

# **Specialization and Coordination: Implications for Integration and Autonomy in a Multi-Level System**

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# Foreword

This paper is written as part of the research projects «Regulation, Control and Auditing», headed by Per Lægreid and «Relations of trust between levels of government», headed by Anne Lise Fimreite, both financed by the Norwegian Council of Research. Gratitude for comments to earlier versions of this paper is expressed to Dag Arne Christiansen, Tom Christensen, Yngve Flo, Tore Grønlie, Johan P. Olsen, Paul G. Roness, Per Selle, Tommy Tranvik and Dag Vestheim, and to participants in the working group *Organisations and Institutions* at the National Conference for Political Science, 5–7 January 2005, Hurdalssjøen, and at 21<sup>st</sup> EGOS Colloquium in Berlin 30. June – 2. July, 2005. Sub-theme no 15: *Institutional Change and Transformation of Public Organizations*.

# Abstract

In this paper we discuss the changes in relationship between central and local government in Norway in a decade of reforms both at central and local levels. A main topic is the balance between unity and diversity or state integration and local autonomy. The concepts of coordination and specialization are discussed and we examine the dynamic changes in the relationships between different mechanisms of coordination, different forms of specialization and integration vis-à-vis autonomy. Changes in structures and in procedures both centrally and locally and in the relationship between state and local government have made the coordination of tasks difficult whereby central regulations have taken new forms and become even stronger. Paradoxically, reforms aimed at more local autonomy have resulted in even stronger integration.

# Sammendrag

I dette notatet diskuteres endringer i relasjonene mellom statlig og kommunalt nivå i Norge etter 15 år med omfattende reformer både på sentralt og lokalt nivå. Et hovedtema er balansen mellom statlig integrasjon og lokalt selvstyre. Sentralt i diskusjonen står relasjonene mellom ulike spesialiseringsprinsipper og samordningsformer. Endringer i strukturer og prosedyrer både på sentralt og lokalt nivå og i relasjonene mellom stat og kommune har skapt nye utfordringer for samordning både horisontalt og vertikalt og de sentrale reguleringene har tatt nye former og blitt forsterket. En noe paradoksal konklusjon er at reformer som skulle styrke det lokale selvstyret har resultert i sterkere statlig integrasjon, og forfatterne reiser spørsmålet om vi er på veg inn i reguleringsstaten og effektueringskommunen.



# Introduction

The main topic of this paper is the challenges of coordinating central government activities and local self-government in Norway after fifteen years of comprehensive reforms at both central and local levels. On the one hand, the main organizational forms have been rather stable. Norway still has about the same number of municipalities; neither have there been changes in ministries and central agencies as the main organizational forms in central government. On the other hand, internal organizational structures and procedures both at local and central levels have been transformed as have the relations between them. These structural and procedural changes have made internal coordination at central as well as at local level difficult. Coordination between central and local authorities has also faced challenges.

Administrative reforms at the central level have generally neglected cooperation across sectors. Major reform measures such as management-by-objective-and-result (MBOR), performance auditing, monitoring and control have first and foremost been directed towards the vertically sector-based dimension in government administration. Other reform measures such as increased local autonomy in municipal organisation and structural devolution through the formation of state-owned companies and semi-autonomous regulatory agencies have, however, enhanced fragmentation and challenged the vertical coordination. In turn this fragmentation is met by new and stronger management tools such as standardized services, earmarked grants and individual legal rights to welfare services. The main purposes of these tools are to incorporate the fragmented structures back into the vertical dimension. By these movements horizontal coordination between sectors has become more difficult at central level. One consequence is that it is difficult to establish cross-ministerial cooperation in policy areas. Another consequence is that it is virtually impossible for local authorities to make other priorities than those indicated by the central sector-based control measures.

The question of balance between integration and autonomy is a general problem in all multilevel systems (Olsen 2005a). The question has become even more topical in the light of increased European integration and associated questions on multi-level governance, both between the state and supra-state levels and between state and local and regional level (Hooghe and Marks 2001, Olsen 2004, Olsen 2005b, Egeberg 2005). In this paper we pay attention to the dynamics of integration and autonomy in central-local relations and particularly how this interplay is affected by the various forms of specialization and coordination mechanisms. We describe the processes of transformation, try to understand the driving forces behind the changes and discuss some implications for unity and diversity in the Norwegian public sector.

Organizational research on public administration has revealed that formal organisational structure have behavioural consequences for those bodies which are affected (Egeberg 2003, Christensen and Lægveid 2004a). In Norway this research has largely focused on central administrative bodies, but its findings have also implications for central-local relations (Fimreite 2003a). Political and administrative executives have had a clear understanding over a long period that policies executed at the central level

are of significance for local self government (Flo 2004). Studies of central administration and local government have, however, traditionally operated as distinctly separate research areas. In this paper, we argue that these research areas – as the policy areas – have to be considered jointly. The major challenges involving reorganisation and modernisation of the public sector in Norway are located at the interface of central and local government organisation. In order to understand these challenges it is also necessary for researchers to comprehend this interplay.

We commence this paper with a brief description of the Norwegian context. Thereafter we discuss key concepts such as coordination and specialisation and present some theoretical considerations associated with these concepts. Following this we give an empirical presentation of trends in central coordination, in local government organisation, and in the relationships between central and local government during the last 15 years. Finally, a number of consequences of the interplay between specialisation principles, coordination mechanisms and the level of integration and autonomy are discussed. Our main argument is that these trends are bringing us closer to a central level of government which controls sub-levels strongly, and a local level where the main task is to carry out the running and bidding of this central level; that is to say, a multi-level system characterised by high integration and low autonomy.

