality can be supplied at the lowest possible cost. Consideration for cost-efficiency plays a key role in modernisation work. Under certain circumstances, it can be strengthened by allowing private players to compete for assignments. Administrative and corporate governance are then replaced by contract control. The public sector places the order. The decisive factor for efficiency is nonetheless the existence of competition, rather than whether ownership is public or private.

A number of factors can lead to the outsourcing of services to enhance cost-efficiency. First of all, an external supplier can perform services for several enterprises in addition to the public sector, and that can facilitate economies of scale. This is true, for instance, when a maintenance shop can exploit its capacity better because it has many customers, meaning the cost of buildings and equipment are distributed among a number of businesses, reducing per unit costs. High volume also implies more experience, which can translate into more effective ways of working as experience accrues. For example, the number of mistakes made by a hospital when performing a particular operation will diminish as the hospital gains experience. This implies that there is more to gain by outsourcing production. The larger the market for the relevant service, the more frequently the public sector will use it.

Second, competition between suppliers can motivate and discipline players to economise. Internal suppliers in a public sector undertaking will be in a monopoly-like situation, meaning they could potentially spend their entire profit on lucrative working conditions for employees, unnecessarily expensive equipment, and performing tasks in a way that is more commensurate with employees' own ambitions and wishes, than with what the users need. Monopolies can pass cost-based prices on to customers. Competition, on the other hand, reflects customers' propensity to pay, compelling undertakings to convert to fixed prices, the way Telenor had to do when exposed to competition.

The absence of competition also makes it possible to achieve advantages by developing proclivities for internal politics and internal struggles for resources, rather than by becoming better at producing what users want. An undertaking can be forced to accept so-called

'influence costs'. These consist of the loss of efficiency that can arise partly because internal politics, networking and attempts to influence decision makers suppress productive activity, and partly because the content of the decisions that emerge from the in-house struggle for power are not aimed sufficiently at meeting users' needs. Competition can have a disciplinary effect on this type of inefficiency.

Outsourcing production need not lead to lower costs if the external supplier has monopoly power. If there is no competition on the supplier market and the enterprise is not dependent on an external monopolist, efficiency can be lower than what was the case before the work was outsourced. This is because the public sector cannot use instruction and administrative instruments in respect of external monopolists in the same way as they can in respect of in-house suppliers.

Third, profits that arise as a result of outsourcing the production of services will be greater if the public sector can avoid investments that will tie them to a particular supplier. Where, for example, a college leases a building on the private market and undertakes the costs of investing in expensive auditoria and other teaching facilities to adapt the building to its purposes, the college will lose its investments if it moves. This potential loss gives the lessor a platform for pressing the college if any controversy emerges about the interpretation of the leases, and provided it is feasible to renew the contract. The result is what is known as a 'hold up' situation. Undertakings that are tied to suppliers through such investments have often found that the terms get harder when the contract is up for renewal. Suppliers that might possibly have had to compete for the contract in the first round, experience a more monopoly-like situation in the next round. For example, government authorities that have administered competitive tendering have often found that potential suppliers are far more amenable in the first round than in subsequent rounds of bidding, once the public sector has more or less committed to them.

The 'hold up' problem can be prevented by writing contracts that cover all conceivable situations, and that can be verified by a third party so that any disputes can be resolved by the judicial system. Nonetheless, it is often difficult to anticipate all conceivable events and conflict situations, so contracts will often be incomplete. Legal disputes can also be time-consuming and expensive. Costs associated with signing, writing, verifying and sanctioning contracts are often referred to as transaction costs, and the danger of 'hold up' is one of the most important driving forces behind parties' willingness to pay such costs.

There are two principle solutions to the 'hold up' problem. The one is to handle production in-house to take advantage of instruction and administrative governance in respect of suppliers. However, one would still risk losing the cost benefit associated with outsourcing production. The greater the element of investment that ties a party to a given supplier, the greater the chance that this disadvantage will overshadow the cost benefit, meaning the party would be best served by producing the service in-house. The other solution to the 'hold up' problem, which is particularly relevant if the problem is just average size, is to base operations on long-term, partially unspoken contracts with suppliers, and then to continue cooperating with those who prove worthy of that confidence. In the event it is feasible to continue this collaboration over a long period of time, the supplier may recognise that it is served by not exploiting the 'hold up' situation, not least out of consideration for its overall reputation in the industry. This model is especially well-known in Asia, where close, long-term supplier networks based on mutual trust make it possible for work providers to realise cost benefits by outsourcing the production of services, without having to fear being exploited by the suppliers to which they are tied. The system requires that the competition for contracts is limited by the signing and renewal of contracts, since the continuity of relations is a prerequisite for reputation to work as a disciplinary factor. It is also an advantage if the community has access to social capital in the form of extensive mutual trust. Since Norway scores high on such trust in international comparisons, the situation here should be conducive to using this type of networks.

Western Europe and Norway practise strict regulations for public procurements. Procurements in excess of MNOK 1.5 must be put up for tender in the EU/EEA, while procurements in excess of NOK 200 000 must be offered for open or limited competitive tenders or competition through negotiations. Such regulations ensure maximal competition for the signing of contracts, and give new enterprises an opportunity to get established. This can reduce expenses by allowing companies that adopt new, cost-cutting technology onto the market, at the same time as the disciplinary effects of competition come into play. However, the system is hardly as efficient when it comes to establishing orderer/supplier relations that are sufficiently long-term to develop efficient transactions in the cases where there is a danger of 'hold up'.

In other words: The tender system, as currently practiced, creates a dilemma between production costs and transaction costs. The system can encourage suppliers to choose cheap production solutions. However, if the orderer must make investments that tie it to the

supplier, formidable expenses can be incurred in connection with negotiations, writing contracts, new negotiations and endorsement of the contract. Predictability in the legal system is not sufficient to prevent such expenses, since legal processes can be time-consuming and resource-intensive. In a worst case scenario, the orderer may hesitate to enter into any transaction at all.

This dilemma is reflected in the ambivalence related to networks and long-term business relationships. On the one hand, networks can be effective for developing trust in a manner that the judicial system can hardly hope to match. For example, networks can allow suppliers' reputations play an important disciplinary role. On the other hand, networks provide fertile conditions for favouritism, inequity and, in the worst case, corruption. A detailed tendering system will prevent the networks' adverse aspects, but also make it difficult to exploit their productive effects.

### *Innovation*

Thus far, the outsourcing of the production of services has been discussed as one way to enhance cost effectiveness. Another approach is to examine the effects of outsourcing on the undertaking's ability to innovate. As the production of services will have to adapt to changing, more varied user needs, the ability to innovate will be a more important pre-requisite for user-centrism.

There are strong indications that the effects of outsourcing services can vary, depending on whether it involves revitalisation of all or part of a production concept. Television programmes are a case in point. Ideas for innovative new television productions frequently evolve through informal, unplanned communication between e.g. technicians, journalists, directors and/or hosts. The chances that this will happen are greater if the undertaking is physically integrated so that different types of professional and specialist groups associate with each other in an unplanned way. Conversely, TV stations that specialise in certain parts of a production while other elements are outsourced to subcontractors will be highly effective and skilled in their own special areas. This issue was foregrounded recently when TV 2 celebrated its 10th anniversary. Media researchers compared the Norwegian Broadcasting Corporation (NRK) with TV 2 and concluded that NRK was best at in-house productions and innovative programmes, while TV 2 was best at broadcasting and packaging programmes created by others. This is because NRK is an integrated media enterprise, while TV 2 uses a large number of production companies and buys ready-made programmes.

*When is it most expedient to outsource production?*

The outsourcing of production appears to facilitate better cost effectiveness the larger the market for the delivery in question. The more often transactions are repeated, allowing the supplier to benefit from economies of scale and gain learning dividends, the keener the competition between suppliers so that the market's motivational and disciplinary qualities are allowed to work. The less a transaction is likely to require investments that tie the orderer to the supplier, the more imperative innovation and improving parts of the service are when it comes to implementing changes throughout a product concept.

## **CHAPTER 4 PUBLIC GOVERNANCE, DELEGATION AND DECENTRALISATION**

### *Predictability and flexibility*

The organisation of public sector activities is based on different, partially conflicting principles. The ability to implement political decisions, distribute allocations, normalise through rules and regulations, stipulate financial parameters, and develop principles for inspecting and sanctioning undertakings usually calls for central decisions. This is necessary to fulfil requirements for equal treatment, and to undertake overall consequential analyses of decisions and initiatives. By the same token, out of consideration for the importance of predictability to users, there should be a certain stability in regulations and principles of governance. This predictability is also important for facilitating rational administration and administrative procedures. Centralisation and regulations are consistent with user-centrism to the extent they promote the desired equal treatment and predictability. Thus user-centrism is not incompatible with the use of bureaucratic mechanisms for governing public undertakings.

Meanwhile, other considerations may indicate whether an organisation will facilitate flexibility and the extensive use of delegation and decentralisation. Users become more aware of their individual wishes and needs, meaning they can more easily be accommodated by more decisions being taken and more services provided close to the users. Thus it is necessary to delegate and decentralise decision-making authority. Delegation and decentralisation are also essential for taking advantage of employees' expertise, and for framing a variety of solutions and offers adapted to differences in local conditions. Public employees often have long specialist educations and show tremendous commitment to their fields and professions. Many know more than their superiors about which solutions are possible and expedient. If employees' chances to use their discretion are restricted, the public sector will not manage to take full advantage of their competence. At the same time, many employees risk lacking motivation at work. Overly strong governance can lead to employees devoting too much attention to their superiors, and too little to their users. A certain governance from above is required as a consequence of the need to organise an undertaking in compliance with political guidelines and regulations, including the allocation of benefits to the general public. Notwithstanding, centralisation probably outcompetes local needs, given the way in which the public sector has traditionally been organised. This makes it even more exigent to encourage decentralisation and delegation, than to secure adequate centralisation.

### *The classic administrative model*

The traditional, centralised administrative model, where a great deal of the public administration and provision of services takes place pursuant to detailed standards at the departmental level, where people in central positions and ultimately the minister have direct authority to issue instructions in respect of subordinate levels, and where grievance procedures are ultimately decided by the ministry, imbue an undertaking with considerable political influence. The division of responsibility is structured in the sense that the minister, who is accountable to the Storting for all decisions and events in his or her sphere of responsibility, has close contact with and the direct right to issue instructions to heads of agencies and local administrators. The classic administrative model is therefore well-ordered as regards the organisation of the relationship between political influence and responsibility.

However, as the number of cases expands, new cases arise in ever more areas, and the need for local variations and innovation swells, the classic governance model is showing signs of overload. A backlog of cases can build up in the ministries. Decisions may have to wait. Considerable public attention may be focused on complaints, meaning outside pressure can force certain cases to the front of the queue and demand special attention. The political leadership may be forced to get involved in many individual cases under tremendous time pressure. In some cases, this can lead to decisions being taken without sufficient time and energy being spent on determining consequences and precedents in advance. In the event there is any suspicion of discrimination or arbitrariness, or that lobbying and media attention have had an impact on the outcome of a case, this can undermine the credibility and authority of the authorities' administrative procedures.

Role confusion presents another challenge to ministerial centralisation. One and the same ministry can be responsible for economic activities, regulation, licences, grievance procedures and oversight. The same ministry can put services up for tender, and then undertakings owned by that ministry can bid on the tender. This can impair the ministry's credibility as an administrator of tenders. In some cases, ministries have to deal with complaints against undertakings they themselves own. This applies, for example, to the Ministry of Culture and Church Affairs which owns the Norwegian Broadcasting Corporation at the same time as it deals with complaints on certain kinds of decisions that apply to the institution. For example, the Mass Media Authority fined the Norwegian Broadcasting Corporation for a breach of sponsorship rules, and the Norwegian

Broadcasting Corporation has complained to the ministry. This can put the ministry in a bind. As owner, it is difficult to reverse the decision in NRK's favour even when this is considered correct in relation to the regulations. Such a decision could easily be perceived as the ministry favouring its own institution.

