

# **Developing an Open Governance System for Local Development**

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*New perspectives on governance represent a general response to the dramatic increase in the complexity of the social world. In the paper we survey the current problems related to local government, in order to understand how particular governance structures work. The paper develops a solution to these problems, based on the choice and implementation of several interventions, representing broad and democratic participation from local stakeholders, and resulting in an open governance system with great capacity for collective action and local development. We use this theoretical framework to analyze the governance of a town center retail system and its need to develop a regional competitive position.*

## **INTRODUCTION**

Open governance refers to practices which ensure the citizens have access to government (information, data, processes) in order to engage governments more effectively and that government has the willingness and ability to respond to citizens and to work collaboratively to solve difficult government issues. It should facilitate an active dialogue between government and its citizens, but this does not seem to be an easy task as long as government is mainly based on hierarchical forms of government.

A major argument in the literature dealing with new perspectives regarding government and coordination of social development, refers to an increase in new forms of so called “governance” as a result of increasing social complexity. Such complexity makes it difficult to base governing practices on mechanisms like market and hierarchy alone. The new perspectives on government and coordination are, in this way, a general response to the dramatic increase in the complexity of the social world. It is this increasing complexity which is worrying theorists and practitioners, particularly when the complexity is related to problems of local development, which is characterized by mutual dependencies between relatively autonomous local actors which cannot any longer have their activities coordinated by central planning within a hierarchical structure or market based system (Jessop 2002). If we add increasing problems of openness and democratic participation, it is clear that we need to develop new approaches to local development. This is our topic in this paper, which is mainly based on research done in a Norwegian context. Nevertheless we consider our discussions to have broad relevance for other types of context.

In the following sections of the paper we first briefly survey the current problems related to local government, in order to understand how particular governance structures work. Then we will propose an approach to the development of an open governance system, partly based on social systems theory, with its orientation towards problems of complexity registration and reduction. Next, in a practical illustration we use this theoretical framework to diagnose a town center situation and its need to develop a regional competitive position. Central questions are: How can we change a governance system to be more openly

collaborative and transparent? What influence does language have on governance systems and how can changes in language and symbolic media be connected to changes in governance.

Solutions to these questions will then form the basis for choice and implementation of several interventions, representing broad and democratic participation from local stakeholders, and resulting in an open governance system with great capacity for collective action and local development.

## **WHAT ARE THE CURRENT PROBLEMS RELATED TO OPEN GOVERNANCE OF LOCAL DEVELOPMENT?**

In the democratic ideal for government, which is hierarchically based, political actors exercise power as representatives elected in democratic elections. In recent times, however, a network oriented form of government – governance – has increasingly been chosen as an alternative to the democratic ideal (Rhodes 1997). We are, as mentioned, witnessing a transition from government to governance. Some of the driving forces behind this development in Norway, in addition to increased environmental complexity, are (Østerud, Engelstad & Selle, 2003):

- Increased orientation to and demand for results within the public sector. The important issue nowadays is not to have governance which is representative, but rather governance which is responsive.
- The economy of cities and local communities is to a large extent determined by central authorities, which increasingly require more efficient local administrations, preferably in partnership with private sector actors.
- The dominating idea that larger scale in city and local administration makes for more efficient services, and consequently cities and municipalities are under pressure to collaborate in networks.

The result is local governance systems which is subjected to pressure and increasingly characterized by networking and fragmentation. Results from the Norwegian City Research Program (Fimreite, Medalen & Aars, 2005) show several trends which contribute to making governance increasingly fragmented, creating situations where a variety of interests and stakeholders produce their own plans and analyses, which then have to be subjected to political evaluation. While local and regional development previously could be based on broad consensus regarding the rebuilding of the country after the war, today there is less consensus, making collective action difficult if not impossible. There is a greater variety of local interests and objectives, and many of them are contradictory; as for example objectives related to preserving the environment versus objectives related to economic efficiency.

Results from the Norwegian City Research Program (Fimreite et al., 2005) show that several types of networks can normally be discerned, among them:

- A variety of networks which may be characterized as **protest networks**, composed of ad hoc groups or various forms of organized protest movements.
- **Producer networks** which may be groups of economic stakeholders that organize themselves and seek to form alliances with other stakeholders to promote their interests.
- **Professional networks** which may be established in connection with the planning and implementation of large development programs.
- **Consumer networks** which may be alliances between people working to influence the consumption of particular products, which they either consider to be beneficial or detrimental in some sense.