## The Norwegian context

Norway is a unitary, parliamentary and multiparty state with a small population spread over a rather large geographical area. Since the early 1970s, it has been ruled by minority governments. It has a strong democratic tradition, scores high on per capita income and an abundance of natural resources, has relatively strong collectivist and egalitarian values, is consensus-oriented, and has a low level of internal conflicts and well-developed corporatist arrangements. Norway has a strong tradition of significant local self-government with enhanced autonomy and municipalities with their own elected democratic institutions. It also has one of the most comprehensive and universal welfare states in the world with a large public sector. Being responsible for implementing the welfare state in areas such as elementary schools, elderly care, social security and health care, the municipalities constitute a major part of the public sector both in number of employees and in financial resources. Today there are 433 municipalities with an average size of about 10,000 inhabitants. The central government is divided into 18 different ministerial areas. The relationships between parliament, ministers, and central agencies are based on the principle of ministerial responsibility, meaning that the minister is responsible to Parliament for all activities within his or her policy area in the ministry as well as in subordinate state bodies.

The relationship between central and local government is a mixture of political decentralization based on the principle of local autonomy, and administrative decentralization based on the principle of delegated authority. Political control over the civil service has been general and passive, allowing the executive considerable leeway. This seems to reflect some major features of the political-administrative system: high levels of mutual trust and shared attitudes and norms among political and administrative

leaders, within the public sector in general and in the relationship between central and local authorities (Christensen and Læg Reid 2005b, Fimreite et al. 2004). The level of trust in public institutions is generally higher than in most other countries (Norris 1999). Surveys of political support for national government and parliament nearly always accord Norway a leading position. Nevertheless, the pattern of trust in political institutions is cyclical, and the level was lower at the end of the 1990s than in the early 1980s (Listhaug 1995).

Since the mid-1990s New Public Management (NPM) has gained a stronger foothold in Norway, and reforms have become increasingly comprehensive and radical in recent years (Christensen and Læg Reid 2002). The introduction of Management-by-Objectives-and-Results, private sector management tools, changes in forms of affiliation from integrated ministerial models to single-purpose models, agencification, autonomisation, introduction of provider-purchaser models, quasi-markets, contract management and privatisation has been the result. This trend is especially significant in local government (Øgård 2001, Hovik og Stigen 2004).

We will now turn our attention to theoretical concepts that can be used to scrutinize the transformation at central and local level and in the relationships between levels.

## Theoretical approach and central concepts

The theoretical departure of this paper is an organisational perspective based on the concept of bounded rationality (March and Simon 1958). The perspective implies that decision-makers have limited time and attention and cannot address all goals, all alternatives, and all consequences. They face problems of capacity and understanding and have to make some selections. Decision-makers act normally on behalf of formal organizations. Therefore formal organizational structures represent important selection mechanisms. Formal structures and procedures organize some actors, cleavages, problems, and solutions into decision-making processes in the public sector; while others are excluded (Schattschneider 1960, Olsen 1978).

Structures forms information networks and constrain conflict patterns. Organizational structures create also joint identities among actors. For instance, persons acting on behalf of a central ministerial department perform their tasks according to a «logic of appropriateness» brought forward by such identities (March and Olsen 1989). Thus, public organizations are institutions with an independent influence based on their established structures, identities and culture. Their quality depends on their success in balancing unity, integration and system coordination on the one hand and diversity, flexibility and local (government) autonomy on the other (Olsen 2004).

An organizational perspective presumes that one has to study how the public sector is organized in order to understand how it works. It makes a difference whether central government is an integrated system under ministerial responsibility or a disintegrated system of autonomous or semi-autonomous municipalities, how it is coordinated

vertically and horizontally, and whether it is specialized according to the principle of geography, process, purpose or clientele (Gulick 1937, Christensen and Læg Reid 2004c).

Essential elements in this reasoning are concepts such as coordination, specialisation, integration and autonomy. There are generally three criteria for recognizing integration between units: their interdependence, consistency and structural connectedness (March 1999). Vertical coordination is concerned with the coordination of various administrative levels, for example between ministry and subordinate authorities, between central and local authorities, and between central government and state agencies at the local level. Horizontal coordination concerns policy areas or sectors at the same level such as between health, school, the environment, and public transport at central or local level.

A distinction may also be made between coordination through policy formulation, and coordination through implementation of measures (Peters 2004). While the former is concerned with coordination where the focus is on agreement of clear and consistent goals, the latter relates to administrative coordination focusing on the choice of means or process, or to ensure that all adhere to the procedure once the course has been agreed (Painter 1982, Boston 1992). Connected to this one can also speak of coordination of resources and coordination of activities. The first type of coordination is generally to be found in central government, while the latter is to be found locally, at the organisation's 'level of operations'.

Coordination may be practiced employing different mechanisms (Mintzberg 1979). It may denote direct orders and instructions, but it is more common that the coordinating mechanisms contain an element of standardisation. Administrative procedures, goals and results, or proficiency, loyalty and skills may all be standardized to increase coordination. Finally, mutual adjustment between actors, administrative levels and organisations may also represent a form of coordination.

