The changing role of governments and the emergence of the relational state

Xavier Mendoza and Alfred Vernis

Xavier Mendoza and
Alfred Vernis are based at
ESADE, Universitat Ramon
Llull, Barcelona, Spain.

Abstract

Purpose – *The paper aims to answer the question of what the new role of government in advanced democracies for the twenty-first century should be and what institutional and organizational capabilities are required for that role to face the challenges of globalization and the crisis of the welfare state.*

Design/methodology/approach – *The literature on public management reform and modernization initiatives in developed countries over the last two decades, along with the growing body of literature on public governance, provide the reference framework from which the contents of the relational state are formulated.*

Findings – *The relational state seeks to achieve the greatest possible synergy between the resources, knowledge and capacities of the public sector and those of civil society and business organizations. It does so by its ability to articulate social interrelationships and the intangible aspects involved (by using competitive or cooperative arrangements to incorporate civil society and business organizations in particular policy fields, raising society's awareness of its own responsibility, promoting social self-regulation, acting as intermediary between different social actors, providing strategic direction, etc.). Hence, the relational nature of its activities becomes the core attribute of the process of public value creation.*

Originality/value – *The relational state locates the relations between the state, the market and civil society in the field of co-responsibility, which is a crucial but missing feature in the neo-liberal state and the welfare state models. The paper analyses emerging forms of the relational state and highlights the challenges that confront its adoption.*

Keywords *Corporate governance, Partnership, Government, Globalization*

Paper type *Conceptual paper*

I. Introduction

We are currently in the midst of an intense debate on the changing role of governments in advanced democracies. This is a time of vast experimentation and searching for new ways to respond effectively to the challenges posed by globalization, the overload on the public resources of the welfare state, and the growing erosion of the legitimacy of the state accompanied by citizens' lost of confidence in their governments.

Public sectors have long embarked on a profound change process to confront the challenges faced by the welfare state. After over 20 years of administrative reform and modernization initiatives in OECD countries, the transformations undergone by public administrations have been highly significant[1].

However, the public sector's deep transformation process is far from over. Public administrations cannot escape the changes experienced at both local and global level by civil society and business organizations. Indeed, the modernization, growth and transformation of non-profits and social movements in interaction with the media are bringing about new challenges for governments and corporations around the world. The public domain is being reconstituted at both national and international levels as a result of

the new role of NGOs and the adoption of CSR policies by medium-sized and large companies (Ruggie, 2004). Furthermore, we have witnessed a significant increase in public-private partnerships and a blurring of the public-private dichotomy.

Ultