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Abstract

The NPM portfolio offers several solutions to improve organisational performance and efficiency. One of the most crucial of them is to split up integrated organisations into more autonomous operational units. The idea of arm's length government is gaining ground in Norwegian local government and has materialised itself through the proliferation of agencies, especially in the shape of different forms of local government bodies and enterprises. Agencies are regarded as useful organisational designs for promoting transparency and, in consequence, better fiscal and political control. They are supposed to provide a more output oriented type of democracy. But does this form of government actually improve transparency and are Norwegian municipalities attuned to and prepared for this type of democracy? This article builds on case studies of local government enterprises in two municipalities. Here we ask: how transparent are the activities and outputs of these agencies; do they have specified contracts; do they have easy-to-follow structures and are the owners in control? Our findings make us question local governments' ability to accommodate the form of transparency associated with agencies and output oriented democracy. In our cases, arm's length government has not led to the intended increase in transparency and political control, mainly because of weak contractualisation between local government and agencies, complex ownership structures, lack of interest among average local politicians, side-lined municipal administrations and even mayors striving to get the information and the influence they deem necessary and legitimate.

Kommunale selskaper og åpenhet i norske kommuner

NPM inneholder mange forslag til hvordan en kan forbedre offentlige organisasjoners effektivitet og resultat. Et av de vanligste forslag går ut på å dele organisasjonen opp i flere selvstendige operative enheter. Ideen om styring på armlengdes avstand har også spredd seg til norske kommuner, ikke minst i form av resultatenheter og kommunale selskaper. Selvstendige operative enheter vurderes som en god modell for mer åpenhet og derav følgende bedre økonomisk og politisk kontroll. De antas å legge grunnlaget for et mer resultatorientert demokrati. Men gir denne styringsmodellen virkelig mer åpenhet, og er norske kommuner tilpasset og klare for denne formen for demokrati? Denne artikkelen bygger på casestudier av kommunale selskaper i to norske kommuner. Vi stiller følgende spørsmål: hvor åpne er disse selskapene mht. aktiviteter og resultater, er de underlagt bestemte prestasjonskrav, har de oversiktlige strukturer og har eierne kontroll? Våre funn gir grunnlag for tvil om kommunenes evne til å nyttiggjøre seg de åpenhetsformer som assosieres med selvstendige operative enheter og resultatorientert demokrati. I våre case har ikke armlengdes styring ført til mer åpenhet og bedre demokratisk kontroll, hovedsakelig pga. manglende prestasjonskrav, kompleks eiendomsstruktur, manglende interesse blant lokalpolitikere, ingen forankring i kommuneadministrasjonen og en dog ordførere som strever med å skaffe seg nødvendig informasjon og innflytelse.

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Introduction¹

The purpose of this paper is to analyse how the increasing use of agencies (i.e. agentification) in municipal service provision affects transparency and whether Norwegian municipalities are attuned to and prepared for this type of arm's length democracy. Agentification can be understood as part of the second wave of New Public Management, unfolding in the 1990s, and characterised by "the unbundling of vertically integrated forms of organization", "split between a small strategic core and a large operational periphery", decentralisation, downsizing and contracting-out (Ferlie et al., 1996:12). According to Hood (1991) one important purpose of agentification and other NPM-inspired reforms is to promote transparency.

A transparent political process is one that is easy for the public to follow but which also implies a willingness on the part of the political bodies to have their actions and decisions scrutinised by the public. Transparency is a defining characteristic of democracy and a necessary element of any democratic system. It is "one of the purifying elements of politics" (Gutman & Thompson, 1996; Mill, 2001). In a classical understanding of democracy it implies easy access to information about issues on the public agenda and the procedures of decision-making, and as such it ensures a good environment for informed discussions and for giving input to the political process (ibid.).

The recent rise in the concept's popularity is however linked to the NPM-based critique of the shortcomings of traditional public management. Transparency suffers, it is argued, under the size and complexity of integrated public sector organisations. From the outside the public sector looks like a big black box, with the public finding it difficult and time-consuming to find out what's going on and who is responsible. Transparency also suffers, it is said, because of the collective accountability principle being practiced inside traditional public management (Rao, 2005). Insofar as many decisions are made collectively or in long sequences, involving many and shifting persons and bodies, it is difficult for implicated parties to know whom to hold to account. Based on this diagnosis NPM, inspired by market principles and organisational structures of the business world, offers two solutions. The first involves disaggregation so as to simplify and illuminate the complex and impenetrable big black box and make it easier for the public to identify which public body is responsible for what; the second involves introducing autonomy and, with it, individual managerial accountability, making it possible to control and link responsibility for performance to one person (Christensen & Lægheid, 2002), preferably through some type of contract or contract-like arrangement. Agencies are seen as an organisational design that combines these two elements.

This diagnosis has led to an explosion across the globe – and even in reluctant "tortoise" Norway (Olsen, 1996) – of arm's length management constructions of disaggregated and autonomous bodies in the local government sector, i.e. agencies (Christensen & Lægheid, 2007). We are currently witnessing a tendency to establish local government enterprises (Ringkjøp et al., 2008; Aars &

Ringkjøb, 2011), agencies that have their own boards and are placed beyond the control of the municipal administration and the municipal CEO (Chief Executive Officer).