#### *Delegation, decentralisation and indirect governance*

The end of the 1980s marked the advent of a process still in progress, which is distinguished by delegation, decentralisation and the introduction of new principles of governance. These are to some extent superseding and to some extent supplementing the classic departmental administrative model. The process is distinguished by accommodating several parallel tracks.

- *Delegation within the administrative hierarchy.* Delegation implies transferring authority to act on behalf of others. The authority can be rescinded, and the party that delegates can retain the authority to instruct local units. The delegating party also retains responsibility, and delegation within an administrative hierarchy does not excuse the minister from his or her responsibility to the Storting. The goal of delegation, e.g. through management by objectives and performance, is to give local units better opportunities to determine how to do their work. The freedom to adapt activities to users' needs and to exploit employees' expertise is growing. Many minor issues also make it difficult for a ministry to devote sufficient attention to its role as a secretariat for the political leadership. Freeing up time for this function, which ministries increasingly see as their most important task, is in many cases the most important reason that assignments are delegated to directorates and government agencies. Delegation leads to governance taking place to a lesser extent through detailed instruction, and more through budgetary proposals, allotment letters, ordering studies, activity-based funding, and horizontal knowledge systems that can coordinate local administrative procedures.
- *Independent administrative agencies.* Decentralisation implies transferring authority to a party to act on its own behalf. Independent administrative agencies preclude the minister and the ministry from giving instructions in individual cases. Independence is established by the Storting deciding in plenary session or through legislation that an administrative agency in whole or in part be exempted from the instructional and organisational authority of the Norwegian government or the ministry. Political governance of such bodies takes place

through instructions in specific cases, appointing tribunals, legislation and regulations, meetings with agencies and budgetary allocations.

- *Independent legal entities.* Independent legal entities have the authority to act on their own behalf. In contrast to delegation, where the superior agency retains responsibility for the local undertaking, decentralisation implies that responsibility is also transferred. Such undertakings can be organised as State-owned limited companies, state-owned enterprises, State companies with special authority, health enterprises or foundations. Their organisational structure will depend on the nature of the business, on whether the undertaking is governed by business criteria, the extent to which social considerations must be taken, and whether the undertaking is required to perform civic duties that entail particular quality requirements. Direct governance of the companies takes place through corporate governance in the form of appointments to boards of directors, articles of association, objects clauses, annual general meetings/enterprise meetings, and regular contact meetings. The degree to which the different control mechanisms are used varies from sector to sector.
- *Indirect control and regulation.* The State can control enterprises indirectly through supervisory bodies, licences, market regulation, the purchase of services to maintain services in fields that cannot be operated on a commercial basis, the use of incentives, including activity-based funding, and contract control. Over the past 10 to 15 years, indirect control of undertakings has become more common at the expense of direct instruction. This does not necessarily mean that the opportunity for political influence has become less, but rather that it is exercised by establishing framework conditions to which local units must conform. This will open the door to accommodation through local initiatives and local variations. The transition to more indirect governance is a prerequisite for delegation and decentralisation.

## Delegation within administrative hierarchies

### *Management by objectives and performance*

Since the late 1980s, management by objectives and performance has been imposed on units under the administration of the State. The principle is based on superior agencies, often a ministry, ordering results and activities from a subordinate unit. At the same time, the local unit is accorded the freedom to decide for itself how to achieve objectives and perform activities. The relationship between a superior

and a subordinate agency is a type of internal delivery, and the means of control has a great deal in common with contract control. Management by objectives and performance has been the most common mechanism for delegation within administrative hierarchies. Another method is to create administrative bodies with special authorisations. This is used, for example, in respect of universities and university colleges now that they have the financial freedom to create sub-units and to generate proprietary revenues.

When orders for results and activities are to supersede instructions, central agencies must act in new ways in respect of their subordinate units. This calls for expertise on the part of the orderer, combined with other forms of contact. Agency governance meetings revolve more around general political and financial parameters, and less around specific assignments and staffing. Orders are issued through budgetary proposals and allotment letters, and through management communications in which representatives for superior and subordinate agencies exchange information, making clarifications and specifications among themselves.

To ensure subordinate units sufficient independence, a number of supplementary reforms were implemented parallel to the introduction of management by objectives and performance. Financial management has increasingly focused on the objectives of an undertaking's activities, and the undertakings have also been given more freedom to spend their operating funds, including human resources, since the so-called 'established post' system was abolished. More local authority has been granted in questions of personnel and wage policy. Activity-based funding has been introduced to focus more energy on goal achievement. This applies e.g. to the educational system, where parts of the allocations to universities and university colleges are based on funding per unit linked to how many academic credits are produced. Such forms of funding normally co-exist with framework funding for activities that are difficult to quantify, and earmarked subsidies for assignments the authorities want to ensure will be performed.

#### *Measurement and distortional effects*

Some results and activities are easier to quantify than others. These often capture the most attention, engendering distortional effects. The danger of this is particularly great if the activity-based funding system favours easily quantifiable results by providing funding, while more diffuse objectives are left to framework funding. Since it will often be easier for a local unit to improve its finances by boosting the production of services based on funding per unit than it will be to achieve higher framework funding over ordinary budgets, this adds up

to a strong incentive to focus most on activities that generate financial results. In the worst case, local units can be tempted to manipulate the reporting and measurement system *per se*, as we have seen some examples of in the public health service.

The consequence of distortional effects need not be that management by objectives and performance combined with activity-based funding ought to be avoided. Nonetheless, it requires that superior agencies engage in close dialogue with local units where expectations of results must be made as clear as possible. Regular meetings must be arranged, where local and central units exchange information and perform evaluations of goal achievement, also and perhaps especially in fields that are not part of the system for activity-based funding. Thus administrative processes and regular management communications can offset potential distortional effects.

#### *Local freedom of action*

Management by objectives and performance requires that local units have the autonomy to choose the instruments that are best-suited for the objectives. At the same time, instructions were issued regarding the political ranking of priorities for areas mentioned in the proposed budget; sometimes these are accompanied by earmarked subsidies. Allotment letters from the ministry can contain detailed instructions regarding the use of resources and activities. Some subordinate units receive allotment letters from several ministries, but the allotments are adequately coordinated. Given politics' legitimate need for influencing the ranking of priorities and case outcomes, such instructions cannot be avoided. Notwithstanding, there are indications that allotment letters and budget documents often open possibilities for more local freedom of action to bring to fruition the intentions underlying management by objectives and performance.

#### *Predictability*

The objectives that guide and govern local units should be predictable. This is necessary to work in-depth, analytically and comprehensively with action plans and human resource development. Predictability can nonetheless be undermined by constant changes in the political agenda. The problem appears not to be as much changes in administrative objectives, for example, when individual cases constantly arise, stealing attention and energy. In a dynamic media society, it is hardly possible to avoid the administration continuously being 'inconvenienced' by individual cases. This can also make the administration aware of undesirable effects entailed by current practices. There should also be a balance between the political system's need to exert political influence on administrative

procedures, and the public administration's opportunity to work on cases in a determined, rational way. Developments in recent years can skew this balance, as the Storting increasingly instructs the Government and, through open circulation of issues for comment by top State executives and requirements regarding insight into the public administration's internal working papers, the Storting gets more directly involved in administrative procedures. A smoothly functioning interface between the Storting's instruction and oversight activities on the one hand, and the public administration's work on the other, is a prerequisite for effective management by objectives and performance. The problem is not that the objectives are changed or adjusted at regular intervals; that is inherent in the nature of politics. The challenge lies in preventing this from taking place in unpredictable ways through 'the tyranny of individual cases'.

The reference literature often refers to so-called 'Soviet mechanisms' or 'ratchet effects'. The concept of 'Soviet mechanisms' refers to the practice in the Soviet Union's planned economy of sanctioning enterprises that reached the objectives set for them in the 'plans' by setting higher objectives for them in the next plan period. This resulted in efforts to beat the system, where enterprises were careful not to do more necessary.

Norway has previously seen tendencies towards a similar practice in that many local units have been known to be fastidious about using up all the resources they have been allocated on the budget, so that savings one year were not used to justify tighter budgets the following year. Budgetary reforms have been introduced to counteract such a practice. It is now easier to transfer parts of the operating budget to next year's budget, and the distinction between payroll and other operating expenses has been eliminated. Certain administrative bodies have been granted special authorisations. This entails *inter alia* an opportunity to engage in net budgeting. The Storting adopts a budget resolution stating the scope of the State's contribution, while revenues and expenditures beyond this can be allocated for operations and investments based on local decisions.

New political priorities in the national budget may be experienced as unpredictable at the local level, causing difficulties with the implementation of investment plans, economisation and reorganisation. For example, the Armed Forces' investment projects are often long-term, e.g. the current frigate project covers a 10-year period. This raises a difficult dilemma. Political authorities must have the latitude to change their priorities in response to changes of regime and democratic choices. However, this can mean the political risk of

making major investments is experienced as being insurmountable at the local level. The discussion about introducing schemes involving multi-year budgets is based on the desire to ensure more local predictability in the face of this dilemma. The whole or partial privatisation of certain state-owned enterprises has been implemented to give the capital market more ready access and more predictability as regards investment risk, than what political budgetary processes alone can offer.

*'The silo syndrome'*

'The silo syndrome' refers to management by objectives and performance leading to a great deal of attention and energy being focused vertically or upwards towards superiors. Less attention is devoted to other departments and other undertakings. Users and other outwardly-oriented activities may also receive little attention. Management by objectives and performance is practised 'top down', with a hierarchical breakdown of objectives and performance targets. The system features clear authority, responsibility and avenues for reporting, and it sets straightforward parameters for the local undertaking. The disadvantage is that it does not offer much encouragement for the cross-disciplinary exchange of information, experience or expertise. Different departments may opt for different system solutions and thus strengthen this 'silo mentality'. For example, the Armed Forces embraced 581 different administrative systems before being slotted into an integrated system in connection with the Armed Forces Reform.

To create more horizontal exchanges of expertise and experience, and to make administrative procedures and the provision of services more independent of general rules, it has been proposed that management by objectives and performance be supplemented by 'bottom up' control. The idea is to develop IT systems that will allow employees working on a particular case to see how comparable cases have been resolved in other places. The advantage of such a system is that the practices and standards that eventually develop will be derived on the basis of the understanding of the dialogue between case handlers and users. This will also be an effective means of disseminating local undertakings' expertise, and helping make practices more user-friendly, compared with a system that is unilaterally geared to accommodating expectations and rules handed down by superior agencies. The danger of relying on a 'bottom up'-based set of norms to underpin the exercise of discretion is, however, that it can fall out of synch with financial parameters and civic duties laid down in political decisions and priorities. Local units' role as gatekeeper in relation to public benefits and subsidies can be impaired or be out of alignment

with political guidelines. For example, studies of municipal public assistance have demonstrated that practices related to the allocation of benefits are coloured by the case handler's professional ideology and personal attitudes. These are not necessarily commensurate with the political objectives of the service.

However, in combination with management by objectives and performance, a set of norms can lead to a better balance between users' needs and wishes, as these interact with local administrative entities and general political parameters and guidelines, allowing these users both rights and obligations.

## Independent administrative agencies

A growing number of administrative bodies are wholly or partly dependent on a ministry for dealing with individual cases. The increase is largely ascribable to progressively more use of independent complaints boards. For instance, the Ministry of Transport and Communications has severed its right to issue instructions in respect of the Norwegian Post and Telecommunications Authority's first-instance grievance procedures. In 2003, there were 48 independent complaints boards at the national level.

Political governance through individual decisions is a legitimate part of democracy. At the same time, overly rigid political direction can undermine the credibility of administrative procedures in the eyes of the general public. Doubts may arise about legal competence in respect of an administrative procedure, sowing suspicions about inappropriate discrimination and favouritism. This can, for example, affect the legitimacy of supervisory activities and the handling of complaints. The objective of creating independent administrative agencies is to make this as clear as possible when implementing policy, as well as when practicing more technical administrative procedures. Autonomy can also help protect individual decisions from arbitrariness and unfortunate precedents that can result from political decisions taken under urgent time and media pressures.