The relative importance of these coordination mechanisms within the Norwegian administrative system has changed over time: coordination by direct orders has become less significant relative to the standardisation of goals, results and decisions. Mutual adjustment also becomes more difficult when trust is weakened as a consequence of new management tools. MBOR partly presumes distrust and takes as a starting point that sub-level entities first and foremost will pursue self-interests. Central government does not trust local government to respect unity and common interests in their decisions. The result is more control measures. One reason for this change in the relative positions is that coordination and coordination mechanisms are challenged when principles of organisational specialisation are undergoing change (Verhoerst and Bouckaert 2005). The principle of specialisation is concerned with tasks and relations which should be regarded in conjunction and coordinated, and which could be kept detached. And different specialization principles will enhance different networks, identities and conflict patterns. An organization specialized according to the geographical area served will encourage policy makers to primarily pay attention to particular territorial concerns. Sector specialisation has a tendency to weaken relations which have been developed territorially, for example on geographically-based units such as municipalities, and to strengthen policy standardization across territorial units. Redesigning sectorally specialized organizations into geographically structured ones

would thus tend to transform functional conflicts into territorial conflicts (Egeberg 2001, 2004a). Generally, increased specialisation results in the increased need for coordination (Pollitt and Bouckaert 2004), but which specialisation principle is to be selected will be of considerable significance for the choice of coordinating mechanisms.

The first question is, therefore, whether the same specialisation principle shall apply at both central and local levels or can these principles be at variance. The next question concerns the implications this may have for multi-level coordination as well as coordination internally at the different levels. For example, will a central level organised by sector, and local government by clients (or process or area) imply a weak vertical coordination between central and local level while horizontal coordination within local government is well-established? Will the result of this be increased autonomy and holistic thinking locally? And will this, in turn, present a challenge to integration between the two levels of government resulting in the need for new coordination measures designed at counteracting the consequences of autonomy?

With these questions in mind, we turn to an examination of how specialisation, coordination, autonomy and integration have occurred and developed within central government, at local level, and in the relationship between the central and local government over the period from 1992 up until to day in Norway. Given our theoretical discussion, we use an analytical scheme as presented in Figure 1.

*Figure 1. Interplay between principles of specialisation, coordination mechanisms, structure and policy and integration and autonomy – an analytical scheme*

SPECIALIZATION PRINCIPLE	COORDINATION MECHANISMS BETWEEN CENTRAL AND LOCAL LEVEL	STRUCTURE AND POLICY	INTEGRATION AND AUTONOMY
If there is a common principle of specialization according to sector across the level of central and local government; or if the local government is specialized according to geographical area, process or clients.	If there is coordination by standardization of knowledge, of goals, of results and procedures, of policy content, or by mutual adaptation based on common identities and mutual trust.	Degree of structural similarities between municipalities and central government and degree of similarities in policy content.	Implication of different specialization principles and coordination forms on the relationship between state integration and local autonomy

## The argument of multi-level dynamics

According to classical sociological theory we will treat integration and autonomy as two different dimensions (Durkheim 1964, 2001). This way to handle integration and autonomy in multilevel-systems is also found in Stein Rokkans works about centre and periphery in Norway (Rokkan 1987) and in recent work on European integration (Olsen 2004, 2005a). Using the two dimensions in this way, we will present the hypotheses that the Norwegian local government institution has moved from a situation with high integration and high autonomy in the period after World War 2 via a situation with the intention of lower integration and high autonomy following the introduction of the

Local Government Act of 1992, towards a situation indicating lower autonomy and high integration (Fimreite, Flo og Tranvik 2002). We will pursue the hypotheses in our following discussion. In Norway local government was *the* most important implementer in the welfare state after World War 2. Because of this local government had to be integrated into the central administrative apparatus. It was also important that local government should be able to adjust central goals to local needs when implementing politics. To do so they had to have a certain amount of autonomy. They also needed autonomy to exercise their obligation to take all welfare services into consideration and prioritise between them. From the beginning of this era it was local government that practised horizontal coordination in the Norwegian welfare state.

One condition for local autonomy is that there is room for choice, degrees of freedom and the possibility for exercising discretion at the local level. In 1992, Norway acquired a new Local Government Act. Of particular importance in an organisational perspective is that this act provides local authorities with a considerable degree of volition in determining their own organisational structure. The previous rigid structure, which was based on the same principle of specialization according to sector as in the central government, could now be abandoned. Local authorities utilised this freedom, and during the last ten years a comprehensive organisational transformation has occurred locally. The proportion of municipalities with a sector organisation strictly reflecting that of the central level declined from 85% to 4% between 1992 and 2004, with the consequence that today only 12 municipalities retain a strong sector-based organisational model (Hovik and Stigen 2004). 120 municipalities have however what is labelled a modified sector-based organization. Changes in organisation are mainly found both at administrative and political level locally. At the same time as the municipalities acquired this organisational emancipation, it is maintained that their possibility to choose the content of their own policies has been restricted (Fimreite 2003b, Fimreite et al. 2004).

The balance between unity and diversification became a challenge arising from the organisational emancipation resulting from the new Local Government Act. One reason for this is that formal organizational structure creates identities. Actors acting on behalf of organizations do so, as we have pointed out, according to «a logic of appropriateness». Parallel organizational structures at central and local level may create the same appropriateness at both levels and are therefore important if common identities among decision-makers at different levels are desired. The mutual trust that common identities open up for may be very significant for an acceptable balance between integration and autonomy in a multi-level system. Parallel structures make it easy for central ministerial actors to establish contact with their local level counterparts who are responsible for implementation. The Ministry of Education will, for example, know who to consult at local level and also how to speak to them when educational politics are in question. Similarity in training and professional background and corresponding task portfolios are important parts of these «sector-connections» between levels.

Research has revealed that the relationship between central and local level in Norway since World War 2 can be characterized as one of high level of mutual trust (Flo 2003). Given our theoretical departure will argue that sector-based organizational

structures at both levels which brought forward formal as well as informal communication are an important part in establishing this trust. One important question is whether common identity and trust between the levels is about to change when the organisational forms are increasingly less characterised by parallel structures. Recent research in this area suggests that we may cautiously affirm this question (Fimreite 2003b, Fimreite et al. 2004). The consequence of this might be that increased organisational autonomy at local level will stimulate increased central control over policy formulation. Organizational freedom was granted in the Local Government Act. The intention was that this organizational freedom should strengthen local autonomy. But central government met this attempt for strengthen autonomy by stronger regulation. Especially important here is a new trend of individual legal rights to welfare services which local governments *have* to provide (Tranvik and Fimreite 2005).