In this paper we will discuss these enterprise-type of agencies. The majority of them are *limited companies* based on private law. They have diverse ownership structures and the municipality is not necessarily the sole owner, not even the majority owner. New structures like *municipal companies* and cooperative forms like *inter-municipal companies* based on public law are also springing into being. The municipal company is normally owned in its entirety by a single municipality, whereas the inter-municipal company has several municipalities as its owners.

The agency-building trend represents a shift away from the classic model of government. Local government is based on the principles of representative democracy and tends to be associated with collective decision-making and a collegial organisation of councils and committees whose members enjoy the same rights and obligations (Larsen, 2005). Here, the elected body is supported by an administrative body and a CEO who serves as a liaison between politics and administration (Mouritzen & Svara, 2002). With the growth of agencies, important areas of local politics are depoliticised and placed outside ordinary municipal jurisdiction. Lately, transparency in public affairs has been formally strengthened through statutory regulation, including autonomous legal persons where public authorities, directly or indirectly, own or control more than 50 per cent. *In this article we analyse how these agencies actually impact on the character of transparency and democracy in Norwegian local government.*

We start with our theoretical backdrop in which we link the literature on agencies and transparency. Second, we present empirical findings from a study of two Norwegian municipalities, Norville and Midville. These are not their real names, of course; we are using them to ensure anonymity. We end our paper with a discussion on the ability of local governments to implement the type of transparency that is associated with agencies.

The democratic character and transparency

Classical democracy is associated with participation, deliberation and majority rule. Participation means government *by* the people. The decision-making procedure of a classic democracy involves invoking good reasons and finding common ground and common interests (Bohman & Rehg, 1997), and, if necessary, using majority voting. One of the distinctive characteristics of the political realm is precisely this focus on collective decision-making (King & Stoker, 1996). Public participation in local government deliberations and decision-making, and the appeal to common norms and values, are the basic elements of this perspective. Here we find that transparency is essential for informed debates and broad public involvement. In this perspective accountability is usually understood as the obligation owed by agents to their principals. It is about how voters can make elected representatives answer for their policies, how these representatives can

revise the actions of public servants and how the public can seek redress from government officials (Mulgan, 2000). The concept of public accountability recognises the accountability of public officials to the public for their designated tasks (Uhr, 1993). Representatives of the people are expected to reach decisions through procedures that are recognised as legitimate, hence making these decisions also legitimate and thereby binding. This requires transparency in order for representatives to have actual political control over decision-making.

Another or supplementary way of understanding and assessing democratic performance is by attending to what Scharpf calls democracy's "out-put" oriented effects (Scharpf, 1999), by which we mean looking at what the government can do *for* the people in terms of service provision, infrastructure, safety etc. The legitimacy of the decision-making is sought elsewhere than on the input, participatory side, as output-oriented democracy is supposed to bring about a welcome "substitute legitimation" (Héritier, 1999). The market or quasi-market oriented elements would be more present than in the traditional "input oriented" government, and there are likely to be pressures for efficiency and improved services. Output democracy is, in other words, focused on and evaluated by results and depends to some extent on the ability of the market to function as a regulative and transparent institution. People, according to Scharpf (1999), are often satisfied with policy outcomes, which tends to compensate for the lack of process accountability, at least in the short run (ibid. 26-27). In market structures, corporate or managerial accountability will tend to mean the answerability of a firm's managers to its owners for their conduct and, ultimately, for the economic results of the firm. And if the firm is publicly listed, the managers will be accountable, and processes transparent to, public officials, and through them elected representatives and electorate (Goodin, 2003). It enables governing bodies to set directions and maintain oversight.

Scharpf's "input legitimacy" is linked to the traditional idea of "government by the people", a form of democracy that promotes transparency and accountability in the process of institutional formation and decision-making. The other form of legitimacy is "output legitimacy", which refers to "government for the people"; in this case, policy outcomes are a legitimating element (Scharpf, 1999).

Agencies organised as companies are more disaggregated and autonomous in relation to local governments than traditional municipal entities providing services like, for instance, schools, kindergartens, and homes for the elderly. Companies are established because, as separate, autonomous, single-purpose units, they are thought to make transparency and thereby political and financial control easier to achieve than as elements of an integrated "big black box" government. They also relieve the local council and municipal administration of operational decision-making, thereby increasing these bodies' capacity for strategic purposes. Agency accountability is meant to be secured by contractualising relations between agencies and local councils. Transparency in these structures is related to reporting and evaluating output and outcome, and the procedures for achieving this will increasingly rely on competition. Managers owe transparency

to the elected representatives and through them the electorate. Broader deliberations of aims and values are more or less delivered by representative democracy and set more or less firmly in contracts. From this we develop table 1:

Table 1: Overview of transparency focus, accountability mechanisms and sources of legitimacy in input vs. output democracies

Democracy	Transparency	Accountability mechanisms	Legitimacy primarily gained by
<i>Classical input democracy</i>	Focus on the input side of government; articulation/aggregation, institution building, recruitment & decision-making Requires citizen orientation & informed public	Party nominations & political elections	Free and fair elections, elected representatives making the important political decisions - Government by the people Responsive government Coherent coordination
<i>NPM-inspired output democracy</i>	Focus on the output side of government; results in relation to performance and economy, contracts & conduct, Easy-to-follow structures Requires customer orientation	Contracts, regular reporting of results to owners, auditing, regular measurements of user satisfaction Competition in market Reputation	Results in terms of reliable, efficient and high quality service provision, infrastructure etc. – Government for the people Observable results, responsiveness & reputation

Following this reasoning we assume that the focus on transparency in local democracy has shifted largely from ensuring informed public discussions about aims and values to an illumination of results or performance of easy-to-follow agency structures. We expect the managers of agencies to dutifully report to elected representatives (the principals and owners) about how they conduct their affairs in the firm, and we expect local government interests to be evident in contracts and the results easily measured and controlled in easy-to-follow structures.