The question is whether such forms of networking may be considered to constitute forms of open governance which are better suited to facilitate accountability, transparency and secure collective interests? Many have voiced doubts about this. It is clear that not everybody who participates in these kinds of networks can be supposed to be rational actors (Fimreite et al., 2005), but rather show cognitive limitations in their behavior resulting in bounded rationality. Some of the participants are active and

persistent with great knowledge about city planning, even if they represent special interests as private property developers. Others are sectorial fanatics who are using every opportunity to promote their particular cause. In the opinion of many, this has resulted in a division of labor regarding city and local planning which do not function, and there is a need for new institutional systems which are better and which can facilitate forms of open governance that can take care of collective interests related to city and local development (Ellefse, 2003).

Hence, a central topic regarding more effective forms of governance, has been the possibility for developing what may be called self-governing networks, as a type of networks that can take care of collective interests without constant political monitoring. Political monitoring and control then will have to be based on value mobilization within the network. Basic values are communicated to a group of major actors, which in the next round, further communicate these values to other stakeholders and participants. In this way public guidance becomes a part of the value based common goods in a network, and the values will be further transmitted through socialization and learning.

However, a problem with this form of guidance is that it is difficult to get hold of and even more difficult to oppose (Fimreite et al., 2005), resulting in less openness. Under this kind of governance, the welfare state will not appear to be particular good, but rather appear to be standardizing, paternalistic and totalitarian. Besides, socialization and internalization of values as a basis for coordination, in our opinion represents a rather naïve perspective on social behavior. Like Giddens (1979) we consider social actors to be knowledgeable actors, but we have to explain what kind of knowledge is needed to secure collective action in open governance systems based on self-organization. This is the reason behind our choice of social systems theory (Luhmann, 1995), which we in the next section present as a meta-theoretical perspective for studying the development of open governance systems.

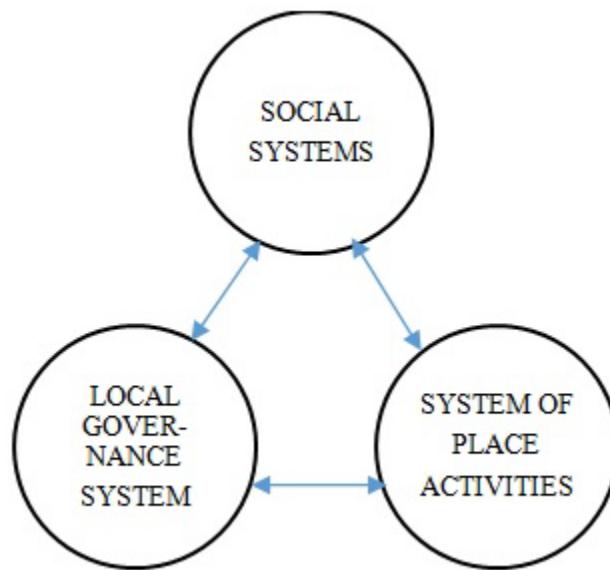
## A SOCIAL SYSTEM APPROACH TO DEVELOPMENT OF OPEN GOVERNANCE SYSTEMS

Let us as a starting point, to avoid confusion, mention that we are in effect dealing with three different types of systems, or system perspectives, in this paper:

1. Social systems as communication systems represented by various types of communications related to local actors and activities, including governance.
2. The local governance system, as a specialized social system, where the communications are oriented towards coordination of local development activities.
3. The local community or place as a system of activities, for example industrial production, where the activities are often functionally differentiated and spatially integrated.

We illustrate this in figure 1.

**FIGURE 1**  
**TOPOLOGY OF SYSTEMS IN DEVELOPMENT WORKS**



Our discussion in the following is mainly oriented towards treating the governance system as a social system, but at the same time also oriented towards developing the competitive position of local place activities, which in our case illustration are activities related to a town center retail system.

