

Competing principles of agency organization – the reorganization of a reform

Tom Christensen • Per Lægreid



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ISSN 1503-0946

Uni Rokkan Centre
Nygårdsgaten 5
5015 Bergen
Phone +47 55 58 97 10
Fax +47 55 58 97 11
E-mail: rokkansenteret@uni.no
<http://rokkan.uni.no/>

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TOM CHRISTENSEN, UNIVERSITY OF OSLO

PER LÆGREID, UNIVERSITY OF BERGEN

STEIN ROKKAN CENTER FOR SOCIAL STUDIES

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OCTOBER 2011

Working Paper 8 - 2011

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Preface

This paper was presented at at the Permanent Study Group on Governance of Public Sector Organisations – at the Annual Conference of EGPA, Bucharest, Sep. 7.–10.2011. It is part of the project on the Nav-evaluation but also the VAM project «Reforming the Welfare State. Accountability, Democracy and Management».

Summary

This paper focuses on the following research questions: a) What are the principles of structural organization evident in the welfare administrative reform adopted by Norway in 2005? b) How was this complex mix of organizational principles affected by the reorganization of the reform in 2008? c) How can we explain the rebalancing of the principles in the different phases of the welfare administrative reform? The theoretical point of departure is instrumentally oriented organization theory. Specialization according to geography, clientele, process and purpose as well as vertical and horizontal coordination is addressed. The empirical basis are public documents, internal reports and interviews with key actors in the reform process. A main finding is that the Nav-reform represents an unstable balance between territorial and sectoral specialization and between coordination by partnership and by hierarchy. The reform is characterized by complexity and hybridization. A main lesson is that the reform changes during the implementation and that different specialization principles at three levels of administration present major challenges to coordination.

Sammendrag

Dette notatet fokuserer på følgende problemstillinger: a) hvilke organisasjonsprinsipper kjennetegnet Nav-reformen som ble vedtatt i 2005?; b) hvordan ble den komplekse blandingen av organisasjonsprinsipp påvirket av reorganiseringen av reformen i 2008?; c) hvordan kan vi forklare rebalanseringen av ulike prinsipper i ulike faser av Nav-reformen? Det teoretiske utgangspunktet er instrumentell orientert organisasjonsteori. Det empiriske grunnlaget er offentlige dokumenter, interne rapporter og intervju med nøkkelaktører i reformprosessen. Et hovedfunn er at Nav-reformen representerer en ustabil ballanse mellom territoriell og sektoriell spesialisering og mellom samordning gjennom partnerskap og hierarki. Reformen er karakterisert ved kombinerings av ulike prinsipper, kompleksitet og hybride organisasjonsformer. En viktig lærdom er at reformen endrer seg gjennom iverksettingsfasen og at ulike prinsipper for spesialisering på tre forvaltningsnivå skaper store samordningsproblemer.

Introduction

Administrative reforms are normally characterized by intrinsic constraints, dilemmas, limitations, trade-offs and paradoxes (Pollitt and Bouckaert 2011). The principles of organizational design tend to come in contradictory pairs (Simon 1946, Hood and Jackson 1991, Peters 1998) and administrative reforms often happen in cycles and waves (Light 1997, Talbot and Johnson 2007). Modernization of the state implies both integration and specialization and to achieve its intended effects a reform needs to balance these partly competing reform measures (Margetts et al. 2012). Bouckaert et al. (2010) argue that there seems to be a stimulus-response pattern between specialization and coordination. NPM reforms increased specialization, autonomy and fragmentation, which then triggered a return to more integrated organizational structures and the use of instruments to improve coherence and coordination (Christensen and Læg Reid 2007a).

Thus public sector organizations are complex multi-functional entities trying to balance partly contradictory goals and considerations (Perrow 1972). This seems to be a systemic feature of public sector organizations that needs to be taken into consideration when reorganizing the administrative apparatus, rather than regarding it as a disease that must be eliminated. Organizations have to learn to live with trade-offs and dilemmas rather than searching for the one generic solution. Trying to find one best way of organizing based on a 'one size fits all' approach is normally not a successful reform strategy, partly because administrative reforms are often a political exercise with rather ambiguous roots in organizational or management theory (Peters 1998). We cannot expect a single dominant organizational principle but need to understand the competing principles, institutional complexity and the co-existence and mixes of different organizational forms (Brunsson and Olsen 1998).

Modern reforms in the welfare administration often have rather general goals like increasing efficiency, increasing user attention, improving quality of services, etc. Such goals seldom produce unambiguous guidelines for how to organize or reorganize public services, and therefore corresponding reforms tend to result in a rather varied design of public sector agencies. One reason for this is that there is a layering process going on in public organizations (Streck and Thelen 2005), where traditional Weberian features are combined with elements from the NPM and post-NPM reform waves, resulting in complexity and hybrids of the most important principles of structural design (Christensen and Læg Reid 2010a). This may give the executive leadership more flexibility in dealing with diverse interests and considerations, but may also potentially further conflicts and ambiguity.

The focus in this paper will be on the following research questions:

- a) What are the competing principles of structural organization of governmental agencies evident in the welfare administrative reform adopted by Norway in 2005 and gradually implemented locally through 2009?

- b) How was this complex mix of organizational principles affected by the reorganization of the reform in 2008, which rebalanced different considerations? Why and with what potential effects did this reorganization take place?
- c) How can we explain the changes in or rebalancing of the competing principles in the different phases of the welfare administrative reform and their effects?

Our analysis addresses central themes like the relationship between a ministry and a new central agency, agency merger, how to organize the relationship between the central, regional and local levels in welfare service provision, etc.