Independent administrative agencies are not shielded from all political governance. The agencies can be influenced by statutory regulations, retaining the authority to issue instructions in cases with particular characteristics, letting the ministry retain the right to reverse decisions, exercising control through budgetary parameters, specifying general political guidelines and standards for quality, and organising agency governance meetings where general issues related to sectoral and policy areas are given a great deal of attention.

The Norwegian Directorate of Immigration (UDI) is an example of an independent administrative agency. Political governance takes place through the Immigration Act, international commitments and regulations. UDI adopts decisions within the parameters of current policy. The minister does not have the right to intervene in individual cases, but can intervene in cases that involve foreign policy factors or which affect the safety of the realm. The minister can also intervene in respect of the prioritisation of cases, and practices may be influenced through legislation and regulations.

Individual cases are constantly putting UDI's independence to the test. Immigration is coloured by many controversial individual cases that command considerable media attention, and there is heavy pressure on politicians to intervene and set aside decisions. To establish a firewall against such intervention, grievance procedures are handled by the Immigration Appeals Board (UNE), an independent complaints board. The complaints board's independence can also be caught in the squeeze between policy and independent administrative procedure from time to time. For example, the rules for grievance procedures were worded to preclude the possibility to appeal positive decisions on applications, just rejections. Thus it was difficult for politicians to correct what could potentially be perceived as an overly liberal practice. Collectively, the high proportion of independent administrative procedures in the field of immigration led to an amendment to the regulations that affords the minister an opportunity to issue general instructions also for the treatment of individual cases.

Immigration cases illustrate the dilemma between the desire for political control and close supervision of individual cases on the one hand, and the need for sectoral independence on the other. Close political supervision is impossible in complex specialist areas involving many cases; it would also engender overload and arbitrariness in the political system. On the other hand, all individual cases are based on representative government and democratic processes as their ultimate source of legitimacy, and administrative procedures must therefore conform to political guidelines. There are strong indications that there are no clear criteria for establishing an expedient balance point between these considerations. What can be defined as reasonable practice varies, depending on the type of case, and will be shaped through ongoing dialogue between administrative entities and the political leadership in the ministries.

Independent administrative agencies can also contribute to clearer dividing lines between the State's role as adviser, service provider, owner and supervising agency. In the event a supervisory body provides advice to an enterprise it also oversees, the role of adviser can affect the way in which the oversight function is performed. Without taking the comparison too far, this situation is analogous to auditing companies that advise the same enterprises as they audit. The former Norwegian Board of Health had both advisory and supervisory responsibilities. Now these responsibilities have been separated and assigned to the Directorate for Health and Social Affairs and the Norwegian Board of Health, respectively.

Roles can also conflict with each other if an oversight body under the auspices of a ministry is assigned supervision and control of an enterprise owned by the same ministry. Such a combination of commercial and supervisory responsibilities in the same ministry can undermine credibility and the general public's confidence in supervisory and control functions. A solution to these conflicting roles has been to organise state ownership and business interests in a separate ministry than the one responsible for supervisory activities. However, the credibility of such a model can be impaired by the possibility for coordination at Cabinet level. The establishment of independent administrative agencies to perform supervisory activities can represent a more credible division.

The establishment of independent administrative agencies excuses the minister of parliamentary responsibility for the treatment of individual cases. Sectoral responsibility for any given area will nonetheless continue to apply. Although the minister cannot be held responsible and intervene in individual cases, he or she can nonetheless be held politically responsible for the way in which the field as a whole evolves.

### Independent legal entities

Over the past 10 years, many state-controlled entities that produce goods and services have been cut loose and made into independent legal entities. This makes the companies accountable for their own finances, and responsibility under company law is quite different from responsibility under administrative law. State-owned limited companies and state-owned enterprises can go bankrupt. This gives local administration overall responsibility for financial performance as well as operations. Meanwhile, the results can have legal consequences. There is less to gain by trying to influence companies' decisions by mobilising through political channels. At the same time, changes and reorganisations can be implemented more rapidly. Those in charge are the same people who have the authority to take decisions. The public administration does not need to clear as many decisions with superiors, even though it is important to have political backing in major cases. Opportunities for rapid adjustments are considered by many corporate managers to be one of the most important advantages of being organised as a company.

By creating private companies under the auspices of an undertaking, accountability under company law can also be applied in-house. This model was often used by Telenor in the 1990s. In-house private companies were given full commercial responsibility, also for the

bottom line, and were free to buy and sell, and to downsize or close down activities. Corporate management chose to coordinate and intervene as little as possible, so the company could develop organically in step with the markets in the various business areas.

The establishment of independent legal entities also creates better correspondence between ministerial authority and responsibility. The administrative model grants the minister responsibility for the undertaking's commercial operations, at the same time as he or she, in actual practice, has limited opportunities to exert informed influence. In connection with market orientation, the minister's responsibility is limited, ensuring greater congruence with his or her authority.

Independent legal entities can be organised in different ways.

#### State-owned limited companies

*State-owned limited companies are wholly-owned by the State, and run on the basis of the Norwegian Companies Act and its special provisions for state-owned limited companies. The special provisions entail, for example, that the King in the Council of State can re-examine a Corporate Assembly's decisions on major investments as well as on efficiency improvement measures and restructuring that would entail serious consequences for the workforce or disrupt society to any great extent.*

State-owned limited companies are the most common organisational structure for State-owned companies. Examples include Avinor, the Norwegian Broadcasting Corporation, Norway Post, the Norwegian State Railways (NSB) and Mesta. Organisational structure is considered particularly relevant where commercial criteria and competition are an important part of the parameters for the provision of services, and where societal considerations and mandatory social responsibilities can be adequately protected through corporate governance and the setting of political and financial parameters. The chance that the companies could go bankrupt creates a clear distribution of responsibility and consequences. Local administration and shop stewards are held accountable for local results.

The private limited company model is well-suited to competition. Its independent position makes it possible to accommodate rapid local changes, and the legislation creates almost equal framework conditions for state and private enterprises. In the absence of the disciplinary effects of competition, independence can nonetheless be used to raise managerial salaries and similar privileges without this being at the expense of increased efficiency or goal achievement.

Several state-owned limited companies are wholly or partially privately owned. This is true, for instance, of Statoil and Telenor. This gives the companies owners that can offer expertise other than the State's, and facilitates access to financial markets that offer more access to capital and more rapid signals regarding how the company's decisions are perceived by the markets. Whole or partial privatisation causes market risk to supersede political risk as regards access to capital.

#### *State-owned enterprises*

State-owned enterprises are organised pursuant to the Act relating to State-owned Enterprises. One example of a state-owned enterprise is Statskog. Several state-owned enterprises have recently been converted or are in the process of being converted to state-owned limited companies. This applies, for example, to Medinova and Statskraft.

Originally, there was a provision stating that the State had special responsibility for state-owned enterprises' debt, meaning they could not go bankrupt. This was considered important for ensuring that mandatory social responsibilities would be dealt with. This provision has since been removed. There are currently discussions about whether there is still a need for a separate type of company different from state-owned limited companies in cases where mandatory social responsibilities account for a large part of the undertaking, and where the market is so heavily regulated that competition is limited.

#### *Limited companies established by special act*

Limited companies established by special act are organised on the basis of special acts and are subject to special organisational rules, as is the case with Vinmonopolet (Norway's state-owned wine and spirits monopoly) and Norsk Tipping (Norway's national football pool). This company structure is used in areas that are specially and extensively regulated, and where important social and societal considerations must be taken. A public committee has proposed phasing out limited companies established by special act as a form of organisation. Considerable variation in company models contributes to legal uncertainty, complicating the use of various types of state-owned companies. The proposal to phase it out does not apply to health and higher education.

#### *Regional health enterprises*

Regional health enterprises are independent legal entities owned and funded by the State and regulated through a special act relating to health enterprises. One important reason for this regulation is to

gather the responsibility for the Specialist Health Service under the auspices of the State, and to make the board and administration of the regional enterprises accountable for organisation, operations and finances. As owner, the State practices corporate governance through the annual meeting, i.e. the supreme governing body in a regional health enterprise. Moreover, the State governs by virtue of making appropriations and managing the Specialist Health Service. This is accomplished, *inter alia*, through annual management letters. The board and management of the regional health enterprises are responsible for the division of work between different units in the region, the number of subordinate health enterprises, and other structural factors.

### *Foundations*

Foundations are self-owned units and, as such, are not part of the State, legally speaking. Foundations can therefore not be governed by instructions or corporate governance, but through special legislation, articles of association, the appointment of directors, state subsidies and the purchase of services. Over the past 10 years, it has been common not to use foundations as an organisational structure for undertakings that require reorganisation, or where State governance is desirable for other reasons. Foundations are therefore used mainly for scientific and cultural institutions with a considerable need for autonomy.

### *Choice of organisational structure*

The choice of the organisational structures mentioned above will depend on elements of market competition where important commercial considerations are at play, on whether the market in question is regulated through separate laws, on the extent of mandatory societal considerations and duties, and on the extent to which political objectives can be protected indirectly through e.g. state procurements, contract governance and incentive schemes. Moreover, technological progress can make the need for innovation and rapid adjustments so important that the need for independence is especially great, as is the case with broadcasting. International commitments under the EEA Agreement, for instance, can require the Norwegian authorities to open the door to competition and thus also to organisational structures adapted to competition. The EEA Agreement has been an important driving force behind the market orientation of state-controlled entities.

### *Clarity about roles*

One important reason for the market orientation of service undertakings is to achieve clarity about roles. This process includes

drawing a distinct dividing line between supervisory and control authority on the one hand, and the role of owner on the other. In the event both roles are directly under the auspices of the authority to issue instructions from the same ministry this can, as pointed out several places in this report, impair the credibility of the supervisory bodies in particular. Nonetheless, it will often be desirable to go further in segregating these roles than just organisational market orientation. Corporate governance of State-owned companies facilitates political instruction from the relevant minister through the general assembly/the annual meeting. Efforts are made to clarify roles by assigning ownership and supervision to different ministries. For that reason, the corporate governance of a number of companies has had to be moved to the Ministry of Trade and Industry, which has the status of a sort of 'holding ministry'. Nonetheless, the ministers work in the same Cabinet, so the coordination of supervision and the role of owner will continue to be possible at the ministerial level. In the event the company undergoes partial privatisation, the State will be less ubiquitous, and facilitate more credible distinctions between the State's roles. However, such a solution may not be desirable in areas in which the company is required to perform important societal duties and deal with important social considerations.

#### *Governance by independent legal entities*

Political governance of the State's companies takes place through corporate governance and the use of common regulatory authority. Corporate governance takes place mainly through the general assembly/the annual meeting, consisting of the minister responsible. This is where the companies' boards are elected, decisions are taken on individual cases, and guidelines and instructions are issued on all matters that affect the enterprise. In addition, the companies often have articles of association or statutory provisions that require them to present certain items to the general assembly/the annual meeting. For example, several wholly-owned State-owned private companies have a clause in the Articles of Association, often §10, which requires them to submit "all items assumed to be of significant, principle, political or social importance" to the general assembly. Moreover, the Storting compiles a report every other year on the development and the plans for these companies. The Office of the Auditor General conducts oversight of the administration of the interests and the companies' handling of societal interests, sectoral policy or other duties imposed by the Storting.

Avinor AS is an illustration of how the governance of state-owned enterprises takes place in actual practice. The company's objective is to run 45 airports with a particular level of security and service. Safety

is monitored and controlled by the Civil Aviation Authority. How the airports are operated within these parameters is up to the company. That being said, the Storting maintains direct management as regards the closure of airports, the company's upper borrowing limit, the pricing of services to the airlines, and the State's purchase of services in the regional network.

The possibility for direct political governance of the State's companies is thereby substantial, even though they are no longer part of an administrative hierarchy. Nonetheless, it is a common perception that the threshold for direct political governance is higher in respect of independent companies than in respect of subordinate administrative entities, and that formal instruction based on the general assembly/the annual meeting is rarely used. This is partly because many of the companies must adapt to market competition regulated by the EEA Agreement and a partially independent Norwegian Competition Authority. In some connections, efforts are made to formulate what are known as significance criteria. These are to specify the kind of items significant enough to demand political consultations and, if so required, political oversteering of governance and management. Informal forms of instruction do not appear to be common either, although there is an ongoing dialogue and exchange of information between the management of the companies and the minister/ministry outside the general assembly/the annual meeting.

There are different opinions about what role informal contact and governance through 'political signals' should have. In certain fields, governance is conducted consistently through formal decisions at the general assembly/the annual meeting, since this translates into unambiguous directions from the owner to the undertaking. Political signals can be interpreted in different ways, preferably to their own best, and this can cause conflicting expectations later. Conversely, it has been contended that informal dialogue between owner and undertaking is essential for an undertaking's managers to garner political backing for the activities they engage in outside the general meetings.

The more market-oriented enterprises perform important societal tasks, the more often tension arises between the desire for political governance of individual decisions, and expectations of getting to run the undertakings on an independent basis within given parameters for governance. This is illustrated *inter alia* by the health enterprises. When regional health enterprises have drawn up proposals for structural changes in the health care offered in a region to satisfy an owner's expectations of cost-cutting measures, the result can be local

counteractions with considerable media coverage aimed at encouraging the minister to oversteer the health enterprises through instruction decisions at the annual meeting. The political pressure exerted by the general public and MPs regarding intervention in individual cases can be substantial.

### Indirect governance and regulation

Delegation, combined with the establishment of independent legal entities, means political governance through the administrative hierarchy must be supplemented by more indirect governance and forms of regulation. This is exacerbated by progressively more willingness to exploit market competition as a means of achieving user-centrism and efficient resource utilisation. Common to indirect policy instruments is that they are more devoted to promoting framework conditions than to dictating behaviour, and more geared to finding solutions than to issuing prohibitions and orders. The transition to more use of indirect policy instruments does not necessarily mean that politics are being abdicated, but that political influence is being channelled more through general policy instruments than through political intervention in individual cases.

#### *Administrative governance*

Indirect governance takes place *inter alia* through legislation, regulations, licences and public oversight. Legislation deals with overall political governance, licences regulate rights and obligations linked to operating in different markets, and supervisory bodies ensure that private and public players stay within rules laid down in legislation and regulations. Licences have become important in the governance of sectors that have made the transition to market orientation. The requirements can vary from the exclusive right and obligation to perform a number of mandatory social responsibilities and to regulate what will be appropriate for a market, and the obligations related to this.

#### *Supervision*

Supervision is gaining importance as a regulation mechanism in decentralised societies featuring the extensive use of market-like mechanisms. Supervisory bodies are intended to make sure that politically-determined quality requirements are taken into consideration. Different solutions are applied to the supervisory bodies' institutional location. In some cases, the role of supervisory body and of owner, previously under the same ministry, were separated so the oversight body remained in the ministry, while ownership responsibility was relocated. For example, the Norwegian

Post and Telecommunications Authority is still associated with the Ministry of Transport and Communications, while the management of the ownership of Telenor has been moved to the Ministry of Trade and Industry. For undertakings whose purposes are closely associated with important societal interests, as is the case for the Norwegian Broadcasting Corporation, Statnett and Norway Post, ownership responsibility, professional responsibility and supervisory responsibility are all in the same ministry. Although being located in the same place can create certain credibility problems relative to the general public, it facilitates comprehensive protection of important social considerations. The State's supervisory responsibility in respect of the municipalities is handled by the county governor, who performs instructive, advisory and oversight duties, including the control of legality. Proposals from county municipalities regarding regionalisation have often been accompanied by a wish to transfer such State supervisory functions to the regional levels.

Supervision can sometimes conflict with paramount political objectives. First of all, they can optimise costs in their area without taking into account that this can affect the resources available for other purposes. For example, the Civil Aviation Authority can decide to spend an immense amount on safety measures, although it would have been better overall utilisation of the State's resources to spend more on road safety. Secondly, independent supervisory bodies can issue expert opinions on their sectors that draw conclusions that run counter to explicit political guidelines in other sectors. The dividing line between professional and political opinions can sometimes be difficult to establish. If the supervisory bodies are independent, it is difficult to reverse their decisions even if they are based on deliberations that are political in nature. Thirdly, supervisory bodies that optimise their use of resources can result in the aggregate costs of supervisory work being higher than socially desirable, based on an overall assessment when of what happens when supervisory bodies optimise their use of resources.

### *Market forces*

Financial instruments are important for the governance of independent units. To some extent, conventional instruments are used to set financial parameters, levies and fees, and for price regulation, e.g. maximal prices on certain telecom services and on the transmission of electricity in the power grid. In addition, these instruments are based on the market mechanism, e.g. the procurement of services based on tenders. The EEA has been and continues to be a driving force in the use of such instruments.

Competitive tenders can cause confusion about the State's roles if the ministry that issues the call for tender also owns a State-owned company that participates in the competition. It can also be difficult to pre-define the relationship between minimum standards for quality and costs, and the extensive regulations often needed to regulate tenders. Meanwhile, a number of fields have a limited influx of stakeholders since the infrastructure is tailor-made for an former monopolist. This is true, for instance, of a call for bids for passenger traffic on the railway network. In such case, the State is often required to negotiate with the earlier monopolist.

Market forces entail more extensive use of activity-based funding. For example, the budgets of universities and university colleges are linked to the production of academic credits and documented research, while somatic hospitals are paid according to the number of patients admitted and treated. Both sectors use such funding in conjunction with a general subsidy. Activity-based funding is often linked to free choices for users of schools and hospitals. Incentive contracts are a related policy instrument. For example, the Ministry of Transport and Communications signed so-called quality contracts with several of its suppliers. Requirements are posed regarding common carriers' punctuality, and bonuses are paid when the requirements are met.

Finally, the State buys services and grants financial subsidies for production that cannot be operated on a commercial basis, but which it is nonetheless in the interest of society to maintain. For example, the State buys services from Norway Post, Avinor and the Norwegian State Railways (NSB) to maintain service in outlying regions. Such procurement of services implies the use of contract governance.

The use of market instruments creates even more challenges to governance. Activity-based funding can make it difficult for the central authorities to maintain control of overall costs. It is difficult to predict how significant the activity will be, and thus how much the central authorities will have to refund. Thus the appropriating authority's budgetary parameters are more uncertain. Activity-based funding, combined with general subsidies can also lead to distortion; per unit funding of services can be given too much attention at the expense of the activities funded over general subsidies. In hospitals, the chronically ill and individuals with vague disorders may be affected, while basic research may be given little attention in the university and college sector. To prevent such distortion, it is important to find a good ratio between activity- and subsidy-based funding, and it may be even more important to arrange contact meetings and corporate governance that helps ensure that societal tasks and social considerations receive

sufficient attention in the enterprises, even though they may be funded through subsidies.

Another consideration is linked to the percentage of the services users themselves should fund. User funding regulates demand. This is necessary to prevent excess consumption of public services, and helps ensure that scarce resources are used to meet the most pressing demands. Charging an excess on health services can lead the general public to mitigate its demand for non-essential help. This may free resources for health services that have higher priority. In some fields, e.g. education and qualification for the labour market, it is, however, not expedient to ration the demand for services. On the contrary, the challenge is to get as many people as possible to take advantage of them.

Contract governance calls for a number of considerations to be taken, not least with a view to the balance between quality and cost control. Fixed price contracts, where price and quality are agreed in advance, gives good cost control. If the quality requirements are difficult to define clearly in the contract, and where it is also difficult to measure and verify whether the agreed quality has been delivered, providers can enhance their profits by reducing quality, as has been seen in certain private nursing homes. Publicly stipulated minimum quality standards can counteract this, but they also contribute to reducing the flexibility of health care services to adapt to different local conditions and user wishes. One alternative is to use reimbursement contracts, where the provider is paid for work performed. Such a contract does not give the provider the same strong incentives to reduce quality. Nonetheless, costs can run high. The provider can be tempted to supply higher-than-contract quality. When cutting costs has a formidable adverse impact on quality and it is difficult to enshrine quality requirements in the contract, production under the auspices of the authorities can offer better quality control than what is possible to achieve through contract governance. Based on such reflections, it has been suggested that services in fields such as development cooperation, the police and the Armed Forces ought to be produced by the public sector itself, while garbage collection and renovation can be outsourced to private contractors.

If contract governance is to be effective, the contracts must be credible. This means, for example, that the State must abide by the financial parameters agreed for the deliveries in question. If the task is important to society, there may be strong political pressure to augment the parameters. Soft budgetary parameters would nonetheless undermine the incentives to supply the desired quality

with the least possible use of resources, since it might be considered possible to pressure the State politically into allocating additional funding. In addition to undermining the effectiveness of contract governance, this would also impair the financial accountability of providers.

One final consideration applies to the relationship between long-term and short-term contracts. Heavy investments often call for long-term agreements to provide adequate predictability. The Armed Forces' frigate project has a time frame of more than ten years. Long-term contracts nonetheless reduce the flexibility to tie up future allocations, and can thus be incompatible with wishes to adapt operations to shifting political majorities.

#### The Power Supply Industry— a combination of different forms of governance

The organisation of the power supply industry demonstrates how different types of State governance can work together. One important area is dam safety. Dam fractures combined with quicksand can have disastrous consequences. Accordingly, this area is under the auspices of administrative governance through laws, regulations and strict supervision.

Emergency preparedness for floods is handled through interaction between the Norwegian Water Resources and Energy Directorate (NVE) and the police. Frequent training at quiet times helps clarify the distribution of responsibility. Thus it is possible to avoid being paralysed and unable to take decisions if a flood were to occur. Different models for coordination are required under different local conditions, meaning local authorities have been delegated the authority to find their own solutions.

The power grid is operated by the Norwegian Water Resources and Energy Directorate (NVE) which decides the gross income of grid companies. In many cases, these companies are independent legal entities. Moreover, quality standards are framed through regulations. There is also an incentive system ('KILE') that punishes grid companies financially in the event of interruption in the power supply. Incentives are, however, not sufficient to ensure society's need for safety, so direct regulation is also used. Some grid companies have outsourced parts of the maintenance of their emergency preparedness systems to private entrepreneurs. This is cost efficient, at the same time as it can generate uncertainty related to availability. In the event several companies use the same entrepreneur, there may be problems related to priorities in the event of a major crisis. It is extremely risky

to become dependent on external suppliers in areas where the consequences of failed or late delivery can have dramatic consequences.

## CHAPTER 5 MODERNISATION AND PUBLIC MANAGEMENT

User-centrism, simplification and efficiency improvement through delegation and decentralisation call for changes in the State's composition and procedures. However, modernisation will not be implemented merely by pointing out its importance; the changes must be accelerated and carried forward by active State leadership.

While leaders in the public sector used to be expected to guarantee that administrative procedures maintained reasonable standards and to remain loyal to political decisions, the need for modernisation and revitalisation are accompanied by new demands. Granted, State executives must still continue to be specialists in their fields, at the same time as they are duty-bound to remain loyal to political decisions. This is necessary both to maintain authority with co-workers and legitimacy with politicians. However, modernisation and revitalisation are to be implemented in a situation characterised by internationalisation, new technology, discerning users, critical media, an expansive Office of the Auditor General and insistent politicians, to mention just a few. When realignment and change become everyday occurrences, they result in considerable unrest and uncertainty, causing co-workers and others to call for clear leadership. The increased public attention focused on the State's activities also create an arena in which conflict and resistance become highly visible. The forces working against modernisation are often well organised, and they often share the media's interest in focusing attention on problems and conflicts.

Over the past 10 to 20 years, a number of new challenges and expectations have been imposed on top State executives. The issues still revolve around special fields and management, but they are increasingly focused on achieving change by motivating people and getting them involved in situations featuring public attention, uncertainty and conflicts.

State executives as prime movers and strategists

### *Internationalisation*

Internationalisation constitutes an important framework and impetus for modernisation. The EU and the EEA have been and continue to be driving forces behind exposure to competition in many industries that used to be operated as public monopolies. This applies, for instance, to railways, electricity and aviation. Internationalisation meets enterprises not only through the market, but also through legislation.

The EEA agreement and other public institutions require Norway to take initiatives and adopt legislation that has to be adapted to Norwegian legislation and Norwegian administrative practices. For example, the human rights embodied in conventions from the UN, ILO and the Council of Europe have an impact on working life. A large number of directives have been implemented in legislation or regulations. Thus far, 60 directives focusing exclusively on the working environment and 20 directives that address discrimination and mass dismissals have been implemented in the Norwegian regulations. In some areas, EEA directives require that surveillance and regulation, e.g. the awarding of licences, are assigned only to agencies that have no political influence.

While the EU's decisions are increasingly more important for Norway, there are numerous indications that Norway is becoming less important for the EU. Combined with the efforts to implement the new Constitution, the enlargement of the EU by ten new member states caused a great deal of attention to be devoted to processes between the member countries. The Norwegian civil service must therefore increasingly take the initiative to influence the system so that Norwegian interests are safeguarded as changes are implemented, and laws and directives adopted. The earlier in the process such influence is exerted, the greater the chance of success. This is not confined to contact with the civil service in Brussels, but also to cabinet ministers in the various capital cities. The latter takes place at the political level, and gives the Norwegian civil service an important role to play in keeping their ministers informed about cases in which Norway's interests should be protected through initiatives at the ministerial level.

The position of the European Parliament has been strengthened through the process of developing a new Constitution for the EU. At this level, active lobbying is very common, and roughly 4400 lobbyists are registered in the system. In contrast to the Norwegian Storting where active lobbying on the part of civil servants is considered inappropriate, it is common practice in the EU parliament.

#### *Delegation and market orientation*

More delegation, combined with management by objectives and performance, gives local units more latitude to show creativity and take initiatives regarding different ways of achieving the expected results. That way co-workers' capabilities can be exploited and developed, and administrative procedures and the provision of services adapted to users' needs within the parameters posed by general regulations and allocations. The work will be governed less by

detailed instructions, mandates and earmarked allocations, and become more a question of discernment and local initiative. By the same token, assignments will be defined less by which cases, regulations and circulars pop up in one's in-box, and more by co-workers' own deliberations and ideas.

Delegation and decentralisation will also characterise the role of manager. Professional advice and supervision will continue to be a significant aspect of leadership. Nonetheless, there will be less direct instruction and governance, and more communication of the expectations of results combined with the follow up of results. The role of manager will be more reminiscent of the role of coach, inspiring co-workers to achieve good results through expectations, dialogue, inspiration and follow up, and paving the way for co-workers to do well. This refers to the exercise of leadership at every level, and it calls for leaders who are willing to delegate influence on important aspects of their co-workers' work performance. The need for delegation is exacerbated by the fact that many public employees possess special expertise and are thus knowledge workers with a significant need for autonomy. In some fields, there will nonetheless still be a need for direct instruction, inspection and regulatory management. This applies specifically to fields in which standardisation is essential out of consideration for equal treatment. In such case it is important to ensure compliance with regulations, not least with a view to safeguarding health, safety and the environment.

#### *Strategic action*

As government agencies and undertakings gain more independence and the freedom to choose how they want to satisfy the expectations of results being posed to them, it should also be possible to develop local strategies that emphasise which targets should be sought after, and what type of competence and other resources must be in place for the targets to be attained. Strategic processes clarify expectations from users and owners (politicians), specify standards for quality, clarify which assignments undertakings should continue to pursue, and designate which new activities and services should be incorporated. Strategic planning offers leaders a form of leverage to enable them to act more proactively on behalf of their undertakings than what budgeting processes usually allow within the framework of public administration. Strategic planning is a responsibility that generally rests on the shoulders of top State executives.

Trends have moved away from strategies that consist of detailed plans, and are now more akin to lists of important strategic intentions that specify a common direction and general ranking of priorities. Within

the framework of these strategies, local leaders and co-workers have considerable latitude to select appropriate instruments and to pursue unexpected opportunities.

## Line organisation, horizontal collaboration and managerial responsibility

### *Hierarchies and flexible organisations*

A hierarchical line organisation, where instructions and reporting take place vertically and follow the official chain of command make it possible for leaders to delegate authority without obfuscating the fact that they themselves are responsible for decisions. One of the greatest advantages of a hierarchical structure is the clear distribution of responsibility. That system makes it possible to hold individuals responsible so that actions and results have consequences for decision makers. This assignment of responsibility usually means that decision makers are more careful to take all relevant factors into account. By the same token, overall responsibility can be traced to a senior administrator, creating an orderly system in relation to owners (politicians) and other stakeholders.

However, a hierarchical line organisation can cause leaders and co-workers to take decisions that unilaterally favour their own departments, agencies or undertakings, at the same time as their attention is too unilaterally focused upwards towards superiors and politicians, rather than outwards towards users and society at large. This can readily give rise to professional and organisational territorialism that can be exacerbated by different cultures being practiced within different professional groups and departments. Such territories do offer some advantages, though, e.g. they make it possible to reap the dividends of specialisation and designate clear responsibility for cutting edge expertise. These advantages exist at the same time as consideration for users indicates a need for more cooperation across disciplines and agencies to prevent users from being 'shuttled' between professions, departments and undertakings. Certain employees' objections to the coordination of the Norwegian Labour Directorate Aetat, the National Insurance Service and municipal social services is an example of how special agency interests can conflict with users' need for better coordination of services. Factors other than consideration for users also require more horizontal cooperation within the State. Many issues transverse established professional and agency boundaries, requiring that co-workers be grouped together into projects and teams. As authority and case handling are delegated by ministries to undertakings and government agencies, efforts become less coordinated at the central

level. This creates a need for more direct contact and coordination between undertakings and government agencies.

In other words, there are strong indications that the classic vertical line organisation should increasingly be combined with horizontal cooperation. This is needed to counteract the tendency towards introverted, user-unfriendly fragmentation. Meanwhile, a certain element of hierarchy is needed to clarify leadership responsibility, develop cutting edge expertise and reap the dividends of specialisation.

The Storting and the general public are devoting increasing scrutiny to administrative procedures and the provision of services. It is therefore important for the legitimacy of an undertaking that leadership responsibility be absolutely clear, so that any attention and particularly any fallout will have a very obvious addressee. By the same token, horizontal projects and cooperation between undertakings will blur responsibility to a greater extent than is the case in a hierarchy. A line supervisor that seconds one of his or her subordinates to a project must share his or her authority over that subordinate with the project manager. Similarly, the employee must report to both the line supervisor and the project manager. Similar situations can easily arise in connection with inter-agency collaboration.

It is probably not possible to eliminate all such organisational grey areas of overlapping responsibility. While numerous attempts used to be made to 'organise them away', it is now more customary to define their management as part of leadership responsibility. This means, for instance, that a line supervisor and project manager are expected to maintain a dialogue to deal with any conflicts between them. In such cases, managers must be equipped to cope with horizontal communication and conflict resolution, without having access to the instruments of instruction and power available to hierarchies. Similarly, co-workers must cope with the ambivalence inherent in reporting to several managers at the same time, and resist the temptation to exploit grey areas of overlapping authority and responsibility to reap special benefits at the undertaking's expense.

#### *Managerial responsibility and hesitation to delegate*

Management involves giving as well as taking responsibility. Managers bear responsibility pursuant to their job descriptions, employment contracts and the expectations they face. In principle, they are held responsible, which puts them in a vulnerable position. Management takes responsibility by following up decisions that are delegated to co-workers. This entails *inter alia* dealing with situations

when co-workers fail. On the one hand, the co-worker ought to have the freedom to decide how a job should be done and to learn from his or her own errors and mistakes. A manager's intervention might be seen as inappropriate meddling, undermining the employee's motivation to work independently. On the other hand, the employee might welcome supervision and advice. This can be handled by ensuring that the leaders' follow up and supervision take place in a professional manner, providing supportive personal guidance and encouragement rather than in a way that might be perceived as inappropriate meddling.

Ultimately, it is the manager who is responsible for the results of co-workers' actions. Where the consequences of any mistakes made by co-workers are dramatic, e.g. if they threaten life or health, the leader may even be held criminally liable. In the event, it is reasonable that the manager keeps close tabs on co-workers' work performance.

Any trend towards senior State executives being held more responsible for their own actions and those of their co-workers in the eyes of the general public and among politicians could undermine their willingness to delegate, since delegation deprives managers of control over the decisions for which they are held responsible. Since parliamentary control of public administration and activities through the Office of the Auditor General has expanded considerably over the past 10 years, and since the media increasingly tend to focus on mistakes committed by the public sector, executives may hesitate to delegate authority because they would like to maintain control of the areas in which the risk of public censure for mistakes is greatest. This reason for the lack of willingness to relinquish power is probably at least as important as the desire to have power simply for the sake of having power.

## State executives as agents of change

### *Pressure to change*

Public undertakings are being subjected to progressively more pressure to change. This is partly because new technology enables them to produce more efficiently. It may also make downsizing virtually unavoidable, as was the case when telecommunications activities became digitised. More undertakings are exposed to competition, not least as a result of the EEA agreement. The result is often market orientation and efficiency improvement to promote the undertaking's freedom of action and competitiveness. Such processes are not limited to public enterprises. For instance, the Bologna Declaration, which harmonises the degree systems in higher

education so that universities and university colleges have to adapt their educational programmes and governance models to international standards. In other words, harmonisation will make it easier for users to choose between offers in different countries. This will also promote competition for students, giving them more power. At other times, the political decisions lead to major changes in undertakings' situations, as was the case when Norway's Storting decided to move State institutions out of Oslo.

There is also a more permanent, structural driving force underlying the increasing pressure on the public sector to change. Many of the services offered are labour-intensive and it is difficult to improve efficiency without adversely affecting quality. While agriculture, industrial, telecommunications activities and broadcasting can attain formidable productivity dividends as a result of mechanisation and automation, it is far more difficult to do the same with services produced in the interaction between employees and users, e.g. public health and care services.

The imminent 'grey wave' of baby boomers reaching retirement age will lead to a steep rise in the demand for public welfare services. This takes place at the same time as there are fewer individuals of working age to finance and perform the services. Thus progressively more pressure is building up to economise public undertakings, at the same time as consideration for quality means there are limits to how much it is possible to achieve through automation and new technology. Economists call this 'Baumol's Law': The more a society's production is characterised by welfare services, the more difficult it is to improve productivity without affecting quality and the content of the services. This results in a shortage of labour. Along with a demographic trend featuring fewer workers per pensioner, such a shortage will entail almost permanent pressure to economise public sector activities. State officials must implement such measures at the same time as special interest organisations, politicians, the media and legal advisers see to it that efficiency improvement does not impair the quality of services or users' rights.

When the expansion of public services is not followed by corresponding increases in productivity, and the funding base is undermined owing to demographic trends that result in fewer individuals of working age, constraints are placed on politicians' opportunities to fund new initiatives. Yet the political will to offer the general public more welfare services does not deteriorate to the same extent. This means reforms can be adopted and new services introduced without adequate funding being allocated for the activities

required to implement the decisions. Instead, it is left up to the individual government agencies, municipalities and enterprises to find room in their budgets, raising, in turn, the need for re-prioritisation and efficiency improvement. This is yet another reason that restructuring and reorganisation are a constantly recurring phenomenon in most public undertakings. Local leaders must often act creatively and proactively to economise and raise revenues apart from State allocations. This, in turn, calls for considerable local freedom of action in the financial arena, e.g. the transition from gross to net budgeting.

#### *Willingness to change*

One important part of leadership involves explaining and justifying the changes to be introduced. Clear, unambiguous objectives for change are also essential for assessment purposes to determine whether a good job has been done. Where the objective of the change and the vision underlying it are clear, it is easier to win understanding for it and to mobilise enthusiasm among co-workers. This should be done prior to the changes themselves. This was the case when the reorganisation of Televerket began. Right from the start, it was clear that the objective was to adapt operations to digitisation and the competition that was inevitable, not least as a result of new technology and international regulations. Televerket's vision was that telecommunications should be parlayed into a national competitive advantage for Norway. That vision has largely been brought to fruition when it comes to mobile telephony.

The communication of objectives and visions is most effective when managers personally take part in honest, open exchanges about why changes are required, and how implementation is envisaged. Clear and present leadership can be supplemented by creative communications, e.g. some businesses have made mock-up 'future editions' of newspapers describing the favourable impact the change has had on the company. That being said, such instruments cannot replace active, visible leadership.