#### **The Elements of a Social System Approach**

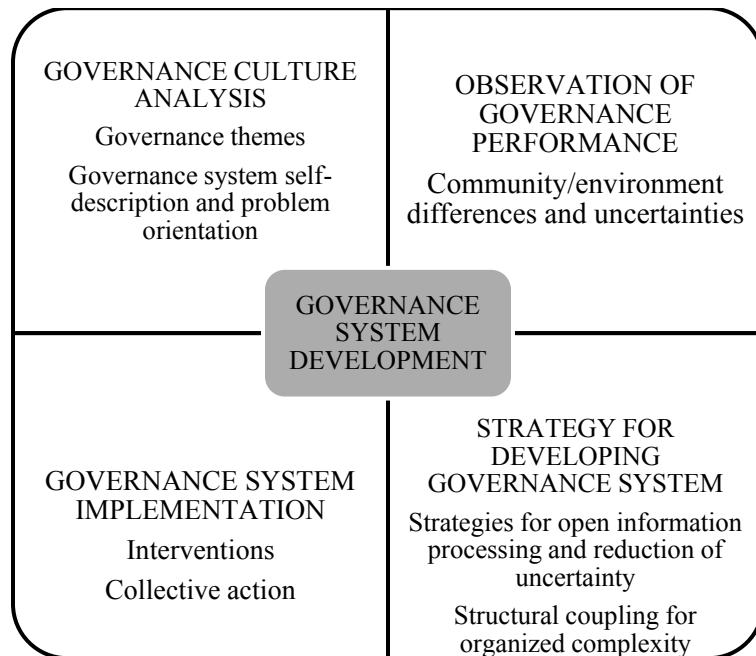
It is doubtful whether a single theoretical basis for an integrated framework for local development practices can be found. Not only do we need to consider various theoretical approaches to local development, but we also need what may be termed a meta-theoretical perspective in order to evaluate theoretical approaches and show how they can be used in some sort of combination in a framework for supporting governance of development activities.

Our candidate for the meta-theoretical perspective is social systems theory (Luhmann, 1995). Using this as a basis for recruiting other perspectives, including action research and organization design theory, we have arrived at a theoretical approach which has four basic elements:

- The governance culture as a thematically specialized social system.
- Observation of the local community as a system of place activities and the governance performance which can be related to this system of activities.
- Governance development strategies, oriented towards dealing with uncertainty and information processing capacity.
- Implementation of the selected development strategy as a basis for increased openness and collective action.

An overall conceptual model of these elements is shown in figure 2. In the following we will explain these elements in more detail.

**FIGURE 2**  
**ELEMENTS OF GOVERNANCE SYSTEM DEVELOPMENT**



### **Governance Culture Analysis**

The model indicates that an analysis of the governance system as a social system, and as represented by all types of communications (texts, reports, plans, documents, conversations and other types of symbolic expressions) related to the governance of local development efforts, should tell us something about how the local stakeholders observe their environment and its relations to the place. With what kind of themes do they characterize the place and its relation to the environment? How do the themes, as elements of the governance culture, indicate how the stakeholders define problems related to community and possible solutions?

### **Observation of Governance Performance**

How effective is the current governance system? This will normally manifest itself in various forms of system/environment differences, like market shares, trade balances, tourist visits, local employment, etc. Such differences are symptoms of uncertainties which the local stakeholders are faced with. Studies of industrial districts (Piore & Sabel, 1984, Best, 1990, Camagni, 1999) show that places are faced with many kinds of uncertainties:

- Uncertainty regarding place environment
- Uncertainty regarding place characteristics, in particular prevailing functional structure and systemic contradictions
- Uncertainties regarding place boundaries, collaboration and organization of stakeholder networks
- Uncertainty regarding future directions for place development and the need for governance capacity.

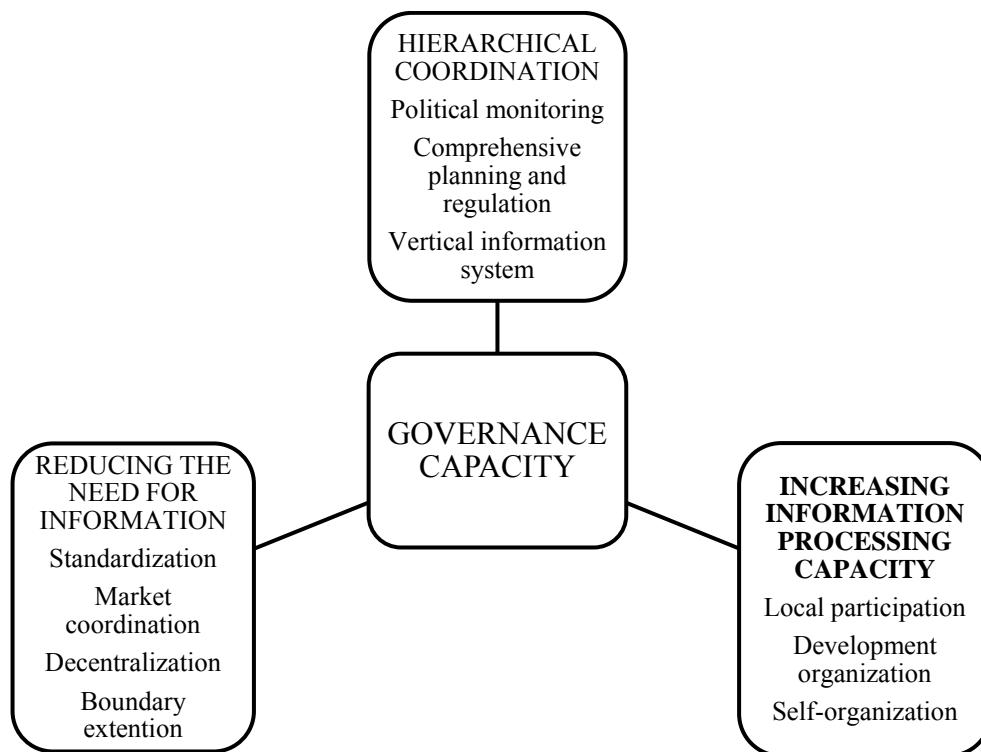
### **Development Strategies for Governance System**