The broad theoretical point of departure in the paper will be structurally or instrumentally oriented organization theory (Christensen et al. 2007), specifically the work of Gulick and Simon (Gulick 1937, Simon 1957). Different forms of specialization such as specialization according to geography, clientele, process and purpose as well as vertical and horizontal coordination will be addressed. We will also discuss how elements of NPM and post-NPM are related to the reform and the reorganization of reform. The empirical basis for the paper will be public documents and internal reports as well as interviews with key actors in the reform process, taken from a larger reform project. In late 2007 and early 2008, 43 elite respondents were interviewed in the political and administrative leadership of the Ministry of Labour and in the top leadership of the welfare agency (Nav). In mid 2010 another round of interviews was conducted, this time with 26 respondents in the same groups.

The instrumental point of departure

According to a structural–instrumental perspective, reform processes in public organizations will be characterized by top political and administrative leaders controlling those processes (Christensen et al. 2007). This may happen either through strong hierarchical control by a few top executive leaders or through negotiation processes that lead to compromises (Cyert and March 1963, March and Olsen 1983). The perspective also presupposes that central actors will score rather high on rational calculation or unambiguous means–end thinking (Dahl and Lindblom 1953). This implies that they have relatively clear intentions or goals, know which organizational solutions will fulfill those goals and have insights into the possible consequences of different choices for formal structures or organizational forms. An instrumental ideal is that leaders both have control and think clearly about reforms. This may happen through hierarchical steering, but because such steering may have legitimacy problems, negotiations furthering participation and legitimacy can be an alternative, but these often result in less clear solutions (Mosher 1967).

The potential problems of processes leading to deviation from an instrumental ideal are many. Executive leaders may find it difficult to decide on and implement reforms because of problems of control. These may result either from conflict among leaders or from cultural resistance towards reforms that are not culturally compatible with traditional cultural norms and values in public organizations (cf. Selznick 1957). There may also be counter-myths undermining the reforms. Overall, however, reform

processes seem to encounter fewer problems of control than of rational calculation (Pollitt and Bouckaert 2011).

Problems of rational calculation may be many and varied. Executive leaders may struggle to define clearly what they would like a reform to achieve. This may be related to lack of knowledge in a complex world, but public goals are in any case by their very nature ambiguous and broad because they are required to cope with different interests and considerations and therefore also often have symbolic features. Boston et al. (1996) show that NPM reforms in New Zealand from the early 1980s were said to be theoretically based, but the supporting economic theories of public choice, principal-agent and transaction cost, etc., in fact supplied a more broad generic model for structural organization of reforms than specific and clear guidelines on how to reform structurally. In other words, the structural or design part of the theories was not well developed. It was often said that the generic ideal was evident, i.e. that all public organizations should learn from how private organizations are organized, that 'one-size-fits-all' and that following these principles would produce clear improvements in efficiency (Self 2000). In the NPM literature there are many studies showing that modern reforms have not delivered on their main goals, because of complexity, lack of knowledge or 'over-selling' and therefore have had to be adjusted or changed in more substantial ways.

In his study of the organization of federal authorities in the US, Luther Gulick (1937) stated some main principles of formal organization. He stressed that overall the selection of goals could lead to certain formal structures being chosen that later on would change the content of a policy and eventually fulfill the stated goals. He did not think that this chain of relationships was a simple or unambiguous 1:1 relationship, but instead emphasized that every formal structure offered both advantages and disadvantages, so it was not a question of 'one size fits all'. To strengthen the basis for structural design, he formulated several principles for formal organization of public organizations. A core organizational mechanism is specialization, which determines which tasks and relations can be grouped together and coordinated and which can be separated (Christensen and Lægreid 2006). Specialization implies the creation of new organizational units with limited objectives and specific tasks out of core administrations that have many tasks and a wide range of objectives (Bouckaert et al. 2010).

Gulick (1937) stressed that the basic dimensions of specialization were vertical and horizontal. Vertical specialization relates to the hierarchical command structure and says something about how and to what degree authority is divided between hierarchical levels. It entails differentiation of responsibility between hierarchical levels, describing how tasks and authority are allocated between forms of affiliation (Lægreid et al. 2010). The horizontal dimension says something about how tasks and authority are divided on the same level. Horizontal specialization implies splitting organizations at the same administrative level and assigning tasks and authority to the different units. Egeberg (2003) has stressed that both these dimensions have intra- and inter-organizational aspects. Often reorganization processes involve both vertical and horizontal specialization. In NPM vertical specialization took the form of structural specialization while horizontal specialization resulted in the establishment of single-purpose

organizations; both were considered key mechanisms for enhancing performance (Bouckaert et al. 2010).

The four basic types of horizontal specialization are related to purpose, process, clientele and geography (Gulick 1937). In public organizations specialization according to *purpose* is often the primary principle and produces, for example, ministries or agencies, responsible for sectors like defense, education, social services, health, etc. It is a principle that is easy to use, understand and recognize and encompasses several other sub-principles of organization. It is broad and flexible, but also rather unspecified as a design principle. Specialization based on *process* groups all specialists concerned with a specific sub-process or in one educational field – such as jurists, economists, personnel specialists or those responsible for budgeting or planning – together in the same organizational unit. The advantage of such an organizational principle is that it utilizes expert knowledge; the disadvantage is that a more holistic view of cases or regulations is often lacking. Specialization based on *clientele*, often used in health or social administrations, produces a special organizational focus on certain client groups, giving them special attention and treatment, but implies an organizational bias vis-à-vis other potential groups. Specialization based on *geography* increases the likelihood of standardization within a geographical area, but at the same time increases the probability of discrepancies between geographical units. Gulick's principles are illustrated in rather complex and varied combinations in public organizations.

Specialization increases the need for coordination (Bouckaert et al. 2010). The emergence of specialization and fragmentation tends to trigger increased efforts to coordinate. in order to enhance the alignment of tasks and efforts in organizations. These mechanisms are used to create greater coherence and to reduce redundancy, lacunae and contradictions in policies, implementation or management (Bouckaert et al. 2010). Related to the principles of vertical and horizontal specialization, Gulick (1937) also formulated some principles of coordination. One principle was *coordination according to ideas*, which reminds us both of Selznick's (1957) institutional theory and of important works like Herbert Kaufman's (1960) *The Forest Ranger*, or theories of new institutionalism focusing on isomorphism. The other and main coordination principle is *coordination by formal organization*, which has both a hierarchical and a collegial version. The hierarchical one alludes to the principle that the higher the leadership level the more coordination authority it has, while the collegial one focuses more on actors on the same level working together in different ways. Hierarchical coordination may be furthered by collegial coordination, for example via the use of project and working groups in ministries and agencies, but can also potentially be undermined by it because such coordination challenges hierarchical authority and control. Bouckaert et al. (2010) add networks and markets as two other coordination mechanisms. In our setting network types are especially relevant when they are linked to the partnership arrangements in the welfare administration reform.

Specialization provides a number of benefits, but also creates certain problems, especially regarding coordination (Bouckaert et al. 2010). Specialization according to purpose enhances expertise related to specific tasks but makes it harder to deliver integrated services to one specific group of clients or in a specific geographical area. The benefits of specialization must be balanced by a more holistic and unified approach

regarding service delivery so that services are provided to the 'whole client'. This is especially relevant for multi-service clients in the welfare administration.

In his seminal work *Administrative Behavior* Herbert Simon (1957) used the principle of 'bounded rationality' to emphasize that the formal structure of organizations channels actors' thoughts and actions. Therefore, changing the structural framework in which actors operate may potentially change their thoughts and behaviour. Designing organizations in a conscious way will modify some of the rationality constraints actors have and potentially help to fulfill the organization's goals. The structural position of an actor, in the sense of belonging to a certain level or unit or fulfilling certain tasks, will allow him or her to participate in some decision-making process, but not in others, implying an opportunity to define goals, problems and solutions. In many ways Gulick and Simon share some main ideas about the significance of formal organizations, but Simon (1946) in a sharp critique of Gulick stressed that his principles or 'proverbs' of organizations were ambiguous and conflicting, and he asserted that it would be perfectly possible to formulate opposite principles with other implications for design. In an account and analysis of this debate Hammond (1990) basically concluded that Simon's critique of Gulick was unfair and wrong. He did not regard Gulick's principles as ambiguous and thought Gulick was definitely aware of the tension and complexity involved in balancing these principles (Meier 2010).

Gulick's principles of organization are easy to recognize in modern reforms of public organizations. The complexity he identified is accordingly rather evident, and has become even more so over time as a result of a more complex world, more complex actor patterns and more complex professional knowledge. Added to this, modern public organizations are also becoming more hybrid, meaning that they are built more on competing organizational principles. Our empirical aim in this paper is to delve deeper into this hybridity, examining both its origins and its effects.

New Public Management and post-NPM

NPM is often said to be 'one-dimensional' in its focus on efficiency and effectiveness (Self 2000). Yet many studies have also pointed to the fact that NPM is a 'shopping-basket' of reform elements (Pollitt 1995), indicating both its complexity and its potential hybridity. The main ideas behind NPM come from new economic institutional theory and management theory both of which are diverse. Newer economic institutional theory encompasses several sub-theories like public choice, principal-agent and transaction cost theory (Boston et al. 1996). Even though they share some basic ideas on actors' motivation and focus on efficiency, they all contain elements of both centralization and decentralization/delegation. Management theory is more trust-based, willing to decentralize and supports the slogan 'let the manager manage', while economic organization theory is more distrust-based, keen on central control and supports the slogan 'make the managers manage'. Taken together the two sets of ideas emphasize that the public sector should learn from the private sector and should include elements of both decentralization/delegation and control/centralization, which may potentially lead not only to complexity but also to hybridity in public organizations.

Another way to look at NPM is to delve into the many more specific reform elements, including efficiency, market elements, structural fragmentation (including increased vertical and horizontal specialization), performance management, customer orientation, etc. With respect both to the content of each of these elements and to the balance between them, executive public leaders have to make trade-offs that may result in a lot of complexity and even hybridity. Structural devolution and customer participation may, for example, increase autonomy and discretion but challenge efficiency through the expansion of local bureaucracies. Performance management may increase central control but challenge efficiency by building up a control bureaucracy. Increased horizontal specialization through ‘role purity’ may increase efficiency but challenge standardization, coordination and central control.

When post-NPM emerged as a reform wave in many of the trail-blazing NPM countries like Australia, New Zealand and the UK in the late 1990s (Christensen and Læg Reid 2007a) – under diverse names like ‘joined-up government’ and ‘whole-of-government’ – many saw it as a kind of reaction to the experience with NPM. Post-NPM didn’t replace NPM as the new paradigm, but more often blended it with NPM, modifying it in certain respects (Christensen and Læg Reid 2011). This process entailed yet more complexity and even hybridity. Our analytical take on this is that in most countries we find layers of traditional public administrative elements coupled with reform wave elements. When NPM was introduced certain traditional Weberian features were modified or deinstitutionalized, but some central ones prevailed; similarly the impact of post-NPM was to weaken and deinstitutionalize certain NPM elements while others prevailed. This produced complex layers of formal structures and norms and values in public organizations, and potentially also created hybridity (Christensen and Læg Reid 2010b).

