

## **Civic Enterprise**

### **Tested solution to problems in Higher Education.**

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The collaboration between the University of Cambridge and Microsoft Research is announced as follows:

“a merger of the Cambridge dons and Microsoft uber-nerds-specifically, the establishment of a Microsoft research lab that would work hand in dataglove with the university’s computing centre to invent technologies for the new millennium. In addition, Microsoft will spend some venture capital to juice up the already thriving regional software

industry that feeds off all the IQ points shed by Cambridge”.

For Cambridge the underlying reason is mainly the link-up with global growth markets, collaboration with ‘world-class wizards’ and so offering a more appealing work environment to their own talent. A little further down the article casually reports that Microsoft is going to expand its worldwide research capacity from 200 to 500.

### **THE NECESSITY OF ENTREPRENEURSHIP WITHIN THE PUBLIC SECTOR**

This is the modern context in which a specialized knowledge and higher-education business must operate. Competition about the ranking of the institutions and the recruiting good teachers, researchers and talented students is global. It is increasingly difficult to ‘buy off’ this competition and innovation urge by asking the government for bigger budgets, or protective regulations.

In the current and complex global society this is the paradox of government steering: rigid and protective rules provoke bureaucratic organizational behaviour which leads, however, to outdated and old-fashioned facilities. Their cost is relatively high, compared to what they have to offer, but they should be maintained for the financially weaker groups in society. However, on balance their service level is low, a typical ‘state level’, and therefore not appealing to groups that do have a choice. And so ‘ghetto formation’ looms in the long run, with a separation between ‘state provisions for the poor’ and ‘private services for the wealthy’.

So there is a need for entrepreneurship in the public sector, which is characterized here as the assessment of real, including latent, needs, the visionary directing of the investments, thinking ahead and dealing with new developments

All this this is fed by many external trends. There are too many accusing looks towards a so-called 'failing government' or 'inadequate resources' or 'calculating citizens', but that is merely an expression of the classic 'blame the messenger' pattern.

The relevant developments are not designed in the Dutch Lower Chamber! One cannot blame 'The Hague' (government) or 'Hilversum' (broadcasting) for technological developments that have resulted in satellite and cable becoming very cheap and that have made it possible to transport many media expressions to the Dutch households, irrespective of where exactly production and broadcasting takes place. They cannot be blamed for the fact that the public network was suddenly confronted with competition from foreign stations and cable companies, whether these were initiated from the Netherlands or not.

'The Hague' is also not responsible for the shifts in consumer patterns and the distribution of wealth leading to the decreasing appeal of old people's homes as a living and care concept for the elderly, who search diligently for more 'tailor-made' solutions (and are also willing to pay for that individual freedom).

The fact that power companies are becoming subject to European rules and regulations, aimed at opening up the energy production and energy transportation markets, and so become competitors around the individual wishes and possibilities of citizens and businesses, also cannot be blamed on anyone.

All these instances, however, demonstrate that the anticipation and therefore entrepreneurship of those involved have failed!

Even core government units, which are at the centre of the foundations of government monopolies, such as the monopoly on violence, are subject to these types of external developments that command innovative strategic behaviour.

Let us take a closer look at *the police*. The police is also influenced by a differentiating pattern of needs. We don't just want a safe crossing-place, the protective hand of our friendly neighbourhood policeman and visible criminals being caught.

We also want them to provide victim relief at the front desk, to tackle white collar crime and large-scale crime, we want quick action in case of demonstrations and unrest, but we also want their more or less ludic presence at festivities. What are the consequences of such a need pattern for modern management? Diversification of activities, establishing specializations, but also pointed make-or-buy questions with regard to the organization's core competences. Finally, and I will return to this later, this again leads to the question of whether a monopolistic, state-financed organization is the comprehensive answer to the above mentioned needs of the citizens. For should not in this area also the combined action with (organized) citizens, businesses, shopkeepers etcetera be organized much more intensively and better – as a responsibility shared between government and citizens? Elements of it can already be observed in vigilante patrols and businesses and neighbourhoods hiring private security firms. And finally, there is also the debate on partial privatization of the police organization by sending bills to 'heavy users' like football clubs. The discussion about public and private financing is never far away, even in the police organization.