Uncertainty implies a need for information and openness. The traditional means or mechanisms for information processing, market and hierarchy, typically lacks the information processing capacity to deal with increasing external complexity and internal need for coordination as a result of rapidly increasing

functional differentiation. In this respect, they are often subjected to lack of transparency and democratic participation. Consequently we have to find supplementary mechanisms or ways to deal with the increased need for information processing capacity and open stakeholder participation.

A development strategy for influencing governance system and information processing capacity, will normally have to balance the need for information in relation to the capacity of various coordinating mechanisms to supply information. No system can achieve a complete balance between the need and the supply of information, as the environment will always be more complex than any system. Figure 3 illustrates that if we want to influence the need and supply of information related to governance capacity, there are basically two strategies to use in combination with, and as a supplement to the basic governance mechanism of hierarchical coordination and regulation. Either we can reduce the need for information with an increased use of market mechanisms and other ways of reducing the need for information, and/or we can employ ways of increasing our information processing capacity, based on interventions and networking. Such interventions not only provide more information processing capacity, but also function as devices or mechanisms for connecting or coupling the various functional systems and local stakeholder groups more effectively than hierarchy and market mechanisms (Galbraith, 1973, 1977; Lawrence & Lorch, 1967).

**FIGURE 3  
INFORMATION PROCESSING STRATEGIES FOR COORDINATION AND INFLUENCING  
GOVERNANCE CAPACITY**



### Governance System Implementation

In making a choice of interventions and implementing the chosen strategy for information processing, we have to realize that information by itself does not guarantee collective action. Hence, we not only have to make a choice of interventions, but also clarify the conditions for collective action.

At first, one would be inclined to think that making the basic hierarchical mechanisms for coordination and governance more effective, should be a first priority. Traditional organization theories

(Mintzberg 1993; Galbraith 1977) maintain the hierarchy or strategic apex as a necessary condition for securing collective coordination. However, in self-organizing networks, collective coordination to a large extent has to be secured by other means. Traditional organization theories do produce some insight into the generative mechanisms of complexity reduction, but not, in our opinion, how structural complexity can be used to contribute to a collective capacity for action.

Neither is there much to be expected from utilization of what may be termed vertical information systems, which, as a central element of government planning, are more or less synonymous with the use of hearings. A survey of the use of hearings by public authorities in Norway (Moen et. al. 2004) revealed that the authorities basically saw no need for supplemental information in most of their planning efforts.

As regards greater use of market mechanisms and market outsourcing, this may be preferable in situations where the price mechanism alone will provide the necessary information for effective governance. This, in turn, presumes that we are dealing with development activities of fairly standardized and well known types, and which are not particularly interdependent or requiring inter-organizational coordination. The interdependencies, if any, are of a sequential type or related to dependency on common resources. Hierarchical and market mechanisms are usually fairly well suited to secure the necessary openness and coordination in such situations (Scott 1981).

The situation is quite different when the governance system has to deal with problems characterized by mutual interdependence, external and internal complexity and lack of basic information and knowledge; in other words the type of problems that we are dealing with in this paper. Such governance problems will normally require the orchestration of a multitude of intervention to cover the various types of uncertainties and need for information facing the local stakeholders.