Post-NPM is built on different main principles to NPM, and we might describe the two movements as a kind of ebb and flow (Light 1997), whereby a period of devolution and specialization is followed by a period where the emphasis is on centralization and coordination. Post-NPM is seen as a set of measures to ‘bring the system back together again’, to use the term Gregory (2003) coined to describe developments in New Zealand. Post-NPM measures entail vertical integration through control of agencies and a return to SOEs, (State-Owned-Enterprises) dissolving or integrating some of these units into ministries, like in Australia, or renationalizing the railway and airline companies, like in New Zealand. At the same time, more horizontal integration is achieved through coordinative reform measures like cross-sectoral programs or projects related to ‘wicked issues’. It is also important to control this increased coordination. The structural measures in post-NPM were in some cases mergers, like the establishment of the Ministry of Social Development in New Zealand, and in other looser network collaboration and ‘smart practice’, as Bardach (1998) labelled pragmatic collaboration among agencies with the same users. Combined with NPM measures the structural post-NPM measures have added complexity to public organizations and potentially create hybridity (Christensen and Læg Reid 2010a).

It is also evident that post-NPM of the kind introduced in Australia and New Zealand not only adds structural complexity and hybridity, combining different principles and types of formal organization, but also other cultural elements. The overall

cultural take on post-NPM is more about having a culturally holistic perspective (Christensen and Læg Reid 2007a). While NPM was more about structural fragmentation, competition and efficiency, reflected in a fragmented set of sub-cultures, post-NPM is more about a collective perspective on culture. Under post-NPM public servants are more in the same large boat, feel they have a common cultural heritage, common current cultural values and a common future, whereas under NPM they were all in separate competing boats each trying to set the course. While NPM was more about transparency to secure equal competition, post-NPM emphasizes 'value-based management', as it was labeled in Australia, and ethos and ethical guidelines. Under post-NPM public leaders should lead pro-actively in a collective cultural direction.

We now turn to the Norwegian reform of the welfare administration, which is a good example of how hybrid organizational solutions are launched that represent an unstable balance between competing principles and considerations inspired by both post-NPM reform ideas and NPM features.

Historical and institutional background

The principle of local self-government in Norway goes back to 1837. Since then the local level has been partly an extension of the central government, implementing its policies, and partly an independent, directly elected political level that can take the initiative on its own policies and services. Since then this principle has been politically important in a country where geo-politics mean a lot, but the central government has put increasing burdens on the local level without providing sufficient resources for the municipalities to follow through, in their view at least. Local self-rule, motivated by considerations of effectiveness/efficiency, local knowledge and participation is therefore balanced towards central concerns (Flo 2004). On the regional level, the public apparatus is divided. The prefects are the regional representatives for the central government and have several control and regulation tasks vis-à-vis the municipalities, and the central agencies have regional and local organizational units. There is also a county administration with certain tasks, such as communications, education, regional development, etc., based in a directly elected political leadership.

The first agencies were introduced in Norway in the 1850s (Christensen 2003). They were of two types: integrated agencies (ministerial unit with special status), labeled the 'Danish' type; and 'independent' agencies, which were known as the Swedish type. In the interwar period, Norway got a third, 'Norwegian' type of agency that was 'double-hatted', meaning that the director of the agency was both the director of a ministerial division and the director of an agency. Since the Second World War the Swedish type has been the dominant one, albeit in a somewhat modified version entailing more political control than the Swedish proto-type and strengthened through several policy documents. The most important of these was issued in 1955 and formulated a policy of 'hiving-off', meaning that technical and professionally related tasks should be left to agencies and more of them should be established. However, by assuming responsibilities for policy development the agencies soon became more important and many of them became even larger than the ministries, as in the transport and

communications sector. The last two decades have seen a somewhat divided agency development in Norway. On the one hand, NPM has produced more independent agencies, for example the regulatory ones, which are more like the original Swedish model, while others have maintained the traditional balance between political control and agency autonomy (Christensen and Læg Reid 2007b).

Historically, the three types of administrative organization involved in the welfare administrative reform of 2005 – national insurance or pension administration, national employment service and social service administration – were separate entities on different levels, all of them with a history stretching back a hundred years or more and with different ministerial affiliations (Christensen, Fimreite and Læg Reid 2007). The national pensions administration was traditionally a typically Weberian rule-oriented organization with a lot of complex case-work. Based in a large central agency, it had regional and local units, the latter in every municipality.

The national employment administration, also centrally based, but in a somewhat smaller agency than the pensions administration, came to be closely associated with the post-war social-democratic state, spending a lot of resources on programs to get more people into the workforce, although Norway actually had a low unemployment rate after the war. Criticized from the conservative side for being big government and using a lot of resources with rather minor effects, the agency during the last two decades has changed quite a lot to become a modern agency forced to accept competition from private providers.

The social security benefits were historically locally based and were traditionally quite different to the other two services. Their employees had less higher education and more local affiliation, including a local political committee, and overall more discretionary powers. Over the years, however, the service has become more professionalized and bureaucratized and hence more similar to the other services.

The process leading up to the administrative reform of 2005

One of the major challenges for the welfare services as they existed before was institutional fragmentation, i.e. they belonged to different ministries, agencies and levels. This created problems for clients with complex problems, in particular the so-called multi-service clients (Christensen, Fimreite and Læg Reid 2007). Starting in the 1980s and followed up in the 1990s, two types of initiatives were of relevance. First, there were some local experiments with increased collaboration between the services. These were seen as pretty successful, but met with resistance from the services involved. Second, clients' and employees' organizations in the services tried to persuade the Parliament – the Storting – to initiate a reform. While these efforts remained unsuccessful for many years, a breakthrough was eventually made in 2001 when a big majority in the Storting asked the government to start a process that would eventually lead to the merging of these services. This became a rather ambiguous and symbol-oriented initiative – labeled 'one welfare administration' – because it was politically almost unthinkable for either the

central or the local level to take over all the services (Christensen, Fimreite and Læg Reid 2007).