Thus changes in the relationship *between* central and local government are also related to *internal* changes both at central level and within municipalities and together these dynamics increase the tension between central and local government.

## Trends in specialization and coordination at central level

At the central level specialization according to sector is the dominant pattern. The principle of ministerial responsibility holds a strong place in Norwegian public administration. The individual cabinet minister has a constitutional responsibility towards the parliament (*Stortinget*) for everything practiced by subordinate bodies. Ministerial responsibility is considered to be one of the reasons that Norway has strong specialised ministries, strong sectors and relatively weak superior ministries with a coordination mandate (Christensen and Læg Reid 2002). The Ministry of Finance is the exception, and plays a central coordinating role in finance- and budgetary policy, but scarcely features as the predominant ministry in other policy areas. The Office of the Prime Minister has become gradually strengthened in recent years, but nonetheless continues to play only a modest role as a coordinating body. Attempts to strengthen coordination of central policies concerning local government through developing the Ministry of Local Government and Regional Development as a strong superior ministry for such issues have been only partly successful.

Of the specific measures taken towards coordination of central government functions, cabinet meetings, so-called letters of allocation/management dialogue and collegiate bodies have been especially important. These measures are intended to increase coordination across the administrative levels, sectors and ministerial boundaries. Cabinet meetings and inter-ministerial collegial bodies are concerned with horizontal coordination, while letters of allocation and managerial dialogue shall ensure vertical coordination.

The extent to which such coordination measures have been successful is open to discussion. They have been subjected to critical examination both by researchers and practitioners (Christensen and Læg Reid 2002, Eriksen 2003, Stat og Styling 2005). During

cabinet meetings, cabinet ministers rarely suffer a setback in their own area of responsibility. Due to the problem of over-load a main rule is that most matters should in general not be subjected to decision by the cabinet but determined internally within the ministries. The managerial dialogue functions first and foremost as an instrument of control between managers at different levels. The elected officials have difficulties in finding a natural place within this system (Christensen and Læg Reid 2002). Concerning the collegial coordinating bodies, these are more frequently characterised as non-committal advisory bodies than obligatory census-imposing bodies functioning across the various ministries.

During the last ten years few, if any, horizontal collegial coordinating bodies have been established with respect to local government matters such as we have seen regarding EU/EEA matters. In a central government where time and attention are scarce resources, the increased attention given to problems of coordination at the international level may have weakened the focus on corresponding problems at the local level. Coordination of local government affairs using legal and financial means has indeed increased during the same period, but this has not received specific organizational solution. The question remains as to whether vertical coordination at central level – through individual rights, minimum standards, statutory provisions and earmarked grants – which have been imposed during the last fifteen years, can occur without the existence of particular bodies with a specific coordination mandate, while horizontal coordination is dependent upon such organisational solutions.

One approach to answering this question is to focus on the actual coordination occurring at the central level. An important element here is that the development of 'single purpose organisations' results in a more specialised and differentiated central administration (Christensen and Læg Reid 2004b). This comes to expression in the splitting up of the integrated organizational model and the establishment of separate autonomous bodies for various purposes: ownership, purchasing, service production, control, regulation, and policy advice. The establishment of various forms of state corporations may be referred to as *external autonomy*, while *internal autonomy* is defined through the emergence of semi-autonomous central agencies (Grønlie 1998). This autonomization is a challenge for coordination both vertically within each sector and horizontally across sectors. The reason for this is that in such a fragmented system, each organisation is first and foremost responsible for its own activity. In a system governed by MBOR it is assumed that the autonomous bodies have clear boundaries, precise goals and results that may be clearly read and understood. Such a closed organisational system encounters problems within an administrative system which is facing increasingly comprehensive inter-organisational and cross-sector problems and challenges (Læg Reid 2001).

The development towards more autonomy and independence of state organisations may easily result in increased 'negative cooperation' (Mayntz and Scharpf 1975). The desire to coordinate is greater than the wish to be coordinated. In other words we are confronted with a coordination paradox which assumes that all agree on the need for coordination, so long as it does not apply to their own organisation. An illustrative example is the organisation for homeland security as a follow-up to the Vulnerability Committee's report of 2001 (St.meld. no 17 (2001-2002)). There was broad agreement

that coordination was a major problem for this policy area, but none of the central authorities were willing to be coordinated (Læg Reid and Serigstad 2004).

One reason for this can be that the administrative policy instruments employed in recent years, such as MBOR, finance management regulations, management dialogue, contracting and a more precise specification of roles, have been particularly directed towards vertical coordination. Increased autonomy has occurred simultaneously to increased internal control through MBOR assuming extensive measurement and reporting of results to the superior authority. Performance auditing as a means of controlling results is an associated development (Christensen, Helgesen and Læg Reid 2001). While MBOR enhances administrative coordination between the various levels of administration, the increased structural autonomy pulls in the other direction. It is an open question whether the overall vertical coordination is strengthened, but what is clear is that the coordination measures are largely focused on the vertical dimension, ignoring the problems of joint-up government and whole of government issues.