### **Conclusion**

These many examples have clarified the main trend: all traditional state monopolies are under pressure to become more innovative, more strategic and therefore more enterprising. A response of more budget or more 'blue on the streets' is often insufficiently innovative. Strict control and blueprint planning by the political system will provoke bureaucratic, following behaviour and will therefore by definition yield dated and dusty services in such a turbulent field. This will provoke initiatives from the commercial sector for the wealthy market segments and on balance lead to a dichotomy/ghetto formation with regard to facilities. The only correct solution will be found in a reorganization of the arrangement between government and executive organizations, in which the government takes a more regulating and financing position ('steering not rowing') and collaborates with autonomous, preferably non-profit public organizations, that have a heart in the public sector, and will be allowed to respond to these trends adequately and with enterprise.

### **MOTIVES FOR EMERGING ENTREPRENEURSHIP**

Of course many commercial parties are already responding to these external developments, thereby reducing the playing field for the traditional executing organizations and introducing

competition. One fascinating symptom of the late recognition of these developments is the definition of market share people use; these systematically exclude already existing private parties and 'invisible' circles (invisible to government).

The market is then defined as the officially recognized types of— in this case - higher education; subsequently this is combined with the government budget involved, and so it is only natural that the traditional providers of these types of higher education are still realizing 80 or 90% market shares. On a melting icefloe, surrounded by many large icebergs, they establish that they are still king of the rock (floe). Types of icebergs whose value is then completely misread are:

- \* Private 'direct' education such as offered by Open University, television courses, correspondence courses and all other developments connected with the technological changes in education, both with regard to reducing distance and interactive educational possibilities as provided by, among other things, CD ROM and the Internet.
- \* Foreign educational facilities, which sometimes also carry financial incentives.
- \* Postgraduate education paid for by the employer, as for example in the case of management training courses.
- \* Research monies from the EC and other international research funds.
- \* Training budgets, also of higher and academic level, which are an integral part of technological innovations in organizations, such as automation.

Other sources also provide figures that indicate emerging markets.

Meijerink, for example, writes in *Academia* magazine that universities obtain only 63% of their income directly from the government <sup>(2)</sup>.

The same magazine quotes In 't Veld, who says that the total market of post-initial education in the Netherlands consists of Dfl. 6 billion a year, of which only one quarter of a billion (approximately 4%) is brought in by the joint universities <sup>(2)</sup>.

Finally, a somewhat dated article from a daily newspaper (*Volkskrant*) provides figures that private higher education now takes up approximately Dfl. 1 billion (and is growing), whereas the public funds for public education are some Dfl. 11 billion <sup>(3)</sup>.

These are all examples of a purchasing power demand outside the classic government budgets, and therefore a demand from 'markets' which can be responded to. The political question that emerges is whether a watershed (or, in polder jargon: a dike) can be placed in this whole of markets and parties. So on one side of the dike we have a package of

services/facilities guaranteed by the state (to which everybody – within certain admission conditions – is entitled), which is executed by a strictly managed, strongly government-related (i.e. bureaucratic) organizational field.

What is left over goes to commercial parties on the other side of the dike. The discussion from the working group Market and Government, informally known as the Cohen commission, subsequently focuses on the issue that organizations must not be hybrids, i.e. no organization should be allowed to operate on both sides of this imaginary dike. I will address the criticism expressed with regard to this report later. It is obvious that, given the modern society and the higher education market, with its competition with regard to scarce talent in terms of students, teachers and researchers, I do not believe in such a state-organized basic package, carried out by state organizations. In my opinion, this leads, on balance, to a reduction of quality, at least in the perception of the – ever more mobile – potential student. See also Cambridge University considering to collaborate, which probably would not have been allowed by the Cohen commission. The Netherlands again raises a warning finger, first of all at itself!

