

## Comparing Agencification in Nordic Countries

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1. This excludes legal courts, since they enjoy an even higher degree of autonomy (Marcusson 2008).
2. This figure is based upon a combination of data from the following sources: SOU 2008:118; Niklasson 2009; Statskontoret 2010.
3. This figure includes about 5000 full time employees at the legal courts.
4. However, which issues reach the political agenda is increasingly decided by neither of these actors, but by the media. The strategy to use the dualist structure in order to keep certain issues away from the politicians is therefore growing less effective (Jacobsson and Sundström 2007).
5. Budget decisions have to be accepted by the Parliament first.
6. A few examples are the Autonomy Investigation, the Committee on Public Administration, and the Committee on Steering.

## 24

### Comparing Agencification in Nordic Countries

*Morten Balle Hansen, Per Lægreid, Jon Pierre and Ari Salminen*

#### 24.1 Introduction

During recent decades a number of public management reforms diffused between the public sectors across the world. The reform movement included a number of organizational innovations often summarized under the label NPM. Agencification in state administration, that is creating semi-autonomous specialized agencies but still in some way hierarchically related to the parent ministry, has been an important part of the NPM movement. The previous four chapters have analysed the agencification phenomenon in each of the four Nordic countries Denmark, Finland, Norway and Sweden. In this chapter we will apply a comparative perspective on the Nordic context and summarize some broad similarities and differences in the organization of the state administration in the four countries with a specific focus on agencification. This analysis is conducted against the backdrop of a long history of agencies in the Scandinavian countries. Unlike most of the Anglo-American democracies, where executive agencies represented somewhat of an innovation, the Scandinavian countries already had an (briefer or longer) experience of agencies, and that experience shaped much of the reform.

In comparative perspective, the Nordic countries are particularly interesting since they display a high degree of similarity on a number of key political and societal dimensions. At the same time, they present striking differences in terms of the organization of the state administration. The Nordic countries are all comparatively small, open and affluent market economies. They are relatively homogeneous countries with consolidated democracies and comparatively high economic equality. The Nordic countries are also characterized by large universal welfare states and an egalitarian culture with low acceptance of power distance. Generally speaking the Nordic political-administrative culture is characterized by a high level of mutual trust between political and administrative executives. Most importantly in the present context, all the Nordic countries have an old and well-established system of central agencies but also a strong international orientation, thus all have been exposed to the reform ideas associated with NPM.

However, the Nordic countries also differ in several important aspects. Perhaps the most important difference when analysing state agencies relates to the institutional models that historically have characterized Nordic state administration. A significant difference between an East Nordic (Finland and Sweden) and a West Nordic (Denmark and Norway) administrative model should be emphasized. The East Nordic model is a dualistic model with strong autonomous central agencies and a government where central agencies report to the cabinet, not to a superior ministry. The West Nordic model, by contrast, is more monistic with closer ties between central agencies and the parent ministry through the principle of ministerial responsibility. Furthermore, there are some important differences in their relations to international organizations such as the EU.

In what follows we first analyse similarities and differences in the current Nordic landscape of agencies followed by a brief comparison of the history of agencification. We then turn to the issue of how autonomy and control are balanced in the Nordic politico-administrative systems. This brief chapter closes with a discussion on recent trends in the agency system in the four countries.

## 24.2 The current landscape of agencies

Comparing the legal status of state agencies in the four Nordic countries based on Van Thiel's typology (see Chapter 2 of this book), the distinction between an East and a West Nordic model seems appropriate. While the majority of state agencies in Denmark and Norway (the 'West Nordic model') are agencies featuring some managerial autonomy but no independent legal status, the vast majority of state agencies in the East Nordic model, that is Finland and Sweden, are agencies characterized by some degree of managerial autonomy and a legal identity based in public law. Following previous research this finding was expected. This pattern seems to indicate that agencification in terms of high agency autonomy is stronger in Sweden and Finland than in Norway and Denmark. For instance, the Danish findings indicate that independent legal status tends to be positively related to higher autonomy and a lower degree of *ex post* control. However, other factors than legal status are likely to be significantly related to agency autonomy (political salience of agency tasks).