The consequences are that horizontal coordination is challenged at the central level. The fact that each individual state body has been regarded as an autonomous organization has contributed to this (Brunsson and Sahlin-Anderson 2000). The process of increased autonomy has created new challenges for coordination as this takes place between administrative executives at different levels, and in particular between the political and administrative executives

In practice it has been difficult to get politicians to function in the coordinating and strategic role which was envisaged in these new administrative procedures. A broad interview survey among ministers, permanent secretaries, heads of central agencies and CEOs of state-owned companies showed that the ministers' leeway for independent political influence is experienced as having been reduced (Christensen and Læg Reid 2002). There may be many reasons for this, but autonomy, the formation of corporations, contract management, partial privatisation and de-monopolisation are among those trends which are most significant. These measures weaken the politicians' – and probably thereby the government's opportunity – to perform in the role of a horizontal coordinating body. When this occurs the ministers' possibility to exercise vertical coordination within their own policy area is reduced because coordination is also challenged through the tension inherent between a reactive political logic and a proactive administrative logic. Administrative policy emphasises that the ministries shall focus on long-term, strategic planning. The minister's working-day is, however, frequently characterised by routine policy and responses to short time pressure from the media and the political opposition. A governmental apparatus is a political organisation which needs to be flexible and responsive to demands from the public. Such tensions are managed through the development of a managerial and a political governing system which are loosely coupled. MBOR, corporate planning, management dialogue, personnel and financial regulations leave much to the management sphere and strengthen the possibilities for coordination between different level of management, while ministers tend to concern themselves by reacting to unanticipated involvement by *Stortinget* and the media.

Thus, in just a short time a number of major changes have occurred in the view of what is considered the best way to organise and coordinate central government

(Christensen and Læg Reid 2002, 2004c). Within the system both flexibility and the will to change are to be found. Horizontal collegial coordinating bodies have emerged astride the established ministerial structure. These are, however, often of limited duration, oriented towards a specific issue, and with ambiguous authority relations. Their effectiveness is restricted by strong sector ministries which do not want to involve others in their own fields of responsibility. The well-tried integrated organizational model where intersecting demands and considerations were honed against each other within the same organisation is replaced by semi-autonomous organisations, each with their own tasks.

Vertical administrative coordination within sectors is increased with a more formalised control system based on MBOR, but is weakened through increased autonomy of external bodies and corporations. The greatest challenges are nevertheless to be found at the interface between administrative and political coordination, and in the coordinating role which the political leadership receives within this system. In practice it is difficult for the politicians to «steer more in big issues and less in small issues».

Based on this we will suggest a 'yes' in response to our question as to whether vertical coordination can be sustained through procedural measures which do not necessarily require new organisational units. Such solutions appear first and foremost to favour coordination of administrative bodies at different levels, while it is somewhat unclear what role the elected representatives have in this system. What does seem clear, however, is that it is difficult to institute horizontal coordination without specific organisational solutions.

One manner of handling tensions arising from different challenges to coordination is to adjust the reforms when they are launched in practice. New forms of management and coordination seldom replace former practices; they supplement them, or merge with the former in new hybrid forms of management, the result being even greater complexity. One example is that MBOR has more or less become a new sort of regulation. Sophisticated performance indicators can be difficult to differentiate from rules as guidelines for actions in subordinated bodies. Trust-based systems, and systems based on performance generally complement each other, but they also create new tensions when the performance-based models corrupt the trust-based forms (Christensen, Læg Reid and Stigen 2004). The Norwegian system of government has been characterised by a high degree of mutual trust at the central level (Christensen and Læg Reid 2002). There are indications that this trust is now being challenged and that mutual trust as a coordinating mechanism is no longer functioning as efficiently as previously. One reason for this might be that an increasing number of management tools are based on distrust.

The endeavours to sustain coordination are thus facing new tests. This is partly seen through the 'cultivation' of the ministries as secretariats for the political leadership where the borderline between the political and administrative roles becomes increasingly diffuse. A clearer division between politics and administration and closer relations are required at the same time. The permanent secretaries attempt to draw a dividing line between the professional-political advisory role (something which they generally do desire), and the party-political role (which they would prefer to avoid). While the

permanent secretaries are more closely integrated with the political leadership, the administrative executives in agencies and CEOs of state-owned companies are finding themselves at arm's length (Christensen and Læg Reid 2002, 2004d). The administrative leaders defend those reforms which strengthen their own managerial and coordination possibilities in respect of their subordinate bodies, but are more sceptical towards those measures which challenge the sector-wise division of functions, and draw them too closely into the party-political sphere. The reforms have resulted in the situation whereby it is essentially the administrative leaders within each policy area who direct and control each other.

In summary we may say that the central government apparatus is characterised by problems of inter-ministerial coordination. The leaders focus on their own sectors, something which contributes to horizontal fragmentation between the policy areas. The Norwegian system is dominated by strong specialised ministries, partly the result of the ministerial responsibility principle. MBOR, ministerial responsibility and a clearer division between the different roles of the state heightens this characteristic of central administration, leading to increased vertical administrative coordination within each ministerial sphere. But at the same time, this coordination is weakened through the transfer of functions to state-owned companies, government enterprises and semi-autonomous agencies. Whether political coordination both within and between sectors is actually strengthened is an open question. The political focus on one's specific area of responsibility is strong, and consequently the challenges of coordination across the ministerial areas are considerable, also at the political level. The administrative reforms are propelled within separate sectors by strong sector ministers. In a period when problems increasingly traverse ministerial boundaries, this contributes to the problems of horizontal coordination.