*The excellent professor*

*Michael Porter is a good example of the modern dilemmas in Higher Education. Brilliant professor, consultant to larger companies and proprietor of his own and worldwide consultancy firm, who is also dedicated to the economic boost of the impoverished inner cities. Where does he fit in this picture of strict separation between public and private? It is fascinating to see how Dutch state policy always comes to a stop when faced with real excellence, and always seems focused on the principle of equality, or the 'vulnerable groups'. Weren't talent and development essential issues in Higher Education?*

Apart from the emergence of commercial parties and the impossibility of a strict separation between public and private organizations, a third cluster of reasons indicates why entrepreneurship (naturally equipped with sound safeguards), is required within the public sector. It concerns the interaction with and design of alliances around the concept of 'civic-

mindedness'. The positioning of government organizations in relation to citizens naturally brings us to the heart and essence of the public sector, to that which makes operating in public organizations unique as compared to the management of (large) business. In the case of education the central issue is a mix of public facilities and services that mould the public 'spirit' at the same time, as can be observed in health care, cultural facilities and television/radio programming. This combination of public and formative character concerns matters like the (re)production of important cultural norms, values and rituals, the education and moulding of people into world citizens, the integration and support of vulnerable/ disadvantaged groups in society, raising public opinion and dissemination of objectified information about what is going on and teaching a reflective attitude towards all this. In business terms we talk about the formation of a high-quality professional service system, which expects 'customers' to be co-producers to a high degree. The way in which this is organized must be derived from that starting point. This means that a number of typical characteristics of bureaucracies (which definitely have value in other contexts, even though the word is often used as a term of abuse), must be avoided in this case, both on the management side and on the customer side.

Matters to be avoided on the management side include:

- \* An overly abstract and equalized reward structure;
- \* A reward standard that rewards deskwork and intellectual work over professional work with the customer;
- \* An overly centralized, inwardly-oriented culture which strictly separates the outside world so to speak, including the client/citizen;
- \* A management that is too far removed from actual practice, that operates more in a paper reality where account is given mainly to financier and principal, rather than to customers or potential customers.

On the customer side the following things should be avoided: that there is an insufficiently diverse choice between standard packages,, that no price incentive is built in for different skills and learning paths, that people feel alienated from the education stronghold and – especially – that people are not made really and intrinsically responsible for the 'co-producing' nature of their own education.

In the case of education (but really in the case of many public facilities) the last thing we want is an exact, formally sound execution of tasks; we want professionals who are driven, we want caring and quasi-parenthood for ‘our’ young people, we want customization instead of standardization and we want all of this to be of the high technological quality level the commercial sector has taught us to consume.

All of these special characteristics return in the question of how a say in educational organizations should be arranged. It is interesting that we can go back to our own history of private initiative in the educational field, also in Higher Education. The management/administration of this type of organization must believe in the importance of an anchoring in society and in an extra formative and committed contribution to the customer, that goes beyond a purely consumptive contribution, especially in the interactions surrounding the learning process.

#### *Geelhoed’s misunderstanding*

A nice example of how restricted the debate has been recently, is provided by an article by professor Geelhoed, entitled ‘Het privatiseringsperspectief. Van bomen, bossen en baby’s’ (The privatization perspective. Of trees, woods and babies). It is included in a volume whose title already reflects the misunderstanding: ‘Van overheid naar markt’ (From government to market)<sup>(4)</sup>.

His argument lacks exactly the above mentioned two themes, i.e.

- a. That it is also possible to shift/delegate tasks from the government to non-profit and non-governmental organizations, as has been the case in our public sector for several decades.
- b. That these social, formative and solidary public facilities also exist alongside more ‘hard’ facilities like public utilities and they demand an independent approach, if their quality (qualities) is to be upheld.

An additional motive for an enterprising and alert attitude in the public sector is found in the developments from the European Union. From the many examples I will quote an article by Tsaoussis (Pantion University, Griekenland) from Higher Education Management<sup>(5)</sup>.

In his article he sketches the following developments from Europe:

- \* The European Union wants to achieve a larger international accessibility and freedom of choice in Higher Education, in the context of the general striving for transparency and cross-border operation.
- \* In most countries, however, Higher Education is still strongly linked to secondary education, and that 'column' cannot be broken easily, f.e. by opening Higher Education to foreign students, who would by definition have followed a different type of education.
- \* The EU will still have to start somewhere and will decide in favour of a strategy in which the Higher Education establishments, especially the universities (with their international background and image), are approached, without involving the national legislator, as separate, fairly autonomous organizations, and are held accountable for their innovativeness and – there it is again – entrepreneurship.
- \* All this within the public domain, however, for this is of course a different kind of urge to expand than a purely commercial drive for a larger European education market.