Comparing agencification in terms of the number of agencies, Sweden (predictably) tends to display the highest degree of agencification (N=360), although the number of agencies has decreased dramatically in recent decades. Finland (less predictably) has the lowest number of agencies (N=134). Norway with its 311 agencies sits between Sweden and Finland while Denmark has 262 agencies. Although similar inclusion criteria were pursued, parts of these differences may be caused by these different criteria, but it seems reasonable to conclude that Sweden and Norway, in terms of number of agencies, are the most agencified, Finland the least with Denmark in between.

The number of agencies and the degree of autonomy that these agencies enjoy substantiates the path dependency involved in governments' institutional

arrangements, at least in this part of the world. That having been said, the difference between Sweden and Finland in this respect should probably not be accorded too much significance. The number of agencies is to some extent a political numbers game; some governments commit themselves to curbing the number of agencies as this could support a policy of 'reducing bureaucracy' in an election campaign. The relationship between the number of agencies and the overall degree of 'bureaucracy' in any given country is an empirical question; the key factor is the degree of the regulatory scope and reach of the agency system as a whole. In a similar vein, we do not know whether a system with few but large agencies is more easily controlled by the government compared to a system featuring a larger number of smaller agencies.

Furthermore, the data could also be read in a cohort perspective, suggesting that agency autonomy is related to the degree of institutionalization of the agency system so that the longer the experience of agencies the more autonomous the agencies. Again, Finland and Sweden with their longer experience of agencies – Finland was part of the Kingdom of Sweden between 1249 and 1809 – have agency systems which over time have evolved into significantly more autonomous structures compared to their Danish and Norwegian counterparts. The logic of the cohort hypothesis would be that agency autonomy evolves not just from constitutional and other regulatory frameworks but also from the organizational development of the agency and the institutionalization and consolidation of the agencies and the agency system. Note that these are observations that are revealed more clearly across than within national systems of agencies.

Comparing Denmark and Sweden, the Swedish average agency size tends to be much greater than their Danish counterparts. Again, the size of agencies could be a reflection of several factors. One such factor is the recent project of agency mergers in Sweden, aiming at reducing overlaps in the agency system, exploiting economies of scale in the administration, reducing the number of agencies. The difference in agency size could probably also be attributed to the longer history of agencies in Sweden.

The choice between fewer and bigger agencies and more but smaller agencies is basically one of political and managerial consideration as both arrangements have their pros and cons with regards to management and governance. These factors are obviously present in shaping ministry-agency arrangements more broadly as well. There are several common patterns of reform in the Nordic region in these respects. Thus, all the Nordic countries have largely adopted some version of a MBOR model. The reasons for relaxing ministerial control over the agencies include increasing reliance on the agency expertise; cutback management; a gradual turn towards a more neo-liberal policy style emphasizing regulatory policies and marketization; an increasing international embeddedness, particularly in the context of the EU. Similarly, the increased use of regularly negotiated performance contracts in the relation between the ministries and their respective agencies seems universal in the Nordic context. Again, marketization, cutback management and international embeddedness would be likely explanations of this pattern.



### 24.3 History of agencification in state administration

Agencification in the Nordic countries began long before NPM reform hit the shores of the Nordic region. This means that NPM reforms in the 1980s and 1990s, which were implemented modestly in the region, took aim at changing the behaviour of already existing organizations rather than, as was the case in many other countries, launching executive agencies.

In the first decades after the Second World War all the Nordic countries witnessed a significant expansion of the size of the welfare state, triggering a set of challenges to the organization of the public sector in general and the state administration in particular. One response to the challenge was decentralization and delegation from state to regional and local government. Another response was various versions of agencification of the state administration. This agencification process was significantly affected by the previously mentioned East and West Nordic traditions for organizing state administration. In Finland and Sweden there is a stronger historical tradition for autonomous state agencies compared to Norway and Denmark. However, in all four countries a process of agencification took place before the NPM reform of the 1980s and 1990s.