One consequence of the weakly developed horizontal coordination mechanism within central government is that it is difficult to achieve a coordinated input which traverses ministerial boundaries when subordinate levels become involved. Horizontal coordination without an organised foundation faces poor odds in an administrative apparatus which is strongly vertically oriented as in the Norwegian case. The consequences of poor horizontal coordination apply to all types of external bodies, but are particularly severe in the case of local authorities. As we have described earlier in this paper, local government is responsible for implementing policies in most welfare sectors, and are consequently highly integrated into the vertical sector-based welfare state. However, they have also to apply a holistic perspective on welfare politics and make priorities between sectors. The challenge is no less when one takes into consideration the structural changes which have occurred at the local level and in the relationship between the state and the municipalities in the same period. It is this aspect to which we now turn our attention.

## Trends in specialization and coordination at local level

In order to understand why the weak horizontal and rather strong vertical coordination in central government has a strong influence on local self-government, we have to return to the special position held by local government in the Norwegian welfare state. This position is described and discussed in earlier paragraphs. Here it is important to emphasise that as a result of this position local authorities became a part of the central executive apparatus, *but* retained a considerable opportunity to formulate local policies. Simultaneously to being agents for implementing central government policy, they were political institutions of their own. Integration was considerable, but so was also autonomy (Flo 2004). The institutional challenge was to establish a form of unity within this diversity. At the end of World War 2 Norway had around 800 municipalities. Some coordination had to take place when goals were formulated and decisions made at the state level at the same time as local government was given considerable discretion to adjust goals and policies to local needs in the implementation process. An attempt to preserve coordination between central and local government was by gradually controlling the local level through special acts. These special acts were also introduced in areas which were previously unregulated and considered as uniquely local (Fimreite 2001).

The special laws were largely designed to enable particular agencies to administer a policy area at the local level. These bodies were granted the power to secure the inhabitants' needs and rights. The special laws were not only of significance for local government activities but also for their organisational structure: The special law agencies were followed by special law administrators and statutory municipal executive officers (e.g. Director of Education, Director of Social Services, Chief Municipal Engineer, Chief Municipal Treasurer). One consequence of this was that the post-war local government organisation rapidly developed as a facsimile of the central government administration. The parallel pattern resulted in a horizontal differentiation of administration and service provision also at local level. The result was the so called *sector municipality* (Baldersheim 1993). Sector organisation was strengthened in so far as local government was financed through earmarked grants (Rose 1996) and by the professional community which spanned boundaries between local and central government.

The sector associations which emerged also permitted informal control in the relations between central and local level. This control had an educational form (Ekker 1981). Advices, counselling, hearings and guidance are examples of such «educational» means of control which became an important supplement to legal and financial measures. These informal procedures were a manifestation of the organisational integration between central and local government. Using our concepts of coordination we may say that the standardisation of skills (professional unity), competence (parallels in organisation forms), and partly of results (demands made in the special acts) all occurred, but coordination took place first and foremost through mutual adjustment

based on trust. An important element in this adjustment appears to be the sector as a principle of specialisation. At the initiative of the central government this developed virtually identically at central and local level (Strand 1982). This was of course a part of the integration of local government into the welfare state, but it also most likely prepared the ground for trust based on common identities in the relationship between central and local levels (Flo 2003, Fimreite et al. 2004). As we have already argued, it is most likely this trust that made the high degree of local autonomy possible in the more and more advanced welfare state.

Early in the 1980s international criticism of the welfare state and its organisation was also applied to Norway (Olsen 1996). The main argument of this criticism was that the welfare state promoted standardisation, control, segregation into sectors, and an unfortunate differentiation of task accomplishment. The welfare state – and thereby local government – was regarded as possessing an organisational structure which was more suited to the providers of welfare services and to other administrative actors rather than to the users and clients which it was designed to serve. The welfare state was based on collective arrangements, and the relation between the individual and the system was seldom direct and focused on users and clients. Central control was regarded as an important element in ensuring the uniformity of this collective arrangement in respect of Norwegian local government (Fimreite 2001). Thus was the basis for the slogan which became applied to reforms in local government from the mid 1980s: «freedom *from* detailed control and freedom *for* local adjustment». The reforms which were to attend to this consideration were initiated in a continuous series of legislation culminating with the previous describe Local Government Act of 1992. One of the most important elements of this act is that it enables the adjustment of the political and administrative structure at local level to meet local needs. It was an expressed objective that through this form of internal autonomy, local government would achieve an independence from central control (Tranvik and Fimreite 2005). An important assumption for increased autonomy was, in the opinion of the reformers, that the sector similarity of the central and local level would be reduced. This was considered essential as local government was to be relieved of sector-based state control (Strand 1982).

As we have seen earlier in this paper the local authorities in Norway have taken advantage of the freedom inherent in the act with regard to organisation. Management structures and organisational models based on varying inter-sector principles are introduced at local level. As a replacement of a sector-based organisational structure associated with the welfare areas, there are today a variety of organisational solutions among Norwegian local authorities. The dominant principle of specialisation is no longer based on (welfare-)sector. Other specialisation principles such as clients, area and process are now more dominant. The type of local government which emerged as a result of the autonomy granted to local government can be named the *service municipality* (Baldersheim 1993). Among the many consequences of this development is a stronger leadership at top-level locally, but also that sector considerations have to give way to horizontal coordination at local level (Vabo 2001).

The question now is: What happens when the sector-organised central level with strong vertical coordination measures – but weaker horizontal coordination measures – have to rely on a local implementation partner with other principles of specialisation

than the sector? How can the coordination between the level responsible for goal formulation and policy decisions, and the level responsible for carrying out and determining appropriate means to fulfilling the goals take place when the specialisation principle between them is different? And does this have any significance for the balance between integration and autonomy in the relationship between the levels?