The conservative-centre minority government then started an internal cross-ministerial process to find out how to respond to the Storting's request. This resulted in a report to the parliament that basically argued that the existing fragmented structure was the best one (St.meld.14 (2002–2003)). The Storting sent the report back, saying that the government had not reacted in an appropriate way to the wish for a unified service. The government then established a public committee consisting of academic experts on welfare policy and administration (Christensen, Fimreite and Læg Reid 2007). The committee basically supported the government in its resistance to any merger or major collaboration between the services, but proposed more local collaboration between the pensions and employment services (NOU 2004:13). The incoming minister in 2004, now the head of a labour and social ministry embracing all three services, realized that it was impossible to go back to the Storting with a proposal that still insisted on a fragmented structure. He proposed a compromise that was accepted by an overall majority in 2005. The main goals of the new welfare administration were to get more people off welfare and into work and to be more efficient and user-friendly.

The new welfare administrative reform had two major elements. First, it merged the pension and employment agencies, from top to bottom, into a new welfare agency (Askim et al. 2009). In terms of its relationship to the ministry this was established as a rather traditional agency, according to the traditional Swedish model, meaning a combination of independence and political control, which reflected the political salience of the policy area. Second, a mandatory 'one-stop shop' was established as a physically co-located local partnership between the three services, which produced the rather unusual combination of a central and local hierarchy. A central agreement was reached between the national organization for municipalities and the ministry, followed by local agreements that had both mandatory (co-location, minimum number of services) and discretionary elements (choice of leadership structure, adding extra local sub-services) (Fimreite and Læg Reid 2009).

The reforms implied both stability and changes with respect to formal structural principles. The ministerial responsibility principle did not change as such, but the minister now had both control of all three services and the agency responsibility for a newly merged agency, i.e. potentially making the minister both more powerful and more vulnerable to criticism from the Storting. The most critical part of the reform, however, was the local partnership that potentially was both complex and hybrid. What this amounted to was a mandatory partnership between central and local government, meaning that employees at local welfare offices worked both for the central government, i.e. the ministry and agency, and for the municipalities with their local political leadership (Fimreite and Læg Reid 2009).

Merging the two former agencies into a new central welfare agency, with units at the regional and local level, increased both structural and cultural complexity, i.e. units and employees had to be merged and moved around in a complex process, and professional milieus with different norms and values were pressured to collaborate and develop a new and more holistic culture. The new agency was also rather complex in its internal structure, with several central staff units and a major organizational division between the

ordinary line organization on all levels and a ‘specialist units division’ encompassing both country-wide support functions and the pensions policy area (Askim et al. 2009).

Most local welfare offices chose a united leadership structure (93 %), meaning either a leader from one of the central government services (most often) or a leader from the municipalities. But how many and what type of local services were moved to the local welfare offices varied a lot, making national standardization very difficult. The local offices that changed the least were those in the large cities where the common model had been a divided leadership whereby former service units were retained inside the new local offices, potentially making it more difficult to develop a real unified service.

When the new organization was established, the unions managed to get an agreement saying that no employee should lose their job, making it more difficult to fulfill the goal of more efficiency and aggravating the complexity of the organization (Askim et al. 2010). It was also argued strongly that there should be one welfare office in every municipality, which, given the number of services and sub-services, presented a challenge for local competence. Politically, however, this was understandable given regional policy concerns. The regional level in the new welfare organization thus lost out both to the central and to the local level, but this was later to change.

The reorganization of the reform in 2008

The reorganization of the reform in 2008 had two central components (Christensen 2011). First, it established six regional pension units, which meant moving employees from the local offices up to the regional level and implied a vertical de-specialization or integrative movement. The units were not put in the main line organization, but were subordinated to a central agency department for special units, entailing a kind of horizontal differentiation. This reorganization to a large extent removed pension services from the local level and coincided with a large pensions reform and the introduction of a new ICT system –for pensions (Førde 2011). Other special units responsible for tasks related to international cases, complaints, control and technical aids were also established at the regional level.

Second, at least one administrative welfare unit was established at the regional level in each of Norway’s nineteen counties to handle rights-based services and benefits. Altogether there are now thirty-seven regional administrative welfare units. They were placed in the main line organization, under the leadership of the Nav county-director, i.e. they represented, like the pension units on the regional level, a change in the direction of vertical de-specialization, but not a corresponding horizontal change. The reorganization also moved more local employees in the Nav-administration up to the regional level. Altogether this implied a clear weakening of resources in the local Nav-offices.

The more general principles of casework also changed with the reorganization. The original idea of the welfare reform was to have local offices that could handle all kinds of questions, i.e. a broad general ideal, something that was pretty ambitious given the fact that Nav as such had 55 to 60 sub-policy areas or sub-services. The reorganization in 2008 formally left this principle intact but subscribed to the principle of economies-

of-scale and the importance of having specialists on the regional level handling most questions, as a way of promoting efficiency, professional quality and the equal treatment of cases (Christensen 2011). Since moving a lot of employees up to the regional level left the local offices more vulnerable, even though they had also lost a lot of tasks, it became more common to urge the local offices to collaborate or specialize on certain task portfolios within a county. Internally in each office it also became more common to let employees specialize in three or four sub-services, meaning a combination of generalist and specialist task-handling.

While the original reform intended to have local units handle most of the case-work in the welfare administration, the 2008 reorganization was based on a principle of level differentiation in the decision-making process related to five phases or sub-processes. The local offices were to be given the task of informing clients about the various welfare policies and opportunities for support and services and of receiving all the different types of applications. However, most of these were now to be handled in the new regional/county units. Once decisions had been taken about payments these were to be made by the regional and national level, while it was the local offices' job to support clients, in getting work, for example. So the local offices were assigned tasks 1 (informing), 2 (receiving applications) and 5 (follow-up) in the decision-making and handling chain, while the regional and/or central level were given tasks 3 (deciding) and 4 (paying).