#### *Co-workers' reactions*

Even changes that turn out in the long term to be advantageous for those involved will often be experienced as threatening when they are presented for the first time. This is especially true if the changes are extensive, unexpected, and ascribable to factors outside co-workers' control. This will often be the case in the public sector, where decisions regarding change are taken by political authorities, or required by international agencies.

At an early stage in such restructuring programmes, management often encounters resistance articulated by strong feelings and words, as was the case when Televerket's executive managers were interrupted by speaking choruses and organised walk-outs when they travelled around informing people about the impending changes. Leaders are in a vulnerable position. They are often targets for reactions that include uncertainty, a sense of loss and possibly even fear among employees who feel the change is abrupt and unexpected. This is because people have a need to attribute, i.e. to find out why something is changing and to understand what is taking place. Leaders are convenient targets for attribution. Many co-workers are of the opinion that leaders, by virtue of their power and influence, could in principle be causing a change to take place, meaning they may possibly also have had a chance to prevent it.

There is little executives can do avoid becoming scapegoats, apart from coming forward and allowing themselves to be made into targets. In the early phase of the process, management's role is to remain steadfast to the objectives and stand up to attacks with dignity. Although it is personally uncomfortable, it is crucial not to withdraw or to respond in kind, since either move could exacerbate resistance, further feeding fantasies about management's 'guilt'.

Experience indicates that most co-workers need to respond emotionally to abrupt and unexpected changes before they can start to address the new situation constructively. The length of time required for the process will vary, and management must use its discretion to decide when a situation is sufficiently mature for the next step to be taken. As the process of change progresses, the reactions of co-workers usually become less emotional. Most of them eventually try to sort out their place in the new situation. Management's role will then change from bearing the brunt of resistance and strong feelings, to supervising and pointing out the opportunities the new situation engenders for co-workers.

However, it is only in exceptional cases that changes offer advantages for all parties involved. This means there will normally be certain conflicts of interest that can possibly be mitigated, although not eliminated, by information, communication and good management. In the event resistance and strong reactions persist, they may be due either to the change having triggered a conflict of interest that has to be resolved through negotiations, mediation or the use of power, or that some individuals are not able to adjust to the new system, and thus have to be helped into a different situation.

### *Processes of change*

In connection with downsizing, there will invariably be people who will not or can not continue. It can be advantageous to clarify as soon as possible who they are, and to help them find new jobs. This can be done either by providing job placement assistance, or by providing support for career planning and competence development. By creating a separate organisational unit and unifying efforts to help those made superfluous, it may be possible to prevent them from spreading despondency among the co-workers who will be keeping their jobs. This was one of the intentions underlying the establishment of a programme called 'Televerket's new opportunities'.

In connection with major reorganisations, it may be expedient to organise a special project to assume responsibility for coming up with ideas, providing incentives for change, and taking stock of the situation at regular intervals. This was done during the reorganisation and downsizing process in the Armed Forces. The 'Argus Project' was responsible for new ideas, providing pressure to motivate change and the presentation of 'success accounts'. This model was used because line managers were linked to established schemes and worked closely with employees who risk being affected by downsizing. This means that many line supervisors neither saw themselves as benefiting from or as being in a position to act as prime movers for economisation efforts. Notwithstanding, the responsibility for implementing the adopted restructuring rests in the line.

Processes of change should be based on an implementation plan featuring milestones and deadlines. The pace of the reorganisation efforts is crucial for their implementation. Considerable attention was devoted to that in connection with Norway's health reform. Milestones create clear links between short-term tasks and long-term objectives. This improves the chance that the focus will be on the actual implementation of the reform rather than on objections and problems. By the same token, a breakdown of the process into short-term targets (milestones) will have a motivating effect during implementation, compared with having to wait until the whole reorganisation is complete. The Armed Forces' Argus Project produced monthly feedback on the process, rendering any milestones achieved visible through monthly accounts of reorganisation dividends.

Many processes of change reach an impasse or lose momentum because management is hesitant to act. People have a tendency to wait to take decisions until all potential consequences have been studied and considered. Asking for even more reports is also a common strategy for those who want to frustrate or obstruct changes.

The intention of getting a complete overview of all potential consequences prior to implementing a change is reasonable in itself, but it is usually impossible to accomplish in actual practice. There will inevitably be some uncertainty attached to possible consequences. It may be more prudent to deal with any problems as they arise, rather than spending time discussing solutions to problems that may never emerge. When Televerket (later Telenor) began its downsizing process, many wanted to conduct detailed analyses of how many and what kind of people would be needed, based on the number and type of jobs Televerket would have in future. Such estimates would nonetheless have been encumbered by considerable uncertainty, not least because swift technological development is continuously creating new conditions for work processes. On that account, the decision was made to set parameters for future manpower, and then to leave it up to local units to determine how they should be accomplished. For example, it was stated that where there had previously been 10 individuals, the workforce would have to be reduced to seven, and where there had been eight, the group would have to be reduced to five. Thus local capabilities were activated, engendering a feeling of ownership in relation to the way in which the downsizing was implemented. Staffing solutions also varied depending on the different departments' responsibilities and situations.

The extent to which it was possible to implement changes based on the principle 'figuring it out as you go' depends, among other things, on what kind of damage can arise if unexpected, adverse consequences arise. Where the impact on health, safety and the environment turn out to be dramatic, one should do more to make consequential analyses prior to implementing reorganisation, compared with situations where the consequences are less severe.

#### *Power base and credibility*

Public sector executives often have to deal with more stakeholders and considerations than managers of private enterprises. This is expressed in surveys which indicate that government executives take more account of ethical standards, social responsibility and an undertaking's reputation in the media than what is common among managers in private limited companies. There is more transparency in public undertakings than in private ones, and this makes it important for government executives to behave professionally and in an orderly fashion in relation to different types of stakeholders, so that changes can be implemented with credibility.

State officials need a broad, comprehensive power base to implement changes. Political backing appears to be essential. Special interest groups that oppose a change will consider the Storting an arena for resistance. The tendency in this direction has increased since the Storting began to demonstrate more willingness to get involved in the civil service's administrative procedures, and to instruct Government to implement certain measures in individual cases.

#### *Co-determination and the role of shop stewards*

One important power base for public sector executives is the one represented by the employees and their shop stewards. Basically, the employer's management prerogative also applies in public undertakings. This gives an employer the right to hire and fire employees, as well as to organise, lead, control and distribute work. The management prerogative is a residual competence, i.e. unless otherwise stated, it remains wholly intact. It cannot be practised unlawfully or in violation of a collective bargaining agreement, and it is limited by general objectivity standards, ethics, policy and proportionality, i.e. the management prerogative must be practised in a manner appropriate to the nature of the cases.

Employees' right of co-determination is established in §110 of the Norwegian Constitution. Formidable requirements for participation and transparency are posed in connection with far-reaching processes of change. When several undertakings are affected, a special agreement must be signed to put the relationship between the parties in place, otherwise the Basic Agreement is generally used as a point of departure. It imposes extensive information, discussion and negotiating rights and obligations on the parties. The provisions of the Basic Agreement do not apply to political decisions, where co-determination is limited to implementing a decision. Apart from that, unless otherwise agreed between the parties, negotiations should be conducted for all reorganisation measures that entail changes in the organisation chart, that last for more than six months, and that entail the reassignment of staff and/or equipment.

Co-determination can provide support for management during reorganisation. It can offer access to information and give the changes credibility and legitimacy, both inside and outside the undertaking. When the Norwegian National Coastal Administration moved to Ålesund, five shop stewards worked on the moving process full-time. This allowed the rest of the organisation to concentrate on its ordinary work.

To facilitate cooperation, there should be a clear distribution of roles, and a clear distinction between shop stewards as representatives of the employees, and management as representatives of the employer's management prerogative. In several public undertakings that have established their own in-house training and career advancement programmes, it is traditional that all employees, including executive management, belong to trade unions. Although this used to be common in Norway Post and Televerket, times have changed. Notwithstanding, vestiges of the scheme are found in the Armed Forces. In certain public undertakings, shop stewards are also members of the undertaking's management groups. Such arrangements may nonetheless veil the division of responsibility and blur management responsibility. Nor is it uncommon to have an established standard which states that decisions taken by boards and cooperative bodies are to be unanimous. In actual practice, this gives employee representatives a veto.

As a link in market orientation and the establishment of private companies, a clearer distinction has been made between management and shop stewards. This has been accomplished by underlining that employees and their representatives are entitled to employee consultation, but not to co-determination. Among other things, this means that shop stewards no longer participate as full members of an undertaking's management group. Thus it is made clear that it is management that is responsible for an undertaking's operations and results. By the same token, the employees and their shop stewards are free to respond as they choose to managerial decisions.

The Basic Agreement grants State employees' organisations considerable power to demonstrate resistance to change. By insisting on negotiations for even minor changes, they can delay matters significantly. In that context, it is important to determine what are political decisions and what can be subject to negotiation. Political decisions are not covered by the Basic Agreement's provisions on co-determination. In this area, there is still some confusion about where to draw limits. In any case, a manager who continuously tries to avoid negotiations by referring to decisions as political may find it difficult to exercise authority. Managers who justify their positions by referring to more senior individuals or to regulations, rather than to their own actions, often find their authority undermined.

Experience indicates that including employees and their representatives in the process early on through the exchange of information and discussions improves the chances of having smooth cooperation. On the other hand, some State reorganisations will affect

certain employees' interests so adversely, that successful implementation will not primarily revolve around flexible management, but around negotiations and, ultimately, the use of power.

Delegation, decentralisation and market orientation are changing shop stewards' working conditions. In a centralised state, central shop stewards wield considerable power, since the employer's responsibility is administered centrally, and the most important decisions and negotiations take place at this level. When an undertaking is decentralised, and several independent companies are created, the employer's responsibility and authority are transferred from central to local units. Thus more of the employer/employee interaction is moved out into the system, meaning local shop stewards and local decisions will gain importance at the expense of central activities. If decentralisation and market orientation cut the ministries off from their authority to issue instructions, or undertakings are organised as independent legal units, it will be less fruitful for shop stewards to work through the Storting or other political channels. In such cases, provided the politicians can resist intervening on an *ad hoc* basis, they are left to promote their interests through local cooperative bodies and negotiations in the enterprises. Thus decentralisation and market orientation can help depoliticise cooperation between management and trade unions in state-controlled entities.

## Stress tolerance and crisis management

### *Overload, stress and coping*

Reorganisation and demands for economisation can lead to strain and exhaustion among co-workers. However, that need not be the case. People are not generally made for stability and passivity, and they will stagnate without challenges and burdens. It is basically an open question whether extreme work pressure and frequent reorganisations will lead to exhaustion and strain or to development and job satisfaction. A great deal depends on whether the stage is set for employees to be able to cope with the challenges of working life.

To some extent, the ability to cope depends on the physical and mental condition of a given individual. Different individuals have different levels of energy. A great deal also depends on an individual's work situation.

Individuals' capacity to cope with challenges depends on two conditions in particular. The one involves favourable expectations of results, meaning that the objectives people are working towards are

experienced as meaningful, worthwhile and respectable. The other involves favourable expectations of responses, which require that the instruments and resources at hand bring the results expected and desired. The connection between means and ends must be predictable. Favourable expectations of results and responses are necessary to prevent absurdity and impotence, respectively, and to prevent reorganisation and economisation from leading to harmful stress.

#### *Worthwhile, respectable and close goals*

Contributing to the achievement of goals that are appreciated by one's surroundings brings joy and is exciting. Hard work for results that bring respect, recognition and status can make co-workers more proud than exhausted, even though pressures and efforts have been substantial. Legitimacy in the community appears to be an increasingly important source not only of employee satisfaction, but also of an undertakings' profitability and viability. This means that undertakings must have a clear point of view as regards ethics and social responsibility. It is an important managerial responsibility to help develop and live up to values co-workers consider to be respectable and worth aspiring to, and which make an employee proud to work for that particular undertaking.