## Why stronger integration when autonomy was the intention?

In order to answer the questions raised here we return to the dynamic relations between specialisation principles and measures of coordination. One strategy is that central government develops new, strong, sector-based control measures for maintaining vertical coordination, to compensate for the loss of integration due to the development of different specialization principles at local level. The assumption that autonomous organisations require regulation and that regulation requires autonomous organisations gains support (Christensen and Læg Reid 2005a). This «paradox of regulation» may be used to explain the development away from increased integration when, in fact, the intention was more autonomy.

As we see it, the key to the paradox of regulation lies in the sector organisation and the problem of coordination which such organisation brings about at central level. The fact that municipalities become organised according to other specialisation principles than those employed at central level probably reinforces structural friction between the various administrative levels which has existed over a longer period. Local government in Norway is given considerable responsibility and manage a wide range of resources and it is therefore difficult for the central level to loosen its control of local level. The result is that integration persists even though increased autonomy based on the principle of local self-government is desirable (Fimreite et al. 2004). When the internal autonomy at local level, in accordance with the Local Government Act, resulted in lesser organisational similarity between central and local level, the central sector-based control possibilities were also reduced. The impact of special acts, ad hoc bodies and earmarked grants were reduced and coordination between the level responsible for policy formulation and the level responsibility for implementation was challenged. The main reason for this challenge is that welfare sectors are still an essential element of the Norwegian government system even though this is no longer the case at the local level. Central sector interests in the ministries, in parliament, and within professional organisations will then try to compensate for the decline of control. Compensation takes place by introducing and developing new sector-based control mechanisms such as statutory standards of service, central control and monitoring, and individual rights to welfare services (Fimreite et al. 2004, Helgøy and Serigstad 2004, Tranvik and Fimreite 2005). Deregulation of the organisational structure created re-regulation through new acts, provisions and regulations.

Control mechanisms are a part of vertical coordination at central level but also a part of the coordination in the relationship between central and local levels. The mechanisms

employed represent a movement from trust-based, sector-specific means of control to mechanisms which can be characterised by standardisation of results, procedures, decisions and knowledge/expertise. The new mechanisms are to a large degree based on distrust of the abilities of subordinate levels. All this happens because the sector representatives at central level fear that local authorities with their holistic perspective of welfare policy, and the possibility to make priorities across sectors would not give priority to precisely their area. Horizontal coordination at the local level becomes a threat to the sectors at the central level, and they seek to control local coordination by enforcing priorities through statutory legislation. The argument behind this is that the quality of local services in the 'losing' sectors will decline but also that local skills within sectors of lower priority are diminished. The central sector authorities cannot take this risk first and foremost because the quality of services available to users might suffer, but also because their own status and influence centrally will be effected (Tranvik and Fimreite 2005).

Consequently, our claim is that when the sector municipality is weakened and the service municipality emerges, a structural dynamic within the welfare state is activated. The dynamic results in sector actors at central level introducing new forms of control measures within their own areas of authority (Tranvik and Fimreite 2005). Vertical coordination measures are initiated centrally in order to terminate any possible consequences of local horizontal coordination which is contrary to central sector interests. Thus, the *executing municipality* presented as a hypotheses around 2000 (Fimreite and Flo 2000), is increasingly becoming a reality. The executive municipality has high level of integration and nearly no autonomy.

If we apply this to the problem of coordination, we may say that the actors appear to be trapped by the dynamic of the interplay between the coordinating mechanisms and the specialisation principles at central and local levels. New means of control of local government can be understood from this perspective as a link in the vertical coordination between central and local level. They can, however, also be understood as the manner by which the sector protects its own functions and resources in the competition on resources between the ministries centrally. Regulation by legal rights jurisdiction, minimum standards and statutory regulations can be appropriate means for sector ministries in preserving their own sector in the competition with other ministries. Therefore the new control mechanisms are a link also in the vertical coordination at central level. In consequence the vertical management processes will be an obstacle to horizontal coordination, not only locally but also centrally. In other words, we are concerned with mutually influencing processes in the relations between central coordination and local self-government where changes occur through many different – although not necessarily coordinated – processes.

This dynamic interplay between central and local level with regards to various coordinating and specialisation principles presented so far is summed up in Figure 3.

Figure 2. *Interplay between principles of specialisation, coordination mechanisms,) structure and politics and integration/ autonomy – empirical illustrations*

SPECIALISATION PRINCIPLE	COORDINATION MECHANISMS BETWEEN CENTRAL AND LOCAL LEVEL	STRUCTURE AND POLICY	INTEGRATION AND AUTONOMY OVER TIME
Specialisation according to sector both within the state and the municipality	Standardisation of skills and results, but also mutual adaptation through loyalty and common identity	Structural similarity in policy content: central formulation of goals and local corresponding use of means	1945–1992 <i>Sector municipality</i>
Within the state increased specialisation according to the sector, but other specialisation principles (geography, process, target group) in the municipality	Standardisation of goals, results and procedures	Structural differences, increasing differences in policy content. Central formulation of goals and local practices increasingly imbalanced	1992–2000 <i>Service municipality</i>
Within the state specialisation according to sector, other specialisation principles in the municipalities. Sector principle reintroduced at the unit level in municipalities through statutory determination of rights and the two-level model	Standardisation of content in resolutions and administrative procedures: individual rights, minimum standards and statutory provisions	Increasing structural differences, but increasing similarities in policy content. Central definition of goals, but also in a stronger degree of central formulation of means	2000– <i>Executing municipality</i>

## Integration and autonomy revisited: A regulatory state and executing municipalities

Variety of organisational forms at the local level carry with them a need by central government for unity and standardisation in policy formulation and goal definition as well as in service supply and use of means. While there is divergence in the organisational forms, the policy content shows convergent trends through the standardisation of services and individual legal rights for users and clients of welfare services. The gains achieved along one dimension have a tendency to result in costs elsewhere. Increased autonomy in the choice of organisational forms is faced with increased integration in respect of policy formulation and the means employed.