Gradually my main argument is becoming visible: we are talking about entrepreneurship WITHIN the public sector and OUTSIDE the (parliamentary) government organization. Above I have mentioned the many factors that stimulate this option.

#### LESS MARKET, LESS GOVERNMENT, MORE CITIZENSHIP

First a small excursion abroad to be able to better define where we are now, with a variation on a Greek philosopher: "Know the other, so you may know yourself".

A few years ago the Boer & Croon organization organized a large-scale debate around the book 'Reinventing Government' by Gaebler en Osborne<sup>(6)</sup>. Particularly striking (also in the recommendations in the book) is the considerable emphasis on downsizing the government by means of privatization. During that time the Dutch debate was strongly coloured by a sense of fatigue ("But we've been doing this for a long time already, haven't we?) on the one hand, and a big dose of cynicism ("It's the Americans again") on the other. It is a pity that the image of that great country has been distorted. In my opinion the reason that their government is so small is not just the large amount of *commercial* parties that execute tasks which in Europe are often (still) state monopolies (such as 'utilities'), but mostly the large



amount of ‘founding fathers’ principles in the sense of the stimulation and even exacting *civic-mindedness*. The search for the delineation between public and private is in full swing there. During my stay in the summer months of 1997, I saw the following examples:

- In addition to public and private schools, there are now ‘charter schools’. These are schools with a temporary license that are no longer evaluated on the basis of input, but on output and financial result. Financing is taken on by the parents/students (often through subsidies). It is a kind of voucher system, but aimed especially at the difficult groups that fell between two stools in the traditional public order.
- A number of public health care organizations and a commercial health care chain closed a regional contract to stop chasing after the best specialists and G.P.’s (who write referrals) and to allocate money to prevention programmes.

Now to the state of affairs in the Dutch debate on the organization of the public sector. This debate started recently (this lecture was presented in August 1997) with a brief exchange of arguments in a newspaper (NRC) between two university professors, i.e. Cohen and In ‘t Veld<sup>(7)</sup>, as a result of the report ‘Markt & Overheid’ (Market and Government) of February 1997. Unfortunately this debate has a unilateral bias, something along the lines of: “Preacher meets merchant and is concerned”. The core of the debate was really the question whether hybrid forms of market activities and so-called task activities (a distinction introduced by Simon in his thesis on the typological classification of organizational functions)<sup>(8)</sup> had a demonstrable surplus value or whether they should be forbidden.

The largest miscalculation in both contributions, in my opinion, is the idea that there is no other, legitimate participant in the public domain except the state and its official organizations and service branches. A participant who has more and better right to speak than that same government: the citizen.

Until now the debate has taken place too much from a (government) administrative and economic perspective. As a result, a number of crucial characteristics of the public sector have received insufficient attention, for example: its historical roots, moral dimension and dynamic and innovative character.

Formulated slightly demagogically: our citizenship in the sense of the organization for public goals in organizations of and for citizens started in our battle against the water, it has yielded

(apart from a very ‘horizontal’ culture and a slight aversion to the ‘authorities’) dry land and, considering the circumstances, probably better dikes than now.

Equally clear: if the city of Amsterdam can only ‘win’ a referendum against a civic organization like the Dutch nature reserve association by changing the rules in midstream, then something is wrong with the legitimized authority of the government and its decision-making methods. At such a time even the mayor of Amsterdam prefers to call himself chairman of the city council, rather than ‘master of all citizens’.

And that is exactly the problem: government itself defines the citizen out of the public domain, as if it were an exclusive government domain, whereas history provides many reasons to speak of a natural alliance. We owe not only our dikes, but also our universities, our care facilities, our collective insurances, our public broadcasting system and our public housing, to a high degree if not exclusively, to ‘private enterprise’. Long before the state felt compelled to tackle them. New forms of grass-roots civic initiatives with regard to social initiatives in underprivileged areas, the naturalization of allochtonous residents and actions regarding environmental safety and awareness, still emerge.