It remains, however, to discuss in more details the conditions for collective action. As a starting point, let remark that social system theory in many ways represents a discursive approach to collective action (Hardy, Lawrence & Grant; 2005, Hargrave & Van de Ven, 2006), where interventions and the accompanying conversations produce and present what may be called discursive resources in the form of concepts, models, schemes, structures and other symbolic media. When applied in various interventions, we found that these resources reduced uncertainty, because they functioned as information processing devices, connecting and coupling place stakeholders. Interventions thus contribute to the creation of a collective place identity that exists as a set of themes with associations and concepts related to community and place development (Kalandides, 2011; Levy & Weitz, 2008; Lucarelli & Berg, 2011; Zenker, 2011), and the governance of these development efforts.

The discursive construction of a collective identity enables participants in community and place development to construct themselves, the community and place, its problems and solutions, as part of a collaborative framework, or milieu, in which the capacity for joint action is significant. A discursive approach situates the collective community and place identity in the language and the semantic for community development. When action takes place, it does not follow any plan or formal agreement, but rather shows group behavior, which characterizes the work of a collective mind (Asch 1952; Weick & Roberts 1993). In this way, participants construct their actions, while envisaging a social system of joint actions, and interrelate that constructed action with the system and place that is envisaged. These constructions create a joint situation of interrelations among activities, which can be referred to as part of an open governance system or form of self-organization. In this process, structural couplings which represent or facilitate the use of structural or organized complexity, play a crucial role, and are a necessary requirement for developing what we repeatedly have referred to as open governance based on a collective capacity for action. If internal complexity (and the related uncertainty) is reduced too much, this will leave little room for individual development of subunits and innovation within the structural constraints that are given by the schemata or models for structural coupling, which subsequently form the basis for structural or organized complexity.

In the final section, we present a case, which illustrates a practical application of our theoretical approach.

## PRACTICAL ILLUSTRATION

As an illustration we will present in some detail the results from a development project based on interventions in the town retail system of a Norwegian town, Porsgrunn, population 35.000, where the retail system is constituted by functional subsystems and groups of stakeholders, including the municipal political/administrative system, the local association of retailers, retail center organizations including shopping centers, independent retailers, property owners, and customers. Improving the town's position relative to its environment and developing it as a competitive destination, were the main objectives for our interventions. In this project, we employed a variety of intervention based on various theoretical perspectives, including action research (Gustavsen & Engelstad, 1986), organization design theory (Galbraith 1973, 1977), and strategic management theory (Levy & Weitz, 2008).

### Governance Culture Analysis and Diagnosis

As a start, we analyzed the governance system related to the town center as a social communication system as it was represented in various conversations, texts, documents, plans, physical and material appearances, or was recalled in interviews with stakeholders. This showed how the development of the town center had regulated and steered by a variety of themes, representing a poorly developed semantic for governance of place development. It further showed a rudimentary knowledge of the basis for town center competitiveness and development of the town as a competitive destination.

### Observation of Governance System Performance

Our analyses further revealed that the planning authorities and place stakeholders had limited ability to observe and reflect upon themselves as a competitive retail system and its environment. There was a lack of open governance and limited ability to see new possibilities for innovative action. New formats and organizational forms were mainly considered to be examples of unfair competition and a favoring of new developers by the municipal authorities, who, on their part, were looking for new opportunities for job creation. The governance system was not able to describe itself as a collective action system and interdependent network of public and private activities, and there was lack of openness and little motivation for collaboration.

We were consequently faced with the task to find out how these kinds of uncertainties and conflicts could be managed with the appropriate choice of interventions for the development of increased information processing capacity and a more open governance system.

### Development Strategy

The development strategy chosen was based on implementation of a set of interventions and the subsequent broad dissemination of the results to local stakeholders:

- A dialogue conference based on broad and democratic participation.
- A second dialogue conference with the presentation of a strategic narrative, which included the structural design of a comparative town center in Scotland, and which stimulated to the establishment of a town center management (TCM) organization in Porsgrunn.
- Strategic analysis of retail trade balances and customer behavior. Presentation of a generalized structure plan for the functional and spatial structuring of the town center as basis for the development of an open governance system and collaborative action.