In this paper we thus assume local government will seek to promote output transparency by:

- requiring agencies to publish performance and output scores (on financial and other matters), in compliance with “contractual” articles of association and statutory obligations
- requiring agency managers to inform the owners of their decisions and policies
- requiring agencies to put in place a structure that is comprehensible to local governments

By instituting these criteria, agencies can bring about a form of output-oriented democracy that “welcomes substitute legitimacy” insofar as it enables oversight and removes some of the decision-making burden from local governments. Empirical evidence, however, indicates that the opposite might be true. OECD (2002) and Schick (2002) are criticizing the lack of transparency surrounding appointments of board members and their remuneration, and salaries and benefits to agency management.

Agencies and the process of agentification

In this article we use the term agency for all “arm’s length” governmental structures, and suggest conceiving of them in a local setting as all bodies under some sort of local government authority. The local government is thus the principal in charge of *agentified* entities.

Agentification is defined by what Pollitt et al. (Pollitt & Talbot, 2004, Pollitt et al., 2001, Pollitt et al., 2004) call a tripod of doctrines: disaggregation; autonomisation; and contractualisation. *Disaggregation* can briefly be described as a process whereby “an organization [is] formally separated out from its ‘parent’ body and clearly delimited as a separate entity” (Pollitt et al. 2004: 36). This structural separation is not a question of absolutes, more of degree (Talbot, 2004). Disaggregation does not necessarily imply independence or autonomy (Pollitt & Talbot, 2004) because a disaggregated body could very well be subject to tight regulation by a ministry, a local council or specialised regulatory or purchaser authority. Therefore, autonomy is seen as a separate variable. *Autonomisation* can be defined as a process by which bodies are granted freedom “to make their own choices about internal arrangements” (Pollitt et al. 2004: 36), whereas *contractualisation* can be described as

[t]he idea of putting relationships within the public sector, whether between purchasers and providers, parent departments and agencies, or Ministers and Chief Executives, on some sort of contractual or quasi-contractual basis, [...] usually linked to performance. (Ibid: 39)

Contractualisation means local governments making their expectations and demands concerning conduct and performance of their agencies more explicit than before. This is supposed to create greater transparency and promote public accountability. Contracts can be formulated in minute detail, and impose a detailed regulatory regime, or leave considerable room for discretion and manoeuvre.

New forms of public organisation, characterised by disaggregation, autonomisation and contractualisation, often raise questions as to whether they reside inside or outside the borders of government. A narrow definition of agency tends to exclude private law bodies like Norwegian municipal limited companies, even if their purpose is exclusively public. Talbot (2004), however, argues for grouping such structures as agencies because of their de facto functions. In Norway, municipalities evidently consider the limited companies in which they hold shares as their property, in part or in full, making it reasonable to extend the concept of agency to include such structures.

Agencies in Norwegian local government

According to the Norwegian Freedom of Information Act (Offentlighetsloven), transparency is a basic principle of Norwegian public sector. This rule is of general application to all public institutions, including autonomous legal persons where public authorities, directly or indirectly, own or control more than 50 per cent.

Norwegian municipalities are authorised to undertake any activity – in addition to mandatory functions – that is not prohibited by law or falls within the exclusive jurisdiction of other public authorities (Page & Goldsmith, 1987). The structure of the municipal administration used to be rather standardised, consisting of a few departments. It was headed by a CEO, tasked with coordinating the activities of underlying departments. The Local Government Act of 1992 gave local authorities more freedom in the choice of organisational design and the CEO a stronger position as the head of the municipal administration. This spurred a period of organisational experimentation and departure from the traditional, standardised forms. It also stimulated growth in the number of agencies. Gradually different types of agencies developed, with differing degrees of disaggregation, autonomy and contractual (or contract-like) obligations towards the municipality.

In this paper we will limit our discussion to *the most common types of agencies*² among local government enterprises. They are the municipal company (KF), the inter-municipal company (IKS), and the limited company (AS).

Table 2: Most common type of agency in Norwegian local government

Relation to the individual municipality	Type of agency	Statutory affiliation	Abbreviation
Semi-autonomous & disaggregated, but not separate legal bodies	Municipal company	Local Government Act (1992), chapter 11 (amendment 1999)	KF
Autonomous, disaggregated and separate legal entities (contractual relationship?)	Inter-municipal company	Law on Inter-municipal companies (1999)	IKS
	Limited municipal company ³	The law on limited companies (1997)	AS

The common denominators of these agencies are: (1) structural disaggregation, although not necessarily legally separated from the municipality; (2) considerable autonomy, having their own boards and managers; (3) outside the administrative control of the municipal CEO; and (4) obligation to meet certain performance standards.

The number of agencies has grown from 850 in 1997 to 2,552 in 2008 (Aars & Ringkjøb 2011). They are active in many different policy areas,⁴ including property management (428); electricity, gas, vapour & water supply (343); health and social services (314); transportation/storage (229); information/communication (216); drainage/waste disposal; profession-

al/scientific/technical services (both of the groups around 135); infrastructure (118); commercial service provision; and culture/leisure (both around 100). The AS form of organisation dominates in almost all categories. There are a relatively large number of KF-type agencies in the transportation/storage sector, while the IKS form has a special position in the field of drainage and waste disposal.

The great majority of these companies (79 per cent in 2009, up by 2 per cent since 2006) are AS, i.e. limited companies. They are autonomous, independent legal entities; they are disaggregated and usually single-purpose. The highest authority of an AS company is the general assembly, appointed by shareholders and reflective of the distribution of shares. The general assembly appoints a board, which is responsible for hiring the managing director. In cases where the municipality owns 100 per cent of the shares, the general assembly consists of the executive committee or just the mayor. When the municipality owns less than 100 per cent, the executive committee selects the municipality's representatives to the general assembly. They will often be the mayor or/and deputy mayor. The executive committee also decides which of the municipality's representatives shall have the right to vote. Proposals for the municipality's representatives to the board are made through the regular process of political horse-trading after every election when the different political positions are allocated. The limited companies can be declared bankrupt, in contrast to the municipal company and the inter-municipal company.

The second most prevalent form is the municipal company KF (7.4 per cent)⁵. These agencies are instances of internal autonomisation (van Thiel, 2004), disaggregated from normal municipal activities, but not legally separated from the municipality. The municipal company has its own board appointed by the local council. The board hires the managing director of the company and is the highest authority of the KF. The CEO cannot intervene in the work of the KF or overrule its decisions, but s/he can require it to present a case to the local council before a decision is implemented.

The inter-municipal company (IKS) is the third most prevalent form of agency (4.1 per cent). It was devised to facilitate inter-municipal cooperation and economies of scale. These companies are autonomous legal entities and are regulated by a special law. The cooperating municipalities govern the company through their seats on the shareholders' committee (representantskapet). This committee is appointed by the local council of the municipality in question and is the highest authority in this type of agency. More often than not, the mayor will have a seat on the shareholders' committee of the IKS. One of the distinctive characteristics of the IKS is that no single municipality controls a majority; municipalities therefore have to reach some kind of consensus in order to get something decided and done. The board of the IKS is appointed by the shareholders' committee, and the board normally recruits the manager of the company. The IKS form of agency is an example of external autonomisation (van Thiel 2004), in that it is legally and structurally disaggregated from the local council. It enjoys considerable autonomy, but like municipal companies, cannot be declared bankrupt.

The empirical data in the next section detail the results of transparency-promoting efforts in such agencies in two municipalities. We have examined official documents, newspaper debates and elected representatives' publically stated values and interests. First, though, we provide a broad outline of the empirical agency structure and local debates surrounding them.

Empirical findings in two medium-sized municipalities

We have studied two medium-sized, fast-growing municipalities in Norway, Norville and Midville. Both are located in counties which, according to Statistics Norway, have high numbers of local government enterprises. As we visited these municipalities in the spring of 2011, both, we discovered, were in the process of drafting their first ownership reports, with comprehensive presentations of agencies in which they had ownership interests, and strategic plans for managing these agencies in a coherent way. We studied these and other relevant documents (annual reports from agencies, municipal agenda papers), homepages and newspapers, and conducted 14 interviews. We interviewed senior figures, i.e. the mayors, leading members of the political majority and opposition (who also represented the municipality in different agencies), municipal CEOs and agency managers in what the municipalities themselves defined as the most important agencies in each category. In Midville we attended the first political discussion on ownership strategies by the local council. In Norville this first debate was video-recorded.

Norville is located in Northern Norway and has approx. 47,000 inhabitants and is growing fast.

Most of its agencies came into being more by accident than design, or because of new state regulations. It has been vital for the municipality to be economical and efficient, and new regulations encouraged them to remove certain functions from the municipal companies (KF) and give them to limited companies (AS) instead because it made them eligible to VAT compensation from the government. This was the case with the running of the City Sports Hall and Cultural Centre. New state regulations restructured the hydro-electro power companies and the port authority. Agencies were also created to rescue jobs and maintain local ownership; this was done with a smaller art gallery, a rural grocery store and a rural telecommunications service.

Midville is on the north-western coast of southern Norway, a region renowned for its entrepreneurial culture. Most of its almost 50,000 inhabitants live in the city of Midville. Here, as in Norville, most of the local government agencies came about either by chance or because of new national regulations.

The ownership reports were drafted in response to a long-felt need for a coherent policy and overall strategy for municipally owned agencies. Today, Norville has four municipal companies and is involved in four inter-municipal companies and 17 limited companies. Midville has three municipal companies and is involved in three inter-municipal companies and 20 limited companies. We will now look at some of them more closely.

Table 3: Case-study agencies in Norville and Midville

Agencies	Midville	Norville
KF	Midville Municipal Property KF	Team Norville KF (Norville development section)
AS	Midville Parking AS (owned 100%) Fjord Energy AS (energy enterprise, owned 50.09%)	Norville Energy AS (owned 100%) Ice Energy AS (40% directly owned, 9% through Norville Energy AS)
IKS	CREEK – The Inter-Municipal Environmental Enterprise of the Region (44% owned)	ANNA – The Inter-Municipal Environmental Enterprise of the Region, (62% owned)

Some of these agencies are more disaggregated from and autonomous of the municipal administrative apparatus than others.

The local debates

The process of drafting ownership reports in Norville and Midville revealed both similarities and dissimilarities. Norville's report was compiled by some well-known municipal officers and politicians from the main parties. The Midville report was written by a former CEO, in consultation with senior municipal officers, the mayor and managers of the companies. Both reports and subsequent interviews revealed a shortage of political objectives and lack of attention to overseeing the running of these entities. Relations between agencies and municipalities were not contractualised, either formally or informally. Neither were the purposes of the agencies put into writing, apart from generally worded objectives and rules formulated at some point in the past when the companies were established. There were few if any performance or profit requirements. Routines were in short supply, and no administrative entity had been given responsibility for establishing procedures in the municipalities. The mayor of Midville underlined an urgent need for institutionalising the relations, and the CEO gave a vivid description of strong and almost ungovernable agencies. For both Norville and Midville, it added up to a cluster of highly autonomous entities that "lived their own lives".

Generally, the public tends not to show much interest in the "government of agencies"; people hardly ever call their councillors to ask about this or that to do with the agencies, and few have responded to ownership report hearings. The media show little interest, though with the exception of the inter-municipal companies (IKS). Both councils have enumerated agency aims, especially for the smaller agencies, and contentious policies will sometimes make the headlines.

Councillors generally had neither taken the initiative to debate policy on these agencies or indeed called for information, and this lack of interest was seen as one of the greatest challenges. Councillors do not discuss the running of the agencies; they leave that to the agency boards. There is not much information sharing, or requests for advice and when there is, the political fractions tend to hold the information to themselves, or at most share it with the mayor (according to the politicians we interviewed). Questions regarding acquisitions by agencies are, however, discussed by the council in plenum, though without resulting in a

policy debate in most cases (according to the mayor of Norville). At times, however, controversy over the price and quality of the services provided by the Cultural Centre to the citizens of Norville and parking services in Midville have spurred public debates.

The ownership reports (or preliminary versions of them) have so far met with little of the hoped-for political interest and debate. The two cities' CEOs and mayors are disappointed. The agency managers also find this lack of interest discouraging.

Transparency focus

The local councils have transferred functions from the political-administrative centres to different entities with varying degrees of disaggregation and autonomy.

Municipal companies (KFs)

These entities are disaggregated and semi-autonomous in relation to the local authorities. *Norville* set up its own local development section as an agency (Team Norville KF). It has worked very well, and was a good idea in the 1990s, according to the politicians. Team Norville is regulated by the Norville Strategic Business Plan, an agreement between the agency and the CEO on the exchange of services and annual budget decisions. This document is unique in the sense that we have not found similar contracts with other agencies, in either of the municipalities. The municipal administrators and political representatives in Norville consider the people working in Team Norville to be highly professional. The CEO, who is in charge of the administration as a whole, has, however, little influence over decision-making in this agency. Local development, in other words, is largely beyond the bounds of the municipal administrative apparatus. In this field, the mayor has the upper hand as the chair of the board. This is sometimes a problem for local entrepreneurs and businesses as Team Norville may approve their development proposals whilst the CEO, who has ultimate planning and zoning authority, can stop these projects in the next round. This structure has facilitated fast decision-making in an area where it is often needed. The danger is that the mayor uses development issues as a "personal" means to achieve certain ends, which in turn makes it hard for municipal officers to coordinate decisions and actions. Information does not flow easily to the other departments and agencies in the municipality. The organisational set-up is opaque and it is hard to get grip on procedures and responsibilities.⁶

Midville council founded the Midville Municipal Property Company (KF) in 2004 after detaching the function from the technical department. The main idea was to professionalise the management of municipal property. The administration of the company is located in the city hall, and its managing director has regular monthly meetings with the municipal CEO. The company's main customer is the CEO, with almost all municipal business conducted in buildings and on premises managed by the KF. Relations between the company director and

CEO are described as close and trustful. Still, there are some challenges as the CEO wants to move an entity under her control to the property company. The company, however, does not want to assume responsibility for this entity. Every time the municipality has new tasks for the KF, the company demands higher budgets and more resources. It is paramount to the company to avoid overrunning its own budget. It is not their responsibility to balance the municipal budget, the agency managers say. The two parties are also discussing who should be responsible for setting quality standards for new and old buildings; today, that responsibility lies with the property company. The “problem” here is that the agency is doing exactly what it is supposed to do, i.e. concentrating on what it was founded to accomplish, leaving responsibility for coordinating other municipal operations to the CEO. In relation to the public and the local council, transparency seems to suffer because the company’s board meetings are held behind closed doors.

Inter-municipal companies (IKSs)

In the north of Norway, *Norville* municipality cooperates with several smaller municipalities in the region through IKSs, but they have not concluded any contracts prescribing activities or outputs from these agencies. And *Norville* municipality does not, the informants say, have the votes to match risks and responsibilities: *Norville* pays most of the costs (60 per cent) of running these agencies, but its ability to influence operations is not proportional to its financial obligations. This challenges their political control over their own affairs. The main political parties have therefore agreed informally not to involve the municipality in any more IKS projects. *Norville* council would prefer to have municipal and limited companies (KFs and ASs) instead, which would give them more control, according to the mayor and leading politicians from the main parties. It would also give the other municipalities an opportunity to buy services from the KF and AS agencies.

Norville city council does not discuss these inter-municipal companies to any extent. The mayor of *Norville* is deputy chair of the board of ANNA, the inter-municipal environmental enterprise. The council’s appointed representatives are well informed and board discussions often engage the public. What makes this less transparent is the complexity of the company’s ownership structure. ANNA has a whole range of subsidiary companies, some of which she owns in full and some in part. She is split into service, production and recycling divisions. The production entity has shares in three other companies, including a 40 per cent stake in a fish waste management company, whereas ANNA’s recycling company holds shares in two other companies. In other words, ANNA has generated many subsidiary companies over the years and most of them compete in the market. For the ordinary councillor, not to mention the public, this level of complexity makes it hard to comprehend the structure and who is responsible for what.

Midville has a similar inter-municipal company for refuse collection, called CREEK. *Midville* is part owner of the company together with 11 other municipalities. *Midville* pays approximately 60 per cent of the costs although it only holds a 44 per cent stake. *Midville* has five of the 16 seats on the shareholders' committee, while the other municipalities have one each. The mayor of *Midville* was chair of this committee for several years, but resigned after the 2011 municipal election. The shareholders' committee elects the board of the company, which in turn hires the managing director. There is some dissatisfaction among local politicians in *Midville* with CREEK. The board and managing director are not sufficiently sensitive to political signals. *Midville* city council feels it lacks influence with the company, especially since it pays more than all the other municipalities together and also has a higher proportion of the population of the region. "I am not a big fan of inter-municipal companies generally because power moves out of the municipality" says the mayor. This statement is fairly representative of opinions in *Midville*. Since the company's catchment area is extensive and scarcely populated, apart from the city of *Midville* itself, the city's politicians feel *Midville*'s inhabitants are subsidising refuse collection in the smaller municipalities. There is also a conflict of interest between Fjord Energy AS and CREEK insofar as Fjord Energy wants to burn the refuse and distribute the energy through its district heating system, while CREEK wants to recycle most of it itself. In this conflict, many of the city councillors seem to prefer the heating option; CREEK's recycling policy is too green and environmentalist, they complain. With regard to transparency, some councillors and officers are dissatisfied with what they consider to be the lack of information provided by the company to its owners.

Limited companies (ASs)

We present first a couple of cases which are wholly owned by the municipality. Second, we describe a case in which *Midville* municipality owns slightly more than 50 per cent, before introducing a final case of which *Norville* municipality holds a less than 50 per cent stake.

Norville Energy AS is a wholly owned municipal power supply company. It is highly profitable and a well-known brand thanks to its sponsorship of cultural and sporting events. Board members are appointed by the city council and are well paid. *Norville Energy AS* owns subsidiary shares in 15 other companies, including a 9 per cent stake in the highly profitable *Ice Energy AS*. It is sole shareholder in five of the companies. This illustrates how tangled municipal ownership can be in practice.

Midville Parking AS is also wholly owned by the municipality. It invests in parking projects and manages all municipal indoor and outdoor parking facilities. The company works with other businesses and runs some private parking facilities. It also acts as a local government authority with the right to collect parking fees and parking fines. Parking fees are set by the local council, although the company would prefer to do so itself. The activities of *Midville Parking AS*

are inextricably linked to the urban development of Midville. While the municipal leadership would like the company to play a role in urban development, the company prefers not to. The CEO and the mayor are clearly putting pressure on the company to get it involved in a particular parking project, but so far the company has resisted, referring to its obligation to avoid economic loss. The situation illustrates how the interests of the agent and the principle can collide. There is a transparency problem in that neither the public nor some of the councillors know exactly where statutory authority lies in relation to different parking issues. This became evident during several interviews.

Midville also has a highly profitable hydro-power enterprise, *Fjord Energy AS*. The company was founded in 1917 by several municipalities in the region. The pattern of ownership remained more or less the same until the early 1990s when some of the municipalities sold their shares and new owners emerged. Midville council reduced its stake to 50.09 per cent. Today, Fjord Energy AS owns several other companies, most of which are in the power production and distribution business. The district-heating project has spurred some public and political debate because of the extensive infrastructure involved, the building of which has created traffic problems in the city centre. The previously mentioned dispute between Fjord Energy AS and CREEK IKS with respect to burnable/recyclable refuse has also figured in the public debate. As to transparency, the company has traditionally kept the public at arm's length, though lately, possibly in a bid to improve its reputation, it seems to be pursuing a policy of greater openness. According to the managing director this change reflects recent amendments in the Freedom of Information Act, demanding more transparency in companies where public authorities own or control more than 50 per cent. In addition, he describes "an escalating need for information" from outside.