Together all these types of organizations have millions of members and volunteers at the present time, something that cannot be said about the modern political parties. The unions also are not just the demagogic carriers of the consultation model that takes place in the smoke-filled trustees’ rooms of National Consultation (which is what the polder model appears to be reduced to in the media), but they were and increasingly are again (as are the churches) the initiators of social policy with regard to the fight against poverty, fitting in the unemployed and supplemental insurances on a social basis. That is how it once started: The modern National Health Services were established by solidary associations of working citizens and eventually they go back to our guilds and their insurances against illness, unemployment and death. Workers and their social-democratic predecessors obviously didn’t have much confidence in the government then either.

MORE CRITICISM ON THE COHEN REPORT

In spite of this fundamental criticism of the blind spots in the debate, I still have a few remarks on the report of the working group Market and Government<sup>(9)</sup>

- \* Both in the preface and the summary the term ‘government insitutions’ and ‘government organizations’ is used, but no sound definition is provided. In this context it should come as no surprise that I am suprised how easily organizations that are formally and also historically completely independent and often rooted more in the initiatives of (groups of) citizens than in the government, as well as organizations that are clearly part of the formal government bureaucracy, are lumped together.
- \* The report thinks too much in terms of established and recognizable organizations and is insufficiently aware that a sound and important distinction can be made between the financing of a public task and the execution of it.

Due to the combination of these two limitations the report does not distinguish between ‘ the execution of a public task’ and ‘being a government organization’ . The authors apparently failed to notice that a distinction is easily made based on the modern insights of ‘outsourcing’ . A much more balanced plan for the organization of public functions should consist of the following steps:

- Is this a ‘public task’ (, like accessibility, just distribution and quality safeguard), should the government be involved from the point of view of the public or general interest?
- If so, which type of organization, or which existing organization, is best suited to carry out this task as effectively and efficiently as possible, while maintaining a certain transparency and controllability?
- How do we then organize the financing of this execution, considering we have established that the government should be involved and therefore must also take on some financial responsibility?
- Which part of the public financing of these services is provided directly through the government, or through statutory regulations imposed on users (own contributions, mandatory premiums etc.)

In other words: it concerns a financial arrangement. Within the ‘public’ part of this arrangement an essential but much neglected aspect is the need to make a clear distinction between that which is financed from the general tax revenues, and that which is obtained through other ‘collective’ or ‘mandatory individual’ arrangements.

In this situation the government is always present as legislator, but not always to the same degree as financier!

*Modern public-private combination in the care of the elderly*

*Let us look at how a simple facility like an old people's home or protected housing is financed. At the individual level we have all kinds of finance contributions such as mortgage interest rebate, pension plan, rent rebate and index-based legal contributions. Within that index the possibilities of own contributions are also examined. Insurances have individual premium payment, but also arrangements with regard to own risk, or supplementary insurances. The services/facilities themselves are also financed via various systems; reserve formation, extra financial contributions, project subsidies, as well as individual resident contributions, bequests, sponsor monies and contributions by family and voluntary efforts (payment in kind?) play an important role.*

- \* Because the report does not differentiate enough between the various levels of organization of the public sector, and because steering relations and influence relations are insufficiently considered, it necessarily has to take visible organizations as the anchor for regulation. Then the question emerges which organizations are (can/should) and which are not allowed to execute public tasks. However, starting from physically recognizable organizations is very problematical in our post-modern society, that is imbued with information technology. In that context I already briefly mentioned the emergence of 'outsourcing'. Increasingly, organizations are cores in networks, neural or virtual constructions, they have various kinds of alliances, intertwining within the industry, they give account on many playing fields, etcetera. Only the bureaucratic world of Economic Affairs requires physical proof. So here a self-fulfilling prophecy looms large: as this policy is grafted onto visible organizations that are not allowed to undertake all kinds of sidelines, not very dynamic, bureaucratic establishments are created that are no longer capable of supplying the product in question (higher education). If the report intends to make us all come together in five years time to establish that 'the government' is inadequately organized to provide Higher Education and that 'we' shall have to leave it to 'the market', then the whole exercise of writing the report has been a waste!
- \* The report defines these organizations as Organizations with Exclusive Market rights (OEMs). The report then leans heavily on the argument that cross-subsidizing is so difficult to control with hybrid forms of organization. Even in the business and industrial sector we now have laws and jurisprudence regarding issues such as price cutting and