The reorganization also changed the system for how clients approached the welfare administration. The original reform was based on a 'one-door' principle, meaning that the clients, particularly multi-service users, only had to come to one physical location. In the reorganization of 2008 there was more talk of a modern 'three channel-strategy', meaning that the number of clients who had to actually show up at the local welfare office was reduced and services were also to be provided via the internet or by telephone, with the latter entailing the establishment of large call centres.

Why were some of the central principles of such a huge administrative reform reorganized again after only a few years? First, if we look at the control aspects and influence patterns of the welfare administrative reform, the whole basis for the reform was a request from the Storting to create a single service and strong local offices, while the compromise proposed by the minister in order to get all the actors on board was the 'bait' of a local partnership. At the time when the reform was decided on it was important politically to have some kind of merger of services combined with an incentive for the municipalities and social services to go along with it. However, the reform was mainly decided against the will of the administrative leadership in the ministry and the former employment administration; hence the post-reform repositioning. The reorganizations of 2008 brought back elements from the pre-2005 process in the sense that the pension services became more of 'an organization within an organization', along with the original wishes of conservative ministers, the administrative elite and the expert committee, which had proposed letting the employment service and social services collaborate more locally instead of merging; after the reorganization of 2008 this became the core local element. Added to this, following the reorganization of 2008, the employment services, which had managed to keep more central positions in the central Nav-agency than the pensions service, ended up with an

organization, including regional units, that looked more like their old employment organization, in other words the structural reforms exhibited path-dependency (cf. Krasner 1988).

A second explanation for why the reorganization, which contained elements of the original arrangements, took place is that it was in a sense natural to develop the Nav-organization further after 2005. Seen from a capacity point of view it was difficult to cope with more than merging two national services, establishing a local partnership and gradually establishing all the new local welfare offices. The public documents that prepared the way for the decision on the reform in 2005 mentioned that some of the services needed to develop further and to establish larger units for handling cases (St.prp.nr.46 (2004–2005)). For most of the elite respondents we interviewed on the central level it was rather self-evident that establishing the regional/county units for the pensions and administrative services would support the local level and make it better. Even though it may sound somewhat paradoxical and controversial, particularly from the local level, to say that moving resources and tasks away from the local level and up to the regional level was a win–win situation for both levels, the arguments were, as already noted, that larger units on the regional level all represented improvements in efficiency, quality of competence and equal treatment of cases.

A third reason for the reorganization of 2008 was that a huge pension reform was eminent that would anyhow result in some kind of reorganization of the pensions administration. Whether that would also have led to the reorganization of the other two services is maybe more debatable, but that was the respondents' argument. The chances of the the reorganization of the pensions administration succeeding were greatly improved by major investment in a new ICT system, while the other two services and their new administrative units on the county level still had to struggle to cope with four or five different old ICT systems for their services, even though they too were in the process of digitalizing and scanning documents.

After the reorganization of the reform in 2008 there was a lot of public and political debate about the Nav-reform, including several periods of crisis and a public hearing in the Storting based on a very critical report by the General Auditor's Office. There are many reasons for this. One is that it is generally difficult to make such a huge organization adapt to a complex and hybrid reform. Another is that part of the coalition behind the reform in some ways has turned against it. Our elite respondents point to their experience of the opposition in the Storting becoming more negative and employees' unions and client organizations becoming increasingly critical. The media also became involved using a lot of sad individual cases which are rather easy to find in a public service of this kind to illustrate their criticism of the reorganization. The General Auditor's Office has also been very oriented towards failure searching. All this is in rather stark contrast to the main sentiments of the elite respondents we interviewed who were rather supportive of the effects of the reform and the urgency of the reorganization of the reform in 2008.

As a result of all the criticism and crises the Ministry of Labour in February 2010 established an expert group to analyze the organization of and activities in the local welfare offices and the county administrative units, and in particular their interaction and division of tasks – in other words to look primarily at one central part of the

reorganization of the reform (Christensen 2011). The group's assessment was rather critical, pointing to problems of productivity and quality in service provision, but also to increases in the number of clients included in employment-related activities. The problems outlined were primarily related to the implementation of the reform, in all its aspects, and to an increase in the demand for pension services, primarily brought about by an increase in unemployment. It was also stressed that problems were related to many employees changing work-place and tasks and having to acquire new competence and to the establishment of local offices and administrative units, which demanded a lot of internal adaptation, but also to the interaction between these units without good ICT-based support. Some of the problems experienced by Nav were, however, also evident in the former services, showing some path-dependency.

Even though the group was critical, like our elite respondents, it mainly supported the reorganization of the reform in 2008 and also thought that Nav had been able to counteract some of its negative effects with compensatory measures. The main arguments for its support were that the substantial task-portfolio of 56 governmental sub-services or sub-tasks made it impossible to build up specialist competence in all local offices. Specialization through administrative units on the county level was an important precondition for local offices having their foci on individual guidance and following-up clients. It was also argued that services with a high volume gave economy-of-scale benefits and also enhanced equal treatment of similar cases. All these arguments were in line with the basis for the reorganization of the reform in 2008. The group proposed an improvement strategy based on task focusing, meaning more focus locally on work and activity, a narrower spectrum of tasks locally, more diversification (the three-channel solution), and a better flow of cases between the levels through adaptive measures and reallocation of resources, improved ICT solutions and better employee competence.