Thus, agencification in the Nordic context was not part and parcel of NPM reform. To be sure, the modernization programmes in the Nordic countries during the 1980s were only moderately affected by the NPM trend of marketization, agencification and MBOR. True, there was growing attention to issues such as performance measurement and to manage agencies by setting goals and objectives instead of relying on conventional instruments of command and control, but to what extent this reform had primarily domestic and path-dependent explanations and to what extent it was driven by NPM influences is ambiguous. We tend to emphasize the importance of path dependent explanations. The sizeable Nordic welfare states were costly to the treasury and there had been for decades, long before the emergence of NPM, a desire to monitor agency performance. Politicians basically wanted hard data on the outcomes of the massive spending on welfare-state services, partly because such information was valuable feedback in the policy process and partly because the financial burden of the welfare-state programmes was becoming increasingly politically controversial. In this perspective, the growing attention in the United States in the 1970s and 1980s on implementation and evaluation research, as well as the development of new budgeting and management techniques (zero-base budgeting, program budgeting), provided more inspiration to the architects of reform in the Nordic countries than the more ideologically charged NPM-reform campaign of the 1980s and 1990s. In other words, if we distinguish between a managerial and a marketization part of NPM, the marketization part had initially only very modest impact in the Nordic countries, while the managerial part (MBOR, management by contract) has shaped the relations between ministries and their agencies in important ways.

In the 1990s a wave of corporatization of large state agencies (railroad services and postal and telecom services) took place in all the Nordic countries formally

reducing the number of state employees significantly. In some cases, this corporatization consisted of transferring large numbers of public-sector employees to a state-owned for-profit company, thus facilitating a more corporate development of the services provided but also, equally important, significantly reducing the number of employees on the state's payroll.

### 24.4 Balancing autonomy and control

We mentioned earlier that all the Nordic countries have adopted some version of management by objectives and results. Much of the Nordic debate concerning how to balance autonomy and control tends to relate to that model, and the more specific arrangements implemented to accommodate these two objectives vary among the four countries. The Finnish and Swedish agencies are somewhat more autonomous *vis-à-vis* their parent ministries compared to the Danish and Norwegian agencies, a pattern which, as pointed out earlier, may be a reflection of the longer history of agencies in Finland and Sweden.

Perhaps the key aspect of the relationship between autonomy and control is which of the two strategies leads to the most efficient administration and management. There is no universal answer to that question and much will obviously depend on the political and institutional context. For instance, agencies in Norway seem to have a more elaborated and continuous dialogue with sub-national government than do their Swedish counterparts. If so, Norwegian agencies require more latitude in relationship to ministries in order to be able to engage cities and regions than do Swedish agencies. Second, politicians in different countries may have different urges and incentives to seek to increase their capacity to steer agencies. In Sweden, MBOR was introduced as a strategy to implement extensive austerity programmes in the early 1990s, a pattern which was not so clearly present in Denmark during its cutback period in the 1980s. Especially in the East Nordic model we see very few cases of government ministries reasserting control over agencies; instead the pattern seems to be that authority once transferred to the agencies cannot be reclaimed. Granting agencies more autonomy has to some degree been driven by the same notions and ideas that propelled the decentralization in some of the Nordic countries in the 1980s and 1990s; ideas that contemporary society might be better governed through devolved governance instead of through a concentration of power and control at the apex of government. These ideas, however, seem to be challenged by recent developments attempting to reinforce the coordinative capacity of the state.

### 24.5 Recent developments

In the 2000s a series of mergers of agencies and various attempts at increasing the coordinating capacity of the state seems to have taken place in most of the Nordic countries. These trends have partly been triggered by attempts at downsizing state administration, but also by attempts at exploiting the potential of



digitalizing public administration. The recent financial crisis has also reinforced the on-going processes of rationalizing and downsizing state administration by strengthening central-steering capacity in most Nordic countries.

At the same time, there is a growing demand for greater flexibility and diversity in the steering strategies used by the government based on the size and the task of different agencies. There now seems to be a growing dynamism in Nordic agency systems, in part as a result of endogenous organizational dynamics and in part explained by the devolution of authority to the agencies.

## Section 2.5

### Agencification in CEE Countries