Norville city council owns 40 per cent of *Ice Energy AS*, together with an additional 9 per cent through its ownership of Norville Energy AS. Ice Energy is for Norville what Fjord Energy AS is for Midville: the jewel in the crown. It is a money machine, channelling tens of millions of kroner in dividends to the municipal coffers every year. The municipality of Norville has a frame agreement, articles of association and shareholders' agreement with Ice Energy AS, but no specific agreement about production and dividends. Insofar as councillors have any political interest in the enterprise, it has mainly to do with this financial aspect. For the individual local politician, however, an appointment to the company board is perhaps the most attractive, prestigious and lucrative position they can obtain. The mayor of Norville is chair of the board.

The politicians in both Norville and Midville are clear: profit making has become a much more important criterion of success for these limited companies than before. Politicians vie with each other for the well-paid seats on the board, especially of the power companies. With regard to transparency, the boards hardly ever report back to the political apparatus, and municipal officers and politicians are not prone to discuss company-related challenges like these. Board meetings of most municipal agencies, whether municipal companies (KF), inter-municipal companies (IKS) or limited companies (AS), are held in private. This,

of course, is problematic from a transparency point of view, and compares unfavourably with the normally open meetings of executive committees and local councils. Nor is discussion of their market activities subject to the same freedom of information provisions as other municipal tasks. While financial performance, results etc. are made public, the agendas and minutes of board meetings are not. "The public does not ask. If it did it would get answers. I was on the board of Norville Industry AS, the company has 300 employees, but no one ever asked about anything", the deputy mayor told us.

Another thing is that the politicians who are appointed to the company boards do not seem to view themselves as representatives of the owner; they tend rather to identify with the company. As mentioned above, board members do not systematically file reports with the local councils. While contractualisation was intended to create transparency and accountability and regulate relations between municipalities and agencies, the results are virtually nil, except in the case of some of the inter-municipal companies.

Discussion

We have contended in this article that the growing agentification we are witnessing in the Norwegian local government sector today will (1) reduce transparency of input and process, and (2) increase transparency of output and outcome.

As the documents and interviews reveal, municipalities have been passive owners, with no clear and coherent ownership policy or general procedures to obtain, analyse and distribute information on decision-making and other matters. Ownership reports were viewed as a means of stimulating political debate in the local community, in local political quarters and in the local council. The ultimate purpose was to strengthen the municipalities' ownership role through more explicit and binding demands on the agencies. So far this has not been a success. The average local politician does not question the strategic purpose or performance of these companies. And in their gradual growth in size and number, these agencies have created a rather fragmented, complex ownership structure in these municipalities. The empirical material further shows the gradual removal of tasks, activities and priorities from the open agenda and collective decision-making system that characterises local council procedures, to less transparent agencies. This was somewhat expected, but it does mean that agency policies become divorced from debates on basic principles, values and priorities, i.e. matters one assumes are of concern to a democracy.

The agency form seems to favour transparency with regard to economic output. This is especially true for limited companies in accordance with their strict statutory obligations. Other single-purpose entities, producing measurable economic outputs, are also relatively transparent. However, when ownership structures are tangled and when tasks of the agencies mingle with those provided by the municipal organisation, output and transparency becomes less clear. The inter-municipal company seeks to enable inter-municipal cooperation and economies of scale, but here we find economic and political disadvantages for the

larger and more densely populated municipalities like Norville and Midville. Dissatisfaction with the IKS construction is vented at the highest level in both municipalities.

The agencies' self-presentation and obligatory reporting are rather transparent, without necessarily telling the whole story. Agencies post information about themselves on their homepages, where they make their annual reports, ownership structure, strategy, economy etc. available. Although this might be satisfactory according to NPM standards, it is far from sufficient when held up against classic democratic ideals. Surprisingly, the local governments had not really stipulated in plain words what they expected of the agencies in terms of performance and output, economic or otherwise. We found one exception though – Team Norville KF and Norville municipality had actually signed a formal agreement. Contractualisation, then, which is supposed to be at the heart of transparency and accountability, is almost non-existent. The agencies themselves decide what they want to tell their municipal principals. The recent compilation of ownership reports might, however, signal an end to the traditional passive ownership role, and increasing contractualisation.

The legitimacy of the output form of democracy rests largely on transparency in the form of openness between agency managers and representatives of local government. The agency managers themselves would welcome greater political attention and discussion. They are open and willing to talk with anyone, they say, and have taken several steps to inform local politicians and the public of their activities. The challenge in their view is local politicians' fundamental lack of interest, which is only aroused by problems and controversies.

At a general level, the mayors are the key persons in relations among the municipal CEOs, the agencies, the local council and the public. They usually hold the most honourable positions and regularly chair the meetings of the executive committee in its function as the general assembly of some of the companies. And agency managers do get in touch with them from time to time. The CEO, as head of the municipal administration, is formally divorced from this municipal business, leaving the mayor as the most crucial link in the flow of information among the agencies, the public and democratic arena. The transparency focus of the agency will therefore largely depend on the mayor's personal attitudes and interests. Nevertheless, the mayors in our studies do express some frustration with what they perceive as lax information routines among municipal board members of various companies. They are also unhappy with the information that flows between the inter-municipal companies and the councils. Both mayors are therefore seeking to institutionalise the relations with the agencies, making it possible to obtain information and convey political signals on a regular basis.

