
I. Setting the Scene

Challenges to the State, Governance Readiness, and Administrative Capacities

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How can states address future energy needs, communication patterns, or social integration? How can public services adjust to the challenges of changing demographics, of climate change, or, more immediately, of fiscal austerity? What kind of administrative capacities are required of the state to meaningfully contribute to tackling today's policy challenges?

These three questions are at the heart of debates about the contemporary state and are the focus of *The Governance Report 2014*. Though they are not of recent origin, they assume new urgency in a context in which not only the size, but also the role of the state are under scrutiny. States are said to lack the authority and capability to solve the many challenges facing

societies today. Furthermore, in an age of international and national power dispersion, the idea that states are able to resolve the issues of ageing societies, mobile populations, climate change, and energy generation and transmission on their own is, at best, fanciful. These are genuine transboundary problems, if only because the decisions of one country are ever more likely to impact on others. Indeed, fundamental disagreements exist as to what the role of the state should be in addressing these challenges. This uncertainty about the state's role has also put the importance of cooperation among states and non-state actors into stark relief. States are in an interdependent relationship with non-state actors at the national and international level in addressing, or at least mitigating, contemporary policy challenges.

This questioning of the authority and capability of the state places the spotlight firmly on governance, the interdependent co-production of policies among state and non-state actors across different levels. Even when states and non-state actors operate in coordinated ways, the reliance on collaborative problem-solving at the transnational, national, and local levels is surely tested by today's challenges. As Kaul (2013) noted in *The Governance*

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Report 2013, considerable capacities for good governance do exist, especially at the transnational level. However, much work is required to exploit these capacities for actual problem-solving and, ultimately, the exercise of 'responsible sovereignty' (Kaul 2013).

The Governance Report 2014 is about the way in which governance capacity can be realised to address core challenges facing states (and their populations), focusing primarily on OECD countries. The Governance Report emphasises the importance of governance readiness. It is therefore not about advocating any specific recipe (such as 'more liberalisation' or 'more performance management') to address contemporary challenges. Instead, the notion of readiness combines a number of dimensions. It is about issues of resilience and preparedness, it is about interdependency and coordination between state and non-state actors, and it is about the availability of tools to address policy problems in sustainable ways. Governance readiness requires the presence of agreed goals and objectives that inform the identification of problems and the type of responses to address these problems; the presence of appropriate tools to identify challenges and problems; and the presence of a range of resources to address these problems. Finally, it assumes that benevolent governance that is mainly concerned with addressing policy problems is possible and that governing is not merely about the expression of (short-term) political power and material self-interest.

Such an understanding of governance readiness raises a number of questions. First, how can systems of governing improve in terms of learning and cooperation, especially as the tried and tested ways of exploring and exchanging supposedly 'best practice' via international organisations such as the OECD have, at best, a mixed record? Second, what resources are necessary and available both to address the actual public problems and to enable the interaction among the various actors that is essential to doing so? Third, and even more problematic, how can contemporary states, in particular in OECD countries, contend with an ageing society and climate change while dealing with sovereign debt crises and depleted public finances? An emphasis on readiness, therefore, is concerned with the creation of conditions in which state and non-state actors achieve active problem-solving rather than politically astute deckchair arranging that postpones difficult choices. Indeed, to maintain governance readiness requires innovation.

The Governance Report 2014 is about the contribution of bureaucracies or public administration (the words are used interchangeably throughout) to governance readiness. In particular, we explore how contemporary states display problem-solving capacity through innovation and how different administrative capacities can contribute to innovation.

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The Governance Report 2014 argues that:

- Any discussion about governance readiness requires a debate about the kind of actual competencies we expect bureaucracies to have. Such a discussion cannot be held at the generic level: A bland and abstract contribution that calls for public services to be 'fit for purpose', 'more responsive' to political and citizen demands, or more 'Weberian' is unhelpful. Instead, such a debate needs to be problem-centred. It needs to ask what the problems in contemporary governing are and what kind of administrative capacities might be required in different settings to address these particular challenges. In Chapter 2, four different administrative capacities are discussed: delivery, regulatory, coordination, and analytical. Delivery capacities deal with 'making things happen' at the policy frontline (i.e. the interface with citizens), regulatory capacities with oversight, coordination capacities with bringing dispersed actors together to achieve problem-solving, and analytical capacities with forecasting that informs decision-making.
- To contribute to discussions about governance readiness, it is important to have a closer look at the ways in which states have addressed contemporary governance challenges. In particular, the discussion needs to focus on how innovative policy solutions have utilised and depended on particular (mixes of) administrative capacities. Such learning from others' experience does not simply rely on a 'read across' of what today might be considered 'best practice'. Rather we need to look carefully at why and how certain interventions bring about change that is seen as beneficial and then explore how such experiences could be incorporated within the context of another system, what Bardach (2004) calls an extrapolation-based view on learning.
- We need to look at innovation in a way that systematically links innovations to administrative capacities, i.e. how certain innovations can address capacity limits, what kind of administrative capacities are required for making governance innovations work, and what the overall impact of governance innovations on administrative capacities is.
- We need to look for ways to evaluate empirically the central aspects of bureaucratic (administrative) capacity as conceptualised in this Report. To this end, in Chapter 5, we present a dashboard of indicators that address, from multiple perspectives, the four capacities we highlight. We move beyond the ranking approach adopted by many indicators projects, providing instead data that can be used to address the analytical and policy-relevant questions we raise. The data look at the existence of formal institutional provisions as well as at the outputs of the administrative process, and make it possible to detect patterns and possible links between those formal rules and administrative output.

- Any discussion about the future of administrative capacities has to understand the context in which bureaucracy operates. It should therefore avoid imposing overwhelming demands on bureaucracies that will only lead to disappointment. Innovation and capacity-enhancement have to take place in the context of a realistic understanding of what administrative systems are able to do. This requires taking into account the logic and rationale of bureaucratic action, which is about standardisation and routinisation of activities.

In this chapter, we explore the wider context of this Report. In the next section, we show why governance readiness matters. Then we point to four key areas that define contemporary statehood in our view and that are at the heart of ongoing and future public problem-solving. We then turn our attention to issues of capacity and innovation.

Governance Readiness and Why It Matters

Governance readiness involves preparedness and the ability to solve problems. In the Hertie School's *Governance Report 2013*, governance readiness was associated with six key 'governance requirements'. Though these six requirements were identified in relation to global public policy challenges (Kaul 2013), they ultimately can be applied to any level of governing. Table 1.1 translates them into administrative capacity requirements. All six emphasise the importance of mixing elements of predictability and discretion in administrative action. Indeed, they highlight the various types of administrative capacities that are at the heart of this Report, ranging from the analytical capacity to understand policy challenges in their transboundary setting, the coordination and regulatory capacities to bring together and control dispersed set of actors, and the delivery capacity to ensure that certain services are provided.

Governance readiness requires a careful discussion about how to adapt to contemporary challenges based on the notions of anticipation and resilience. Anticipation suggests that certain problems can be imagined and predicted. Actors, in turn, can mobilise resources to either prevent these events from happening or mitigate their impact. For example, flood barriers can be built, energy needs can be met by expanding generation and network capacities, or the effects of climate change can be at least mitigated or prepared for. Anticipation, therefore, assumes a degree of certainty about the likelihood of a particular event happening and what kind of impact it will have.

However, many, if not most, of the challenges that states face today are associated with uncertainty and disputes as to the potential severity of the problems and how to address them. Governance readiness is there-

Table 1.1 Global governance requirements and administrative capacities

Governance Requirement (GR) of Global Policy Challenges	Administrative Capacity Requirements
GR1: Averting the risk of dual —market and state—failure	Understanding the risk of both market and state (i.e. government/regulatory) failure
GR2: Fostering the fairness of international cooperation as a means of stimulating willingness to cooperate	Understanding the importance of collaboration beyond existing domain or national boundaries
GR3: Enhancing the management of cross-border spillover effects	Willingness and understanding of transboundary effects of national policy challenges and decisions
GR4: Promoting result- and issue orientation	Consideration of different administrative values —efficiency, fairness and resilience—in problem-solving that goes beyond turf-protection
GR5: Recognising the global public domain as a policy space that requires strategic leadership	Understanding that transboundary challenges require national <i>and</i> transnational analysis and action, i.e. also require administrative capacities at (sub-)national level
GR6: Recognising policy inter-dependence	Understanding policy interdependence and connectedness

fore about being 'ready' if an unexpected surprise occurs, not just when the expected happens. Thus, given conditions that put into question strategies based on anticipation, governance readiness is about resilience and adaptive capacities. Resilience requires actors to be sufficiently resourceful to be able to bounce back once a potential risk becomes reality. For example, energy systems can be brought back quickly after a disruptive storm, flood plains reduce the potential costs of storms, and communication flows are encouraged by allowing for diverse technologies to exist rather than putting one's faith in one single technology or provider.

The contemporary setting is particularly troubling for governance readiness when seen through the lenses of anticipation and resilience. Innovative solutions are called for given the prospect of exploding health care expenditures associated with ageing, mushrooming costs associated with the mitigation of severe weather events, challenges brought about by the potential spread of epidemic diseases, and the need to facilitate social and economic life by providing expensive infrastructure, whether this relates to energy, transport or information technology. We do know that ecological systems have deteriorated in the wake of resource depletion and/or pollution or where demography is likely to cause considerable burdens on welfare states. However, the consequences of the destruction of ecological systems or of an ageing society, the possibilities of new technologies, or the overall implica-

tions on future generations are less known. States are unlikely to have the resources to address these challenges on their own, even if they wished to do so.

These examples also highlight the centrality of uncertainty that underpins most contemporary governance challenges. No simple, uncontested decision rules exist as to what kind of resources should be devoted to any single problem. Uncertainty also exists about what kind of solutions should be pursued and what sort of evidence (and burden of proof) should be applied before commencing on any particular solution. Choices require trade-offs between different values, such as efficiency, fairness and redundancy, as the long-established literature on ‘wicked problems’ (Rittel and Webber 1973; cf. Verweij forthcoming) suggests. This is a problem given not only the considerable opportunity costs that are involved in the pursuit of any particular option, but also the risk that any solution may turn out to be a white elephant that will face widespread condemnation in the media, parliamentary accounts committees, and other public bodies. The search for agreeable problem definitions and solutions is even more problematic when transboundary solutions are required, given the frequent lack of political legitimisation of such decision-making.

Readiness therefore relies on resilience and adaptiveness: it is about creating and maintaining the conditions in which state and non-state actors are capable of developing problem-solving approaches.

It is a highly demanding condition: it demands openness to new information and actors, it needs established communication channels between state and non-state actors, and it requires agreement on the over-arching value of collaboration even when other values may be contested. In other words, governance readiness necessitates continuous updating or adaptation, and it also requires the resources to address multi-faceted problems. In addition, governance highlights that power and resources are, at best, dispersed. In short, governance readiness requires continuous adaptation, not only the application of grand, or not so grand, blueprints.

Why then does governance readiness matter?

First, governance readiness involves, as noted already, the creation of conditions in which problem-solving is possible as the resources of different state and non-state actors are brought together. One of the key functions of the state is generating the conditions that will allow its population a flourishing social and economic individual life. Such conditions have required states to engage in activities that nowadays are seen by many to be at the heart of statehood. These are the provision of welfare, infrastructure, sustainability and societal integration.

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In the majority of this Report we concentrate on these four areas that, we contend, define statehood. They represent a particular cost driver and represent particular challenges for states, especially in the OECD countries that we examine:

- the **welfare state**: in particular, we focus on the health care costs associated with ageing populations;
- the **integration state**: in particular, the way in which the changing demographics and the official aim to encourage (selective) immigration are addressed;
- the **infrastructure state**: in particular, the way in which the provision of high speed broadband has been encouraged;
- the **sustainability state**: in particular, the way in which states have taken measures to deal with the challenges associated with different forms of energy generation.

Second, governance readiness matters in order to understand the continuing centrality of the state in constituting and facilitating governance systems involving non-state actors. It cannot be assumed that actors cooperate voluntarily against their short-term interest. States' resources to coerce, to allocate and extract resources, to mediate, and to control are as yet not matched by other organisations. However, under conditions of power dispersion, i.e. where power to do certain things (and therefore also the possession of resources) is spread across state and non-state actors that are located at different levels, governance readiness requires a differentiated view as to what states can do; most of all, it cannot assume conditions under which solutions can be imposed hierarchically, even if that might be seen as desirable.

Third, governance readiness is fundamentally about administrative capacities. In this Report, particularly in the following chapter, we ask what the role of public administration or bureaucracy is to enhance readiness. Suffice to say that such questions have much wider implications for public services. Expecting bureaucratic actors to have particular skills and competencies raises further questions as to how such skills and competencies should be attracted and on what terms, and to whom such actors should ultimately be loyal. Thus, reflecting on administrative capacities also raises wider debates about changing emphases within 'public service bargains' (Hood and Lodge 2006; Lodge and Hood 2012), i.e. the formal and informal understandings that shape the relation between politicians and bureaucrats, in particular concerning skills and competencies of bureaucrats, their loyalty, and their reward packages. We return to these questions in the concluding chapter of this report.