misuse of market positions, and it has been proved that wrong types of competition can be counteracted. And this would not be possible in a transparent world like government financing, which has so many supervisory bodies and provisions? Even if there were doubts about these possibilities to supervise through audits and supervisory control, there would still be a simple but realistic requirement: all organizations that operate predominantly on the basis of public/legal resources must in the end operate on a holding level and a non-profit basis. That would rule out a purely commercial motive at the top level, and potential profits from sub-businesses would then still go to the main goal.

- \* The argument of ‘cross-subsidizing control’ generates the question of what organizations we are talking about. Are organizations that receive subsidies from Economic Affairs excluded? What about organizations that operate heavily in the large government tenders, isn’t this also a mix of private and public financing? And what about the organizations that are legally obliged to ‘pass on’ a substantial percentage of the resources they receive from the public coffers to commercial parties (as was established recently in the new media law)? What is the difference between this organization and a public network that establishes its own production company and then does exactly the same thing, but within its own holding company? There has always been a blending of public and private resources in this sector, i.e. through advertising revenues: public and commercial networks both competed for commercial advertising resources. And even more succinct: shouldn’t we characterize the commercial production organizations in question, that receive considerable amounts of public money based on these legal requirements, as extremely ‘hybrid’<sup>(10)</sup> or ‘un-Cohen-like’?
- \* So modern reality demands that the discussion should be more differentiated than was done in the report. For also within the government budgeting mechanisms we now see shifting panels. Take for example the phenomenon of ‘cherry picking’: subsidized organizations that avoid difficult cases because these are always disadvantageous in terms of budget. For they deviate negatively from the average cost pattern per case, on which the subsidy is based. To counteract this the principal introduces all kinds of performance-related financing, so as to stimulate market-oriented and customer-oriented behaviour from the organization. One of those incentives is the introduction (or rather formalization) of competition between subsidized institutions. Of course there was always competition in the mutual dance for government funds, but is further confirmed in this way. You get more money if you have more students, produce more graduates or incorporate more

difficult cases. The thinking error made in the 'Market and Government' report concerns the definition of 'monopolist'. For even totally collective sectors like education are presented as monopolists, while in reality, based on the above mentioned budgetary mechanisms within those sectors, there is a fierce competition for students and teachers, that is in no way different from the competition with and between commercial parties. As a result a truly 'emancipated university', i.e. operating in the system of self-steering/self-management as I will discuss below, will (want to) exhibit as few uniform characteristics as possible<sup>(11)</sup>! And as I already indicated above, the commercial competition is already operating on the edges of the field and is therefore highly competitive in the areas of modernization and new initiatives. By the time that politics would be willing to make resources available for such innovative products based on consumer preferences, the initiative will have long since been taken up by commercial organizations, and there would be no point in allocating public funds. Again I refer to my opening statement: if you take away the right to customer and market-oriented initiative from publicly financed institutions, you automatically create a situation in which new customer needs are spotted and seized by commercial parties first. The same report then goes on to include the public network in a list of examples of monopolists, while this is not the case, neither within the system (the battle for members between the broadcasting companies), nor outside the system (the battle for viewers and advertising resources). And again, this nuance can only be understood if you differentiate between 'steering/financing' and 'execution'. Steering becomes increasingly, also within government budgeting, demand driven, i.e. competition around performance and products is introduced (output steering), thus increasing the market orientation of subsidized organizations. And then we are all surprised that they become as innovative as commercial firms. In fact, the organizations involved are 'blamed' for something or even 'forbidden' to do something, that government regulations has provoked, to say the least, and with good reason! Let's not forget about that. The – financing, legislative – government also wants customer-oriented organizations that perform in conformance with the market (benchmarking!), but also maintaining the quality of the facilities.