Analyzing the competing principles of rebalancing

The theoretical departure for this paper is an organizational 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 or all consequences. They face problems of capacity and understanding and have to select decision-making premises and decide where to focus their attention and resources. Decision-makers normally act on behalf of formal organizations. Formal structures and procedures organize some actors, cleavages, problems, and solutions into decision-making processes in the welfare administration while others are excluded (cf. Schattschneider 1960). Thus, organization is politics by other means, and structures are important because they influence outcomes (Meier 2010). Therefore the formal organizational structure of public organizations represents an important selection mechanism that constrains as well as enabling the service delivery process. 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).

The Norwegian welfare administration reform focused on introducing more coordination in service delivery. But it did not use a 'pure' set of post-NPM principles. Rather the reform was the end point in a complicated process of compromise that combined NPM and post-NPM reform elements in a complex mix, albeit with a slant towards post-NPM features. Formal vertical and horizontal reintegration or de-specialization were blended with NPM instruments like performance-management systems, purchaser-provider elements and devolutionary elements like strong local welfare offices, etc. The reform was also reorganized and therefore modified after it had been decided on, combining a complex mix of horizontal specialization and vertical de-specialization with a focus on the regional level.

In the first phase of the process the politicians were the main reform agents, dominating both the experts and the central bureaucracy with respect to the organizational model chosen. In the second phase of the reform the actor constellation was the other way around, proving Patashnik's (2008) assertion that it is important to understand the regrouping of the actors' field. The politicians were now less active participants and the reorganization of the reform was mainly seen as an internal managerial process, i.e. the main reform process and the reorganization process had different actor structures and therefore different results. In both phases, however, the process typically scored rather low on clear organizational thinking, which instead was changing, ambiguous and not well founded, despite the inclusion of experts. Actors shared common goals but proposed widely differing routes for arriving at them. This seems to be typical of reform processes in many countries, because the societal and public structures, cultures and interests that must be catered to are becoming more complex (Pollitt and Bouckaert 2011).

One way of understanding the Nav-reform process is to look at it as a two-phase model of reform implying a sequencing path, whereby the local one-stop shops should be completed before embarking on developing regional units. Capacity problems, reform complexity and goal conflicts imply a sequential attention to goals (Cyert and March 1963). First the merger and the establishment of local welfare offices had to be implemented, then this model had to be recalibrated, because the whole new organization lacked the capacity to do everything at the same time.

Another way of understanding the reform dynamic is to look at it as a learning process. The trajectory of the Nav-reform follows a sort of stimulus-response pattern regarding specialization and coordination (Bouckaert et al. 2010). The reform itself had a clear holistic integrating ambition focusing on coordination issues. But in the reorganization of the reform in 2008 the organizational model was somewhat rebalanced towards re-specialization. This implied increased internal horizontal specialization between pension and employment/social services and between different phases in the decision-making and service-providing process, which taken together represented a geographical integration process strengthening the regional level vis-à-vis the local one. This represents a mixed order of different organizational principles. Rather than purifying one single organizational principle in a stable organizational model, we face a system in a state of flux that blends different types of specialization and coordination over time. All types of specialization have advantages and disadvantages and if one principle becomes too dominant it may trigger a counter-

reaction whereby the opposite principle is reactivated and the mixture of complementary principles rebalanced.

Generally, increased specialization results in an increased need for coordination, but which specialization principle is selected will be of considerable significance for the choice of coordinating mechanisms. The first question is, therefore, whether the same specialization principle shall apply at both the central and local levels or whether these principles can be at variance. The next question concerns the implications this may have for multi-level coordination as well as internal coordination at the different levels (Fimreite and Læg Reid 2005). For example, if the central level is organized by sector and local government by clients (or process or area) will this imply weak vertical coordination between the central and local levels 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 to counteract the consequences of autonomy?

Coordination and coordination mechanisms are challenged when principles of organizational specialization undergo change (Verhoerst and Bouckaert 2005). The principles of specialization are concerned with tasks and relationships 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. Redesigning sectorally specialized organizations into geographically structured ones would thus tend to transform functional conflicts into territorial conflicts (Egeberg 2001, 2004). This was a major concern with the reform in 2005 with the focus on the local level – a focus that shifted to the regional level in 2008. Sector specialization has a tendency to weaken relations that have developed territorially, for example in geographically based units such as municipalities, and to strengthen policy standardization across territorial units. When the administrative units were reorganized in 2008 there was some discussion about whether larger regional units were more feasible. However, the geographical-political interests of the counties led to a decision against this. Thus, structures and specialization principles are value-laden and they institutionalize biases in favour of one set of clients or users over others (Meier 2010).

The Nav-reform is an administrative reform aimed also at strengthening the steering capacity of the welfare administration. A complex multi-level system including a mixed order of hierarchy and network has been set up. The network is represented by the partnership model between the central and local government while the hierarchy obviously extends from the central government – i.e., the ministry, via the central agency to the regional units and below. The network represents coordination through mutual adjustment rather than hierarchical steering (Bouckaert et al. 2010). An organizational model that implies use of these two forms at the same time is challenging.

To make it even more complicated the organizational specialization in Nav has an inbuilt tension between specialization by geography, by purpose, by client and by process. While territorial specialization tends to enhance local and municipal issues, specialization based on purpose tends to standardize across geographical entities and to

see tasks in connection with one another within the sector. Nav encompasses both tasks that are independent of place based on national standardization and equality, like pension issues, and place-related tasks based on local geographical discretion and leeway, such as employment-related issues and in particular social services (Fimreite 2011). The challenge is to combine specialization principles in such a way that both considerations are addressed.