As in MBOR more generally; increased autonomy, independence and flexibility in day-to-day affairs requires new management, control, monitoring and reporting functions. The price paid by local units for increased autonomy in the use of available resources is that they must subject themselves to a more rigid performance reporting

and appraisal regime. Adaptation into the system is stronger along this dimension. MBOR is thus a double-edged sword which opens up to autonomy as well as external control (Bleiklie, Læg Reid and Vik 2003, Hood et al. 1999).

In our discussions in this paper we have treated integration and autonomy as two different dimensions. We have pointed out that under certain conditions increased integration will not necessarily mean decreased autonomy. Both autonomy and integration can increase or decrease simultaneously, e.g. increased autonomy through de-regulation and devolution can correspond with increased integration through routines of reporting and monitoring. Local bodies can thus acquire more autonomy simultaneous to becoming more closely integrated. This argument of mutual dependent processes in multi-level governance are well known in the literature on integration and autonomy in the European Union (Egeberg 2004a, Olsen 2004) and also on autonomy and control in the field of administrative reform (Verhoerst et al. 2004). Our argument is that there is a co-evolution between autonomy and integration and in situation with high mutual trust it is possible to enhance both dimensions at the same time. We *also* argue that such trust relations as well as the relations between autonomy and integration are connected to coordination mechanisms and principles of specialisation. A theoretical implication from this is that there is neither a simple remedy for success, nor a clear formula concerning those techniques which unite the different considerations and requirements in a multi-level system. We have argued that local autonomy is under pressure when, with the aid of MBOR, central government intensifies integration between the levels. It appears difficult to reconcile the principle of local autonomy where the assumptions are that the goals must be formulated locally with an MBOR-system. The whole idea in this system is that the local level shall be a neutral and loyal executive instrument of goals and subsequently means-determined at the central level (Læg Reid 2001). MBOR and similar management techniques imply that the idea of separate and autonomous spheres in the system is abandoned to the advantage of the philosophy of integration and common goals at all levels of management. The result can be a local level whose function is solely that of implementing goals and policies determined centrally. In the Norwegian system of government this indicates that dimensions which were previously clearly distinguishable from each other both ideologically and strategically (Flo 2004) are in the process of being consolidated. The local level scores low on the autonomy dimension, while the central level scores high on the integration dimension.

Our discussion of recent developments indicates however that the two dimensions are becoming increasingly consolidated and that it is no longer easy to maintain the distinction between them. One condition for still treating autonomy and integration as different dimensions is probably that there is mutual trust between levels involved. Mutual trust permits mutual adjustment as a coordination mechanism. In this paper we have argued that trust is increasingly lacking both at central level and in the relationship between the levels, and it is becoming more common that measures used to control actors and organizations at both levels are based on distrust. The movement from a sector-municipality via a service-municipality to an executing municipality can be interpreted according to changes in this particular condition.

Our argument has been that organisation forms are important when this development is to be explained. Of particular importance is the choice of specialisation principle. The interplay between sector-based and territorial-based specialisation principles is central to the multi-level system. Regarding Norwegian central administration we have manifested a development where specialisation along sector lines has been extended and strengthened at the central level. The specialised ministries are even more powerful as a result of this. At the local level the organisational forms have become more numerous, implying that links between the levels become more detached. The intention was that detached organisational links should weaken central control of the local levels based on vertical sector-based coordination. In turn this should provide the local level with increased possibilities for cross-sector horizontal coordination. We have argued that the possibilities for this coordination are disturbed when the central level compensates for the loss of control resulting from the looser organisational linkages, partly by developing new sector-based means of control, and partly by strengthening existing methods. The possibility for local government to formulate goals and means is reduced, and the municipalities largely become an executing agent on behalf of central government. When organisational autonomy increases, the substantial integration becomes larger. It is thus an empirical question what the combined result will be concerning the balance between integration and autonomy in a multi-level system.

What may be learnt from these in general theoretical terms concerning coordination and specialisation in a multi-level system? We would argue that a main lesson is that different specialisation principles at two organisational levels which are so mutually dependent upon each other as central and local government within the Norwegian welfare state system, present major challenges to coordination. Such challenges are not restricted to the relation between the levels; they also apply internally at each level. The mechanisms for coordination which develop as a result of the internal challenges at each level – as well as the relationship between them – are largely directed to re-establishing lost managerial possibilities when the specialisation principles diverge. One manner to control this is to establish strong, organisation-based horizontal coordination measures at the central level. Concerning the Norwegian state, strong cross-sector, comprehensive, ministerial units will be one such solution. This may be reflected in a strong Ministry for Domestic Affairs or in ministries with clear general and geographically defined areas of responsibility. Such solutions are also likely within other multi-level system with a need for coordination between levels with their own specialisation principle, whether this is on sub-state or supra-state levels.

Another lesson is that to balance integration and diversity/autonomy in a multi-functional political-administrative system it will probably be more successful to combine different organizational forms than to go only for one principle of specialization or one single coordination mechanism (Egeberg 2005). Such organization forms combines sector specialization and geographic specialization and could handle the fact that decision-makers and actors often have multiple identities and have to attend to both primary and secondary loyalties. The challenge is to weigh carefully the dynamic relationship between the different forms of specialization and coordination. How to analyze the different combinations is however, unsettled both theoretically and

empirically. In practice different forms of specialization and coordination occurs simultaneously, in parallel or in mutual interaction and thus producing big challenges both for researchers and for practitioners.

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