### *Performing government*

*In a relatively new field like transforming benefits into employment we see our modern government get bogged down in this 'division ideology'. Government organizations like sheltered workshops and job-pool organizations, are increasingly expected to strive for legitimacy and control ('we do what we are formally obliged to do' and 'we control the costs'). But they are also increasingly expected to have an opportunity-creating and exploring approach that includes the active search for talent, acquisition and that therefore shows results. This motive, which is socially and economically profitable for all of us, clarifies that these expectations demand a different administration-management ratio (self-sufficiency), an experimenting attitude (instead of a risk-avoiding attitude), and even a competitive position toward each other (in terms of tariffs, job-pool organizations are much more heavily subsidized, let alone the production from prisons) and the business sector. Here the Cohen report makes an exception, but it is based on the suddenly emerging premise that equal competitive positions can be achieved 'through rules of conduct', thereby ignoring the idea that this is not a fundamentally different sector of government action, but an example of a much deeper trend: the necessity of an alert, performing and enterprising public sector!*

- \* The report leans heavily on the assumption that control and supervision entail high costs and that hybrid forms use 'our tax money' inefficiently. This assumption largely ignores the fact that total privatization unavoidably carries considerable costs as well, namely:
  - the extra payment of 17.5% VAT;
  - the extra costs of public relations and marketing;
  - the required return on the capital made available, i.e. the shareholder value that must be achieved;
  - supplemental subsidies to ensure that the commercially uninteresting, difficult cases are still seen to;
  - the extra costs within the public sector due to the loss of commercial resources (as indicated above for Higher Education 35% of the budget) and related internal synergy effects. And then I haven't considered the – temporary – extra costs due to capacity reduction and insufficient capacity utilization in the public sector.

### *Self-financing private clinics not allowed after all?*

*The reverse example is now occurring. Within the available macro-capacity in health care and the flexible extra costs paid for by extra financing from interested employers, i.e. at absolutely no cost to the government, private clinics are still forbidden. Some other confusing element in this current government policy:*

- *Isn't the dichotomy already there due to waiting lists? How 'just' are they?*
- *Organizing hospitals on the basis of target groups also leads to waiting times for various illnesses, is that fair and just?*

*And again: why is the blending of public and private resources considered bad at the level of a hospital (because commercial initiatives are taken), and considered good at the level of a paying business (that is happy to pay for priority care)?*

Taking all this into consideration, the system of privatization will have to make up for at least some 25% higher costs to start with, as compared to a public system, that delegates tasks to independent organizations on a non-profit basis. Based on the age-old and tested Dutch formula for the production of collective goods, I would venture that our economic 'polder success' has a lot to do with it.

- \* At the same time the report also leans heavily on the concept of a 'level playing field' and the fascinating starting point that this is the government's responsibility and government can ensure it between market parties. Because of the implicit exaggerated pretensions, there is a danger here of an improper blending of public and private ownership and steering relations! It also expresses a very naive attitude, as if competition were not based on UNEQUAL starting positions, i.e. the judgment and the strategic resourcefulness to take maximum advantage of it. Finally, the newest insights (including D'Aveni)<sup>(12)</sup> already indicate that strongly 'moving targets' are the central issue, and the trick is to change the rules of the game constantly and unexpectedly. And the government would we willing to referee here to ensure a 'level playing field'? I am afraid that with hindsight, the government in all its bureaucratic wisdom will often conclude, on the basis of complaints from business and industry, that there was no equal starting position, especially when the non-profit organizations take the lead. In other words, in this government game non-profit organizations are "damned if they win and damned if you don't".

## SO HOW SHOULD THE STEERING BE ORGANIZED?

Earlier I introduced the concept of 'civic enterprise'<sup>(13)</sup>. It concerns private, non-profit organizations, that put a social mission in combination with public services/facilities first, that freely apply management and strategy development principles from commercial business. In fact this leads to the following organizational structure in the public sector:



Main goal Organizing focus	Legitimacy Justice Public authority	Market differentiation Tailor-made product
Control/efficiency	Government service AAA (Autonomous Administrative Authority) Agency	Civic enterprises without commercial activities and Government services through: * Contract management * Tendering/'testing the market' * Output financing
Effectiveness	Civic Enterprise	Commercial enterprise