New systems of governance make it possible to break down an undertaking's paramount profitability goals to the individual co-workers' work situation. Along with coaching-based management, and along with development and action plans for how co-workers can realise their objectives, expectations of results may be more closely linked to employees' work situation, giving them a feeling of ownership to the objectives. However, research indicates that the management function can act as a bottleneck to accomplishing this. Many leaders are unclear about what expectations they pose to their co-workers, and fail to follow up co-workers' results and action plans to any great extent. In particular, there are many managers who refuse to address the situation when co-workers fail to perform their jobs. This issue applies to managers in general, and State executives come out rather more poorly than their colleagues in private industry in this area.

#### *Predictability and intervention*

One of humanity's weak points is the ability to handle uncertainty, and to live in suspense about what is going to happen. Employees who lack the resources and means to perform, or who have limited insight into which means lead to ends, may have a strong feeling of uncertainty and a lack of predictability, resulting in harmful stress and burnout.

To counteract uncertainty and suspense about how one's own hard work can bring results, it is necessary to have technical insight and access to networks that offer a chance to share one's own competence and the capability of others. Predictability also calls for influence on how duties should be performed. Without such freedom in a work situation, it is difficult to adapt one's own work to new expectations from the surrounding world. The use of projects and teams offers opportunities to supplement one's own capability and experience with those of others.

The ability to set limits in relation to job requirements is an important assumption for coping with high pressure. Pressure is exerted from many quarters. The work of more than half of all employees is governed by users, customers, clients and pupils. Contact with users results in many enriching experiences, but it can also be difficult to set limits in relation to e.g. demanding customers and needy patients. As more people take long educations, more intense expectation pressure will also be exerted as a result of one's professional ambitions. Projects and teams often expose individuals to pressure from colleagues.

The individual employee him- og herself is the most logical one to find out which limits apply to involvement in the work that suits the person in question. Through technical and personal support, leaders can nonetheless be useful conversation partners in connection with such a clarifications. Managers who are themselves enthusiastic about an undertaking's objectives, and who are good at establishing correlations between means and ends, can have a favourable infectiousness on the people around them. If, instead, managers dwell on problems and difficulties, they may create a depressing atmosphere among co-workers, and undermine individuals' opportunities for coping with reorganisation and work pressure.

### *Crisis management*

Stress is an important part of the body's warning and emergency preparedness system. Too little stress can translate into too little attention being paid to danger signals, while too much stress can affect one's ability to act rationally. Training in coping with critical situations increases the chance that the a person's stress level will be optimal. The absence of training results in a lack of stress preparedness when crisis signals occur because the person in question is not sufficiently aware of the dangers he or she is facing. Meanwhile, the person's stress level will be too high when a crisis occurs, since the lack of training increases the chance that the person will be caught off guard by the situation.

Once a crisis occurs, the situation will call for a cautious analysis of the situation before any measures are implemented. The opportunity to do that may be jeopardised by overwhelming emotions. Fear leads to a tendency to act rashly. This is exacerbated by the fact that inactivity becomes a burden in itself as fears grow. Performance anxiety promotes defensive actions. This can be mitigated by steering clear of the media and publicity during the analytical phase of crisis management. Crisis plans are helpful when the nature and course of a crisis can be anticipated. Conversely, they can impede creativity when the unexpected occurs. Fear of failure and being held responsible for mistakes afterwards make it tempting to follow action plans and regulations slavishly, even when the situation calls for creativity and the exercise of independent judgment.

Good information is essential for confidence, and confidence is a prerequisite for good crisis management. Communications must be adapted to the risk levels of different groups affected by the crisis. For example, if it turns out there are toxins in a shipment of foods, communications will differ, depending on whether they aim at those who have already eaten the food in question, or at those who have bought but not yet eaten it, or at those who have not bought the product.

Crises trigger strong emotions, meaning that information and communications may not be limited to analytical and rational elements. Equally important is the communication of values and symbols. When the Norwegian vessel the *Tampa* picked up boat refugees off the coast of Australia, the situation appealed to values such as Norwegian maritime traditions, seaman's honour, and the importance of saving human lives. A study of President Bush's rhetoric after 11 September indicated more extensive use of symbols and metaphors. Meanwhile, the media and citizenry were more receptive to this type of communication after the crisis had occurred, than under more normal circumstances.

### Cultural management

Decentralisation and delegation present a need for new ways of managing. Regulations and instructions will continue to play a role, but must be supplemented by other mechanisms that can bring an organisation together and focuses it on common goals.

Cultural management works through shared values, norms and ways of thinking that the organisation's members have all learned to use,

and which are continuously transferred to new members. Some reference literature, especially 'management literature', places great faith in managers' ability to influence culture through reward or incentive schemes, forms of governance, routines, recruitment, promotions and the physical design of the workplace. Managers' opportunities to shape organisational culture are described using the same rational logic that distinguishes bureaucratic management. There are, however, two challenges related to such a view.

First of all, managers' influence on organisational culture is often inadvertent and indirect. This takes place by symbolic means rather than through more than intentional instruments. Managers' language, clothes, ways and behaviour can all have an impact on co-workers' opinions about what the organisation stands for in somewhat unexpected ways.

Second, co-workers' interpretations act like a filter between managers' actions and behaviour on the one hand, and cultural content on the other. Such interpretations are engendered and maintained through thousands of daily conversations and interactions between co-workers, putting them outside managerial control. Thus managers may find it difficult to predict and control the cultural effects of their actions and behaviour.

Notwithstanding, there are strong indications that managers have certain opportunities to influence an undertaking's culture in a planned and intentional manner. This will mainly take place through value-based, visionary and symbolic leadership.

Value-based management consists of developing and communicating values with which co-workers can identify, and which they consider to be respectable and worth aspiring to. If the values coincide with co-workers' self-image and their desired social affiliation, they can provide strong support for the undertaking's objectives. Value-based management nonetheless requires patience and the willingness to understand the substance of the values and their importance for co-workers' identity.

Visions may sway co-workers' feelings so that emotional energy does not fuel defensive reactions and actions, but rather promotes the undertaking's objectives. Visionary management is not the same as formulating a written vision for use in a strategy document; visionary management involves using one's self and one's personality to communicate a dream of momentous acts and promising conditions, telling stories that can feed the dream, and ensuring ceremonial and

social commemorations that can serve as a vector and vent for emotions. Managers with charisma often enjoy advantages as visionary leaders

Visionary management enjoys the most fertile conditions during restructuring that entails a lot of stress in the organisation, and in situations in which ordinary ways of working have failed. Visions should paint a picture of a future that would be worth any sacrifice required by reorganisation.

Organisations are rife with symbolism. Language is an important symbol bearer through jargon, humour, metaphors, slogans and stories. Stories often include good anecdotes, tales of heroism and myths, and they are an important means by which managers can convey cultural content. Managers can also influence culture through the physical design of the workplace, through ceremonies, celebrations and rituals, and through their own behaviour and function as a role model.

If managers are to influence culture in the desired directions, they must inspire credibility and confidence. This requires correspondence between life and learning. Such correspondence is made more difficult when co-workers interpret managers' actions in ways in which the managers themselves have little chance to control. Co-workers can also imbue one and the same action with very different contents. The widely discussed signal effect of managers' actions is rarely unambiguous.

Cultural management is thereby wrought by a dilemma. Values, visions and symbols are powerful elements, and can provide an important platform for active management. On the other hand, culture provides fertile conditions for strong counterforces. Those who oppose reorganisation and change can appeal to values, norms and opinions that permeated the organisation in earlier times, and which are still important to many co-workers' self-image and understanding of reality.

## CHAPTER 6 THE DILEMMAS AND CHALLENGES MODERNISATION POSES TO TOP STATE EXECUTIVES

The discussions in this report have shown how modernisation and the revitalisation of the State are associated with a number of dilemmas. Ultimately, it is the public administration that must find means of dealing with them. This final chapter summarises the discussion by defining the main dilemmas caused by modernisation, and the role played by top State executives in them.

### Efficient administrative procedures and political legitimacy

Perhaps the most fundamental dilemma associated with modernisation arises from the fact that public undertakings' most basic and ultimately only source of legitimacy is based on democratic processes and democracy. In actual practice, this means the Storting's decisions underpin the State's activities. Meanwhile, the Storting is not well-suited for engaging in administration. It normally lacks the expertise and investigative system required to assess all the consequences of a case before taking a decision. Nor does the Storting have access to a system that makes it possible to implement its own decisions, draft legislation, undertake the administrative procedures required to study all the consequences of individual decisions, or provide services in competition with private players. Such limitations in the Storting's power are the basis for the distinction between the legislative and executive branches of government. Elected bodies are to set the overall framework for governance, mainly through lawmaking and allocations. The public administration is to engage in administrative procedures and the provision of services within the framework of the legislation and allocations adopted by the Storting, at the same time as the Government takes the initiative in respect of the Storting in the light of its specialist knowledge of the various ministerial sectors.

However, complex processes of change exert pressure on the traditional balance between democracy and administration. User-centrism, competition, technological changes and progressively larger case loads mean that the ministries must delegate and decentralise parts of their activities, including certain oversight activities and grievance procedures. This limits the influence of politics on individual cases. Simultaneously, the focus of the media and the general public on routine, close events make it ever more difficult for those elected by the people not to get involved in individual cases. This is reflected in the Storting's growing tendency to issue orders to the Government, the rapid growth in private bills put forward by MPs (document 8

motions), the use of open hearings and parliamentary commissions of inquiry, demands for access to the public administration's internal working papers, and more vigilant oversight exercised by the Office of the Auditor General.

The dilemma consists of the following: On the one hand, it is necessary to protect the public administration from political influence in individual cases in order to ensure comprehensive, competent administrative procedures, to avoid arbitrariness and unfortunate precedents linked to individual decisions, and to ensure the rule of law. On the other hand, societal trends dictate that it is becoming more imperative for elected bodies to follow up public management closely on individual cases. To some extent, the trends of recent years in Norway have been characterised by a long period of minority governments making it easier for the Storting to 'govern the Government'. Different types of constitutional reforms have been discussed for redressing this, including giving Government the right to dissolve the Storting in the election period. Nonetheless, there are strong indications that the dilemma would not disappear with a different Government constellation or other constitutional regulations. For that, the dilemma is caused too much by the medias' aggressive desire for insight into individual cases, and politicians' need to demonstrate their power.

The solution to the dilemma is not to reduce the importance of politics or the independence of the public administration and the undertakings, but to develop new forms of interaction. This is where top State executive management comes into the picture. State executives have always manoeuvred in the interface between the executive, the judicial and legislative, and between administration and policy. There are strong indications that this ability to manoeuvre will be vigorously put to the test in the years ahead. Although modernisation calls for more independence for the administrative system they operate, politicians will not expect their opportunities to govern or to act on individual cases to deteriorate. This tension will be exacerbated under the scrutiny of the media and the general public. New delineations must be drawn up between policy and administration. This will involve a formidable challenge for top State executives.

### Balancing objectives and role confusion

The modernisation of the central government administration strives to make clear distinctions between the State's roles as regulatory authority, owner, service provider, bid regulator, adviser and oversight

body. Distinct roles are essential for the State's credibility in respect of the general public, so that it will be easy for users to find the right agency and to prevent the overlapping of different roles, for example, when a ministry administrates tenders from an enterprise owned by the ministry, or processes complaints in its own sphere of activities.

The fractionalisation of the State's roles in different institutions can, however, engender a 'blind spot problem', where different agencies optimise their interests without having sufficient incentives to consider the overall situation. Specifically, this can become a problem in cases where independent roles are exercised with great independence relative to the rest of the administrative system. A lack of coordination can lead to unwanted cost overruns. By the same token, different roles can represent different objectives. While an oversight body in the communications sector can deal with safety, another body can look after users' wishes regarding traffic standards. How safety and traffic standards should be balanced against each other is, however, a political question. Where the service provider and the oversight body are under the auspices of the same ministry, it is relatively easier to strike such a political balance. The political responsibility for the balance will also be clearly placed.