The CEOs are frustrated with the lack of information from and ability to influence decision-making in the agencies. The agencies, they feel, are more or less decoupled from the administrative part of the municipality and more aligned with the political part, although in a rather loose fashion. Some of the agencies have substantial economic and strategic assets, affecting the governability and

development of the municipality. When information is not stored with a bureaucracy, the risk of “information loss” will be particularly high whenever new mayors and new political coalitions enter the political scene. This has already happened in one of “our cities” and will necessarily affect transparency insofar as it undermines the making of informed ownership policies.

Finally we want to discuss transparency in terms of easily comprehensible ownership and management structures. The limited company agencies are ostensibly easily understood, but if we take a closer look, their pattern of subsidiary ownership turns a clear picture into a very opaque one indeed. Their tasks can overlap ordinary municipal operations in such a way that neither the municipal politicians, nor the public, have any idea of who is responsible for what. The ASs and municipalities may have different interests in a given matter. For example, wishes to promote urban development and public satisfaction can come up against wishes to reduce economic risk and increase profits. On balance, these disputes end up most of the time as a matter of positive economic results for the agencies, not the future and development of the city. The IKS agencies are also difficult to influence for the individual municipality and several of them have stakes in subsidiary companies in an often intricate mix. Although the composition of the IKS boards and decision-making procedures are based on principles of collectivism and compromise, they do not reflect the relative size of a municipality’s investments or population.

Generally, we find that the politicians in the municipalities find it difficult to differentiate between their different roles in relation to municipal agencies. The municipalities have overlapping roles as regulative authority (shared with Midville Parking AS, Team Norville KF), owner (of all agencies in our case studies) and customer (Norville Energy AS, Fjord Energy AS), and the local councils have also handed several of these roles over to agencies which are largely out of their control (ANNA, CREEK). It makes the chain of authority and decision-making procedures opaque.

The general picture we can draw from our case studies is that disaggregation and autonomisation reduce input and process transparency without necessarily increasing output and outcome transparency. The main reason seems to be lack of contractualisation, i.e. the third element of agentification, supposed to promote transparency and render control, accountability and cohesion possible. We have described several causes: lack of political interest; tangled ownership structures; lack of ownership policy; lack of routines and procedures for communication, reporting, discussions, decision-making etc.; no formal role for the municipal CEO and his/her staff; informal and weak roles for local politicians and local political institutions.

Conclusions

We found, as expected, that agencies undermine transparency concerning input and process. As issues are removed from the public arena of the local council to the board rooms, many important discussions and decisions become more or less

invisible to ordinary politicians and citizens. Only a small fraction of municipal representatives participate as board members and they seem to identify themselves more with the company than the owner, i.e. the municipality, especially in Midville. The municipal administration is sidelined. Agencies are primarily the province of the mayor, the executive committee and a small group of elite politicians. This is a large step from the classic values of public participation and collective decision-making on which the Norwegian model of democracy was founded.

What is more surprising is the obvious gap between the expected transparency of NPM-inspired output democracy and the actual transparency of the agencies in Norville and Midville. Agencies are often transparent when it comes to economic performance and results and attentive to statutory regulations, especially the limited company agencies. But local governments seem to be less concerned with establishing a proper contractual environment for the agencies, many of which have appeared over the years without any specification concerning dividends and procedures. We also found that most agencies are eager to provide information to their owners, but local government apparatuses seem unable and perhaps unprepared to take it. The CEO, who is the officer in charge of overall cohesion, is largely excluded from the companies, making their management a matter for the mayor and certain council representatives. As information is not stored administratively, the information lacuna is likely to become a problem when new councillors take office.

Another important finding is that some of the agencies are tremendously complicated structures to the *ordinary* council member and the public, who may come to look upon the agencies as another kind of “black box”. This does not meet the expectations generated by NPM advocates.

Norwegian local democracy is grounded on a principle of collective lay representation and transparency regarding the input and processing side of decision-making. Our findings cause us to question whether the principle of collective lay representation is compatible with the type of management that is needed to fulfil the aims of output oriented democracy. The municipalities we have studied are, however, aware of the problem and trying to improve matters by formulating ownership strategies, devising better routines, and increasing administrative capacity.

We encourage future research to focus on the complexity and tangle of ownership structures, and on the development and use of ownership reports: will they increase political awareness and interest; will they stimulate the development of longer-term, more coherent strategies and contracts; and will they lead to the institutionalisation of management and monitoring functions in the municipalities?

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Notes

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² Other local government agency structures with own boards are trusts and IKSAM (inter-municipal cooperation regulated according to the Local Government Act of 1992, §§ 27 & 28).

³ A limited municipal company can be wholly owned by a municipality or have one or more additional shareholders. As ownership share drops, the municipality's influence over the company also drops. The Freedom of Information Act (Offentlighetsloven) does not apply if public authorities own or control less than 50 per cent of the company.

⁴ Service areas with more than 100 companies, figures from 2009. Information obtained from Statistics Norway.

⁵ There is another group of municipal companies, established pursuant to §11 in the Local Government Act. It constitutes 6.2% of the municipal agencies. These companies are not included in our study, due to insufficient information.

⁶ In September 2012 Team Norville KF lost its status as KF and was integrated in the municipal administration, now as a staff function directly under the authority of the CEO.