————— = More enterprising

This type of organization has the following potential surplus value. Realization of this potential depends largely on the consistent steering approach by the government and the quality of the management of civic enterprises

Compared to Government bureaucracy	Compared to Commercial enterprise
* Market sense & anticipation	* Democratic content and accountability
* Technological knowledge	* Political sensitivity and alliances
* Creative professionalism	* Solidarity and tenacity
* Clear core business	* Social alliances and public spirit
* Efficiency	* Philanthropical appeal
* Mission drive	* More comprehensive goals
* Insight into the citizens	* Selection based on need instead of purchasing power or price
* Decisiveness	

I have already indicated above how an alternative steering concept should be viewed. It is an alternative set of rules that meets the following criteria:

- a. Clear definition of government role and private enterprises on the basis of the principles of delegation and steering at arm's length. Such private parties will also have tasks with a political aspect, such as weighing scarce public resources,

determining priority between target groups, monitoring the implementation of sensitive legislation.

- b. Simple and easy-to-check criteria that such private parties must meet before they are allowed to get involved in supplying public services. The criteria leave room for innovation and need-oriented entrepreneurship.
- c. A transparent and strong control system with simple sanctioning possibilities built in. The thing to be avoided here is that input monitoring and all kinds of accountability in advance are imposed through the control line, which would result in bureaucratic steering of the system once again. Especially politics is faced with a strong dilemma here, because a minister who 'steers at arm's length' cannot be responsible for details, incidents or individual complaints.

This strongly implies a modern system of SELF-STEERING within frameworks and rules. It takes place via the introduction of information feedback mechanisms, like public inspection reports, systems of public student evaluations (à la Michelin-stars and research by newsmagazines) and small controlling bodies that have clear sanctioning possibilities. The latter can be achieved by employing a concession system, where each of the admitted institutions is granted a 3-5 year concession, and is evaluated periodically. The following criteria apply to obtaining a concession based on the three principles of Trust, Transparency and Supervision.

#### Trust<sup>(14)</sup>

This is the general outline of the new system, and it includes a reserved/controlling government, delegation based on trust and clear sanctions by means of withholding concessions and visitation/inspection for those who do not live up to this trust or who act as 'freeriders'.

In terms of control systems, this means assessment based on output/result and actual behaviour instead of intentions/lip service, legalistic arguments or supposed uncontrollability.

Essential criteria for admittance to the system as a (trustworthy) partner are:

- In the end a non-profit goal prevails, translating into the requirement of non-distribution of income as compensation for making capital or knowledge available (as in the American tax-law system)<sup>(15)</sup>
- Willingness to be held accountable for the policy by citizens/students.

- Meeting the criteria of transparency and supervision as described below.

#### Transparency

- Results (for example through benchmarking information) and Consumer information (for example by publishing comparative information between institutions that the students can select/choose from) (Michelin star system).
- Separate funding streams (public/private) and reporting/audits
- Public accountability for (politically/socially) sensitive tasks/competences
- Legal transparency, i.e. reporting and accountability with regard to the spirit of the laws that must be implemented.

#### Supervision

- There must be a clear division between ‘management/administration’ and ‘internal supervision’ in the top of the admitted organizations.
- This ‘internal supervision’ must be professional and of high quality so as to be a counterweight against the management (sounding board and control).
- The way in which account is given on policy to external stakeholders must be recorded in the methods or structure of the top of the organization
- Compensation in the top is not related to profits, but it is in accordance with the (public and the private management) market .

A further application of this type of criteria to, for example, care insurers, indicates a large policy impact<sup>(16)</sup>.

#### IN CONCLUSION

In short:

- \* effectiveness and European competition
- \* innovativeness and tailor-made approach, also in public services
- \* morality and formative values
- \* the historical organization of our public domain
- \* our current, also financial, reality

are sound reasons to continue with the real polder model: citizens who can, wish and are allowed to take public responsibility and who also take on implementation, in combined action with a consistently operating government.

It is no coincidence that all of the examples mentioned here have a high reality percentage and are at the same time in conflict with, or have received little attention in, the current policy paradigm. Our policy thinking lags behind our administrative and social reality especially because of the excessively large cultural distances between entrepreneurs and policymakers.

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