The balance between balancing different objectives and role confusion reflects the fundamental dilemma of modernisation between consideration for political governance and clear political responsibility on the one hand, and the need for independence and credibility with regard to administrative procedures on the other. Several roles being dealt with by the same body will tax State executives' ability to balance different considerations to avoid exercising undesirable influence. This can be handled through organisational initiatives that grant different departments responsibility for their respective duties. Such a model is used by the Norwegian Petroleum Directorate, where the oversight and advisory functions are assigned to different units. Since the units have the same executive management, however, there is a chance of unfortunate overlapping, so a great deal of credibility depends on the ability of top executives to distinguish between these roles. Administrating under the general public's critical spotlight is no mean feat. Top executives must demonstrate considerable understanding of ethical standards, and be aware of how their behaviour affects others' experience of credibility. Recent events in the international business community have put corruption on the agenda, and it has now become entrenched as general distrust of top executives. For example, there are discussions about introducing personal surveillance of executives' private financial situations to

prevent corruption. Executives must build up credibility in a situation coloured by growing distrust.

### Decentralisation and red tape

A third dilemma arises as a result of the following: Market competition, decentralisation and delegation, intended to promote efficiency enhancement and simplify the State's activities, also create the need for more detailed regulations, oversight and governance. It is nothing new that a market mechanism requires public regulation to function as intended. In the 1700s, Adam Smith pointed out that the market would be undermined by capitalists' wishes to fix prices and make monopoly profits unless competition was safeguarded by State regulations. As time has passed, the need for regulation has been extended to apply to a growing number of fields, and now encompasses everything from food quality and the protection of animals' rights to dealing with safety and the environment. State quality standards are being introduced in a growing number of fields. This is to prevent profit-maximising enterprises from boosting profits at the expense of important social considerations or users that do not have sufficient expertise to assess quality on their own. The regulations can be both detailed and elaborate. The rules regarding public procurements are a prime example.

The initiative to frame detailed regulations originated in several places. The EU's efforts to create an internal market across many countries have led to a number of detailed provisions to ensure equal competitive conditions among the countries involved. The interaction between the investigative media and politicians frequently leads to initiatives to make new regulations to rectify discrepancies that come to light. Efforts are made to address unfortunate situations and discrepancies through new, more detailed regulations. The result is often a complicated set of laws and regulations that may appear impervious to many, and that certainly require legal expertise to understand. Along with users' increasing tendency to appeal decisions, this creates a situation that gives attorneys a more important role in relation to the public. Judicialisation is exacerbated.

The paradox in the situation described above is that it is a result of modernisation's aspirations to achieve the exact opposite, i.e. simplification and economisation. But the more the State tries to simplify and adapt administrative procedures and services for users through decentralisation and delegation, and the more the market is forced to improve efficiency, the greater the chance of adopting individual decisions and individual events occurring that are

unacceptable to the media and politicians. This, in turn, leads to initiatives to introduce regulations that make the situation more complex for users, in addition to undermining the intentions of decentralisation and delegation by tying the hands of the players.

For top State executives, the dilemma between decentralisation and red tape can mean that concern about following the rules and avoiding contravening provisions that are difficult to keep track of at any given time, can call for a great deal of resources. Rule following risks dominating administrative procedures and the provision of services, and the fear of being caught breaking a rule can be so great among administrative employees that it will have a restrictive effect on their motivation and zeal for work.

### Oversight and creativity

More use of delegation and decentralisation by the State administration will also increase the Storting's oversight activities through the Office of the Auditor General. The Storting has a constitutional obligation to hold the public administration accountable for its actions. Such oversight is often called the Storting's third function, in addition to lawmaking and allocations. The oversight function has increased relatively strongly over the past 10 to 15 years. The Storting makes more use of open consultations that include participation by top State executives. Parliamentary commissions of inquiry that include external members scrutinise the public administration and undertakings closely. The Office of the Auditor General, which is the Storting's oversight body, conducts audits of administrative agencies and enterprises where goal achievement and the efficient use of public funds are scrutinised in detail. The selection of the instruments used to implement the decisions of the Storting and the Norwegian Government are rechecked increasingly often by the Office of the Auditor General. Enterprises that are wholly owned by the State are scrutinised in the same way. Where the State is the majority owner, the Office of the Auditor General also ensures that State ownership is administered in a sensible manner. The ministries' fiscal management is checked at the same time as effect studies are implemented to shed light on whether the instruments applied have the desired effects. The terms of reference for the Office of the Auditor General state explicitly that delegation, decentralisation and delegation should not undermine the Storting's constitutional obligation to monitor the Government.

The reports compiled by the Office of the Auditor General generate considerable interest in the Storting as well as in the media. The

assessments made in the reports are often ascribed decisive and 'legal' status, although it cannot always be taken for granted that the Office of the Auditor General has the relevant expertise to question the expediency of the instruments used by the public administration and undertakings.

By the same token, the medias' growing interest in individual cases means that top State executives frequently find themselves in the public spotlight. This is exacerbated by more and more publicity about the public administration's administrative procedures, and by new technology that makes it easier to acquire insight. Administrative procedures are also becoming politicised, making top State executives more visible and accountable in the public arena. For example, small details in consultative statements can be inflated in the media, forcing the relevant minister to get involved. Thus executives can be caught between their case officer's expert opinions on the one hand, and those of politicians and the media on the other.

The scenario described above has an impact on the division of time use between administrative procedures and oversight, respectively. The detailed questions pointed out by the Storting and the Office of the Auditor General, the medias' quest to find fault with the way in which the rules are applied, and users with statutory rights, mean that a lot of public management's time and resources are spent following up suspicions and possible errors. Although this can lead to the changing of bad practices, and although it may provide undertakings with impulses for learning and improving, there is a danger that a disproportionately large share of the undertaking will have to spend time on oversight at the expense of administrative procedures and the provision of services. The fear of being caught making mistakes can cause performance anxiety to become a pre-dominant aspect of a culture, with the result that administrative procedures are handled 'by the book' insofar as possible. This engenders fear of exercising discretion and adapting rules to differences in users' needs and situations. Creativity is inhibited.

#### Conclusion: 'The tyranny of individual cases'

A great deal of what has been described as the challenges of modernisation in this report boil down to what has been called 'the tyranny of individual cases'. Stronger focus on individual cases in the Storting, and the medias' growing talent for setting the agenda, make it more difficult to ensure predictable, rational administrative procedures. Individual cases consume a great deal of time. For example, the media addresses an issue, illustrates it with agonising

reports about individuals, then other media pick it up, conduct a poll, one or more 'experts' make statements, and MPs are interviewed. Ultimately, the relevant minister is forced to get involved, and the administrative system has to re-prioritise its use of time and resources to deal with the matter.

There is less opportunity to work continuously and thoroughly with issues when undertakings constantly have to change their agendas. This can be prevented by precluding parts of the public administration from political governance, and making undertakings independent legal entities. However, this does not alleviate political pressure surrounding individual cases and politicians' desire to demonstrate their power in relation to them. This engenders a tremendous need for continuous dialogue between executives in the independent units and the political leadership in the ministries. More executive time will be spent striking a balance between the enterprise's need for predictability in administrative procedures and the provision of services, and politicians' needs for dealing with and acting on individual cases. More time is also spent informing the media and others about systems for the division of responsibility between political governance on the one hand, and administrative procedures, the provision of services and grievance procedures, if any, on the other.

Dealing with 'the tyranny of individual cases' may appear to be the greatest challenge facing top State executives as they continue their efforts to modernise and revitalise the State.

## LITERATURE

- Ministry of Labour and Government Administration (2002)  
*Modernising  
the public sector in Norway making it more efficient and user-oriented.  
Statement to the parliament, 24 January 2001. (Norwegian only)*
- Norwegian Public Report (NOU) 2003:34 *Between state and market.  
Independent organisational forms in the State. (Norwegian only)*
- Norwegian Public Report (NOU) 2004:7 *The State's business ownership.  
The organisation and management of ownership. (Norwegian only)*
- Norwegian Public Report (NOU) 2004: 13 *A new administration of  
labour and welfare. On the coordination of the responsibilities of the  
Norwegian Labour Directorate Aetat, the National Insurance Service  
and the social services. (Norwegian only)*
- Report No. 17 (2002 - 2003) to the Storting *On State oversight.  
(Norwegian only)*

## Speakers at 'The Programme for Top Central Government Executives 2003 – 2004'

Director General	Aas, Agnar	Norwegian Water Resources and Energy Directorate
Economist and Psychologist	Bang, Henning	Department of Psychology, University of Oslo
Director General, Norwegian Broadcasting Corporation	Bernander, John G.	Norwegian Broadcasting Corporation
Director General	Blaalid, Jon	Statskonsult
Director	Bøhagen, Odd	Ministry of Labour and Government Administration
Cabinet Minister	Clemet, Kristin	Ministry of Education and Research
Professor	Colbjørnsen, Tom	Norwegian School of Economics and Business Administration
Managing Director	Flesland, Randi	Avinor AS
Chief of Defence	Frisvold, Sigurd	Defence Staff
EU Ambassador	Grydeland, Bjørn	EU Ambassador, Brussels
Senior Researcher	Hagen, Kåre	Arena, University of Oslo
Professor	Hagen, Kåre Petter	Norwegian School of Economics and Business Administration
Acting Chief of Defence	Hansen, Svein Ivar	Defence Staff
Secretary General	Hasle, Anne Kari Lande	Ministry of Health
Director General	Haugstveit, Nils	Ministry of Foreign Affairs
Former CEO	Hermansen, Tormod	Telenor
Director General	Hope, Bjarne	Directorate of Taxes
Professor	Jakhelln, Henning	University of Oslo
Director General	Jensen, Willy	Norwegian Post and Telecommunications Authority
Director General	Killengreen, Ingelin	Norwegian Police Directorate
Storting President	Kosmo, Jørgen	The Storting
Director General	Larsen, Bjørn Inge	Directorate for Health and Social Affairs
Project Manager	Larsen, Kjetil Fladmark	Ministry of Labour and Government Administration
Director	Lassen, Vivi	Statskonsult
Director General	Lystad, Joakim	Norwegian Food Safety Authority
Cabinet Minister	Meyer, Morten Andreas	Ministry of Labour and Government Administration
Auditor General	Mørk-Eidem, Bjarne	Office of auditor general

Managing Director	Nordby jr., Reidar	Norsk Tipping A/S
Director General	Nordby, Trygve	Norwegian Directorate of Immigration
Former Minister	Norman, Victor D.	Ministry of Labour and Government Administration
Partner and Chair of the Board of Directors	Norvik, Harald	Econ Management
Professor	Østerud, Øyvind	University of Oslo
Managing Director	Ovesen, Gunn	Norwegian Regional and Industrial Development Fund
Legal Adviser	Røhnebak, Ørnulf	Ministry of Justice
Senior Adviser	Sæterdal, Anne	Norwegian Institute for Cultural Heritage Research
Secretary General	Sanderud, Per	Ministry of Transport and Communications
Professor	Sandmo, Agnar	Norwegian School of Economics and Business Administration
Advocate and Doctor of Law	Sejersted, Fredrik	Office of the Attorney-General
Auditor General	Selås, Bjørg	Office of auditor general
Director General	Sjeggestad, Terje	Immigration Appeals Board
Deputy Secretary General	Skogmo, Bjørn	Ministry of Foreign Affairs
Secretary General	Smith, Bo	Danish Ministry for Employment, Denmark
Professor	Smith, Eivind	University of Oslo
Professor	Sørensen, Rune	Norwegian School of Management BI
Secretary General	Stene, Øyvind	Coastal Administration
Secretary General	Stokke, Inger Johanne	Directorate of Labour –Norwegian Labour Directorate Aetat
Senior Adviser	Sundby, Inger Johanne	Statskonsult
Professor	Ursin, Holger	University of Bergen
Professor	Weisæth, Lars	University of Oslo
Director General	Wiig, Marit	Directorate of Customs and Excise
Former Prime Minister	Willoch, Kåre	

Published by:  
Ministry of Modernisation

Additional copies may be ordered from:  
Statens forvaltningstjeneste  
Kopi- og distribusjonsservice  
E-mail: [publikasjonsbestilling@ft.dep.no](mailto:publikasjonsbestilling@ft.dep.no)  
Fax: + 47 22 24 27 86

Publication code: P - 0917 E

Printed by: Kopi og distribusjonsservice - 06/05 - 150