The Nav-reform represents an unstable balance between territorial and sectoral specialization and between coordination by networks and by hierarchy. The partnership model was launched as a Columbian egg that should balance these considerations (Fimreite and Læg Reid 2009). Our analysis reveals that this is a demanding and delicate balancing act. Specialization by process is higher on the agenda and standard operational procedures in the bureaucracy represented by coordination by hierarchy and specialization by purpose seem to take the upper hand at the expense of coordination by networks and specialization by geography. The establishment of administrative units and pension units at the regional level subordinate to the central agency is a clear indication of this development.

The starting point in this reform process was a welfare administration scoring high on proliferation and fragmentation – owing to strong specialization by purpose in central government combined with coordination based on geography in local government – and low on coordination and consolidation owing to weak horizontal coordination within central government as well as between central and local government. The main problem of this organizational model was that some of the problems and tasks did not follow the organizational borders but were trans-boundary. The wicked issues that the welfare administration was supposed to handle blurred the borders between organizations/services and administrative levels and were thus difficult to handle properly. There was a mis-match between the problem structure and the organizational structure.

The welfare administration reform of 2005 tried to solve this problem by implementing two main organizational changes – a merger of the employment and pensions services in central government both at the ministerial and at the central agency level, and the establishment of a social services partnership model at the local government level. This was done without altering the two partly contesting doctrines in the Norwegian political-administrative system – the principle of ministerial responsibility and the principle of local self-government. The focus was on the local partnership models, which were supposed to combine these two principles by upgrading specialization by geography and coordination by networks.

In 2008 the reform went into a second stage. Some of the organizational measures introduced in 2005 were modified or partly reversed. The bureaucracy bounced back and restored specialization by purpose. Tasks and resources were moved from the local partnership agencies in the municipalities to governmental bodies at the regional level. In contrast to local government with political decentralization to politically elected bodies, the regional units were branches of the central agency and thus represented administrative decentralization or delegation. Thus the main specialization principle was by purpose or task and not by geography. It was supposed to bring about standardization across regions and within the same tasks, but variation between

different tasks. To some extent this last reorganization represents one step back towards the original organizational model, but the pendulum has by no means swung back to the starting point. It is, however, a paradox that integration and improved inter-organizational coordination as well as increased coordination between central and local government, which was one of the main goals behind the Nav-reform, is still a big challenge (Fimreite and Læg Reid 2008).

Our analysis of the Norwegian reveals a reform process that has produced complex and unstable solutions that in different ways attend to a balance of different principles of specialization and coordination, and their combination. The complexity that emerges reflects the fact that hierarchical efforts to control the reform process are constrained by problems of rational calculation. The case also shows that expected effects are problematic to fulfil for political and administrative leaders. The overall performance of the new system has not lived up to expectations, so even though central control has been achieved, the local partnerships and offices are struggling to deliver on the main reform goals (Askim et al. 2010). There seems to be a stimulus-response pattern between specialization and coordination as well as between different types of specialization.

Conclusion

Summing up, one general lesson is that administrative reform does not end when the formal decision is made but tends to change during the implementation process, when the pattern of actors changes (Patashnik 2008). It seems to be difficult to find a stable equilibrium between different considerations. Second, administrative reform is not only about internal administration but is also a political process, where political, administrative and professional logics clash and are balanced or rebalanced. Third, organizational structures are not only about efficiency but also tend to favour some processes, ideas, clients, users and actors over others (Meier 2010).

We would tend to subscribe to the argument that reform movements are characterized by combining, complexity, layering and hybridization, rather than by dominance, substitution and pendulum swings (Christensen et al. 2007, Streck and Thelen 2005). Public administration faces increasingly complex environmental and internal conditions, reflected in multifunctional organizational forms, and the administrative reforms in the public sector can be understood as compound reforms that combine different organizational principles based on multiple factors working together in a complex mix (Egeberg and Trondal 2009). Compound administrative reforms are multi-dimensional and represent «mixed» orders and combinations of competing, inconsistent and contradictory organizational principles and structures that co-exist and balance interests, values and claims to power (Olsen 2007, 2010). It is not a question of NPM or post-NPM, but rather of how the mixtures of these forms change and how the trade-off between principles of specialization and between specialization and coordination are altered.

Multi-dimensional orders are considered to be more resilient to external shocks and therefore preferable to uni-dimensional orders (March and Olsen 1989). Compound

reforms thus depart from «either/or» theorizing by assuming that executive governance rests on the mobilization of multiple and complementary sets of institutions, actors, interests, decision-making arenas, values, norms, and cleavages, reflected in what we call a transformative approach to reforms (Christensen and Lægreid 2001). In a pluralistic society, where there are many criteria for success and different causal understandings, we have to go beyond the idea of a single organizational principle to understand how public organizations work and are reformed and look at them as composite organizations (Olsen 2007). Our argument is that we face a dialectical development in which the old public administration has been combined with NPM reform elements as well as post-NPM features, producing a very complex and hybrid organizational model, as shown in this study.

What may be learnt from this in general theoretical terms concerning coordination and specialization in a multi-level system? We would argue that a main lesson is that different specialization principles at three organizational levels that are so mutually dependent upon each other as central, regional and local government within the Norwegian welfare state system present major challenges to coordination. The coordination mechanisms which develop are largely directed towards re-establishing the managerial capabilities that are lost when the specialization principles diverge. One lesson is that to balance integration and diversity/autonomy in a multifunctional political-administrative system, combining different organizational forms will probably be more successful than adopting only one principle of specialization or one single coordination mechanism (Egeberg 2005, Fimreite and Lægreid 2005). Such organizational forms combine sector specialization and geographic specialization and are able to 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, however, is a matter that has yet to be settled both theoretically and empirically. In practice different forms of specialization and coordination occur simultaneously, in parallel or in mutual interaction and thus produce big challenges both for researchers and for practitioners.

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