*The dialogue conference* (Gustavsen & Engelstad, 1986) was a one-day conference with 114 participants, representing all the major town functional systems and groups, including the political leadership with the mayor. The conference worked on three major tasks related to local development: a) Developing a vision for the town as a regional center; b) Solving the structural problems facing the center; and c) Propose a collaborative development organization for implementation of the solutions resulting from b). The results showed broad consensus regarding the future of the town, branding it as a leading regional center, but produced little or no consensus regarding functional and spatial differentiation

of the center, how to organize the development work, and how to realize the vision. The reason for this seemed to be that place stakeholders are typically faced with uncertainties in the form of systemic contradictions (Giddens, 1979) and dilemmas. Examples of such dilemmas are:

- Should independent retailers compete or collaborate with shopping malls? Most independent retailers felt the competition from the new shopping mall “Down Town” at the end of the High Street and fought its plans for extension, but realized that they needed the mall to attract regional customers, which eventually might also end up shopping in the High Street.
- Should the town retailers compete with the other regional towns, or consider themselves as part of a greater regional system (stretching the system boundary and providing opportunities for further functional differentiation)?
- Should the municipal authorities participate in strategic business project development, or limit their participation to land use regulation and public works (which in effect results in town center fragmentation)?

During the first intervention it became clear that such questions and dilemmas cannot be solved by conferences and negotiations alone, but need the development of more effective concepts and media for structural coupling of the various functional subsystems. It resulted in a consensus about an overall vision for town center development, but no motivation for collaboration and investment in town center development.

Our second intervention was based on *a narrative presentation*, telling the history of the revitalization of a Scottish town center, Falkirk which we had visited during the Porsgrunn project, interviewing Falkirk city officials and documenting the revitalization efforts. In Falkirk, this had resulted in a kind of collective consciousness that had functioned as a basis for developing and pursuing individual development projects, as well as participating in collaborative efforts, including the establishment of a town center management organization.

As a result of the narrative presentation in Porsgrunn, the public authorities and the retailers association, as well as other stakeholders, subsequently agreed to establish a similar town center management organization in Porsgrunn, as the one in Falkirk. In effect, this established a more open channel between the public and private sector. As such, the town center management organization scheme functioned as a structural coupling mechanism between the two sectors. But there were no explicit constitution of overall town center/environment differences to explain the loss of competitive advantage, and consequently less motivation for public and private investments, which in our opinion were needed if the town center was to reach its objective of becoming a leading regional retail center.

Our third intervention was *a strategic analysis of town center/environment differences*. It had become clear that the town center was still facing considerable environmental uncertainty due to lack of information regarding environmental complexity. We decided to use the trade balance for the town retail system as an expression and indicator of the overall town center/environment difference. The trade balance, which is measured as the relationship between the total sales of the retail system and a corresponding measure of the consumption by the town population, can be differentiated along categories of goods and indicates the degree to which the town has a surplus or deficit of retail trade.

Furthermore, in a survey of regional shopping behavior, we interviewed regional customers about their associations regarding the choice of regional shopping places. Gaps in the attractiveness of various regional town centers could then be related to shopping behavior and shopper's choice of places to shop for various commodities and services, and the expressed reasons for these preferences. This in effect represented a differentiation of the town center environment and a reduction in external complexity as well as uncertainty. The analysis indicated that further development of the functional differentiation and development of Porsgrunn town center, could make it even more attractive as a regional shopping destination.

## The Emergence of an Open Governance System and Collective Capacity for Action

On the basis of the results from the interventions up to this point, we started to look at the spatial ordering of the town center in Porsgrunn, and made several recommendations, in particular recommending a further functional differentiation and specialization related to retail formats and commodity groups, in order to strengthen the center's role as a regional destination. This in effect implied a considerable extension or stretching of the retail system boundary, as the local participants, including the municipal authorities, increasingly saw themselves as partners and participants in a greater regional network, motivating further functional differentiation and regional specialization, and not only remaining regional competitors for the same customers with the same goods.

In addition we presented as a generalized design for the town center retail localization structure, solving problems which had been related to the conflict between shopping malls and independent retailers in the main street. As such, the design formed the basis for a collective and binding structural solution, which, at the same time, provided opportunities for development by the independent retailers. In the language of social system theory, this represented a process where external, environmental complexity was reduced and possibilities for an increase in internal, organized complexity were created.

Our recommendations were presented at several open stakeholder group meetings and were widely discussed. This resulted in the initiation of several major development projects by the public authorities and private investors, which subsequently produced the necessary functional and spatial differentiation necessary for achieving a sustainable competitive advantage. Interviews with local retailers and city officials confirmed the development of a collective place identity, where most stakeholders increasingly saw themselves as partners in an open governance system and self-organizing network. Several of the development projects have been completed today and contributed to Porsgrunn's position and as a leading regional retail.

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