Fourth, readiness therefore is about establishing the conditions for enhanced governance performance. It contributes to legitimacy in the sense of political and societal actors being capable of and willing to play according

to the rules in a climate in which citizens and other actors can place some confidence or trust in those involved in decision-making. Governance readiness is also about establishing efficacy and effectiveness by focusing on the required resources to enable decision-making and implementation. Thereby, governance readiness directly influences the likelihood that active problem-solving will be achieved (Anheier 2013).

Administrative Capacity and Governance Innovation

Innovation is defined as the intentional and repeated use of non-traditional ways of governing—or the ‘generation, acceptance, and implementation of new ideas, processes, products, or services’ (Kanter 1983: 20). Governance innovations, then, are novel approaches to address particular public problems in more efficacious and effective ways (Anheier and Korreck 2013). Positive side-effects of such outputs are improved outcomes, in terms of both achieving better ‘results’ and enhancing legitimacy.

Administrative capacities are required to facilitate governance innovation itself. In turn, governance innovation can advance administrative capacities. This raises three questions: How can innovation be understood and approached? What particular administrative capacities are required to encourage and maintain innovative practices when it comes to governance? What kind of implications do governance innovations have for administrative capacities? In this section we respond to each of these questions in turn.

Turning first to the issue of innovation itself, this Report offers examples of particular cases that could be defined as innovative in governance terms. That is, procedural or substantive arrangements were used with the intention to achieve particular outputs and outcomes. More generally, innovation can be looked at in the resource-use of the state: what kind of innovative resource uses do we find where states have sought to contribute to problem-solving in a multi-actor setting? We distinguish between four resources: finance (i.e. to pay or tax actors to do something); information (i.e. to inform actors about the consequences of some kind of behaviour and thereby shape future behaviours); organisation (i.e. to use the power to house and staff organisations directly); and authority (i.e. to use legal and quasi-legal means to shape behaviour). We can look across national and local examples of governance innovation by focusing on the way in which these four resources were creatively and innovatively brought to bear to solve problems. Again, we see this as a further way to advance the level of learning about innovation.

Second, for governance innovation to get off the ground and sustain its momentum, particular administrative capacities are required. To encour-

age particular forms of innovation, such as in financing or procurement, requires one set of capacities rather than others. Similarly, an innovation that involves extensive collaboration and decentralisation places a strong demand on coordination capacities. In short, to generate and sustain governance innovation depends at least in part on the presence of particular administrative capacities.

Third, innovation takes place within a certain 'possibility set' of options that are generated by a particular governance context. A perfect recipe for failure, disillusionment, and unintended consequences is the application of too highly demanding prescriptions to different contexts (see Andrews 2008, 2010). Innovation and a focus on administrative capacities are therefore not about asking for the impossible. It is far more important to consider examples of innovative practices and ask, first of all, what made a particular intervention so successful, and, second, how such a successful intervention could be made to work in a different context. Bureaucracy, after all, is about the routinisation of processes, the specialisation of labour in different branches, and the classification and allocation of specific events to bigger categories. These features, drawn from Max Weber's ideal-type bureaucracy, highlight how difficult it is for bureaucratic public administration to assume a more adaptive approach to problem-solving, since the two understandings about how to 'govern' are fundamentally at odds. Readiness, which emphasises anticipation and resilience leading to adaptive practices that solve problems, and bureaucracy, which emphasises predictability and routinisation, are not natural bed-fellows. The challenge therefore is to ensure that the conditions exist to facilitate readiness.

Measuring Governance and Administrative Capacity

One of the key themes in contemporary public management has been performance management. Organisations have used performance management to incentivise their employees, governments have tried to use performance management to generate improvements in public services through ranking and benchmarking activities, and transnational public and private organisations have also actively engaged in trying to put pressure on governments to reform aspects of their public services through ranking exercises. The debate about what governance indicators seek to achieve, whether they lead to undesirable 'Frankenstates' (Scheppele 2013) in that well-intentioned indicators are aggregated into an unholy mixture, whether they represent particular monocultural worldviews that are imposed on different cultures, and whether they reduce the complexity of actual practices in an undesirable way, is one aspect. The second debate

concerns the extent to which, for example, administrative capacities can be measured through expert surveys or through reliance on output or outcome measures. A third debate focuses on the implications of such governance indicators for advocating particular capacity-enhancing strategies.

With its 2013 edition, the Governance Report introduced its own effort to develop a new generation of governance indicators that would take seriously the notion of governance as a multi-actor, multi-level system, address current governance challenges, and have an analytic and policy-oriented focus, i.e. be more than descriptive. The overall system, which seeks to measure and analyse governance readiness, governance performance, and governance innovation, builds on three dashboards: the Transnational Governance Dashboard, the National Governance Dashboard, and the City Governance Dashboard (see Anheier, Stanig, and Kayser 2013). For this edition of the Governance Report, we focus on the National Governance Dashboard and extend it to include additional variables relating to the public sector's administrative capacity. By presenting data on formal institutional provisions as well as at the outputs of the administrative process, the dashboards make it possible to measure efficacy, effectiveness and legitimacy, all elements of governance performance, and to detect patterns and possible links.

As we hope to show, these indicators provide a useful snapshot of the state of the administrative capacities that are the backbone of governance. The indicator set presented here is, to the best of our knowledge, the most comprehensive set of indicators related to administrative capacities, and the first one that systematically takes into account the governance context of bureaucratic activity. To complement the indicators, we advocate in-depth qualitative studies that go behind the scenes to highlight key bottlenecks and trade-offs in the practice of public administration today.

Of course, measurement, benchmarking and league-tabling have certain limitations. Indicators may reflect particular visions of what public services should achieve that may be more value-laden than is evident at first sight. Looking at observable outputs and outcomes is also difficult when measurement is inherently problematic. For example, it is easy to establish whether a country has adopted performance budgets or not. However, it is far more difficult to go beyond such a tick-box approach in order to find out whether performance budgets are operated in any meaningful way. Similarly, assessing ministries' competency requires an assessment of how ministries go about their job, not whether particular features appear on ministerial websites.

Despite these caveats, high-level indicators are indispensable. They allow for international comparisons as a first approximation that requires interpretation and sense-making. Such a 'hermeneutics of quantitative indicators' not only requires full transparency about methodological choices, it also suggests caution when it comes to aggregation of indicators into overall rankings (hence the dashboard approach to governance indicators followed

here). Moreover, it is critical to combine indicator-based approaches with a perspective that explores how administrative capacities are used 'on the ground', i.e. in attempts to respond to governance challenges.

Conclusion

Governance readiness is about the problem-solving capacities that can be mobilised among state and non-state actors. It suggests that governments on their own or among themselves are not the sole site in which we can expect problem-solving to occur. In such a setting the importance of 'administration' has often been neglected; however, the questions as to what bureaucracy actually 'does' and what it 'should be doing' need to be addressed to develop a meaningful discussion about the future shape of public services. No report can offer a view of future public services that will please all interested parties. However, this Report offers a contribution to a more concentrated and meaningful discussion that is problem-centred. The following chapter therefore develops the notion of administrative capacity, as understood here, with the subsequent chapter illustrating the importance of these capacities through the lens of key governance challenges facing the OECD countries today. Next, we present a set of recent innovations that highlight the interplay between governance innovation and administrative capacity. Then, indicators relating to administrative capacity and some of the outputs of the process are presented and analysed.

Before pursuing these themes further in the following chapters, it should be stressed that this Report assumes that problem-solving seeks to deal with core governing challenges in a benevolent way. In other words, problem-solving is not about the imposition of technocratic rationality on disorderly politics and populations, it is about accepting the tensions that can exist between long-term planning, contested political values, and uncertainty about the future. We have no intention to commit the same mistakes as Beatrice and Sidney Webb who, after being shown select parts of Stalin's Soviet economy, declared that they had seen the future and that the (Soviet) future was bright.

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Furthermore, it is about encouraging responsive governing, namely one that incorporates the legitimate concerns of diverse parties that may be spread across jurisdictions. We also need to acknowledge the context of austerity currently experienced by most OECD countries. Demands for enhanced administrative capacity and governance readiness can always be accused of asking

for more, whether this is more resources for learning, for supporting actors to participate in collaborative governance arrangements, for new technologies that will finally allow bureaucracy to 'break through', or for rewarding public servants better so that they will be more motivated. Any debate about administrative capacity has to take place in the context of limited resources, and even more so in the contemporary age of fiscal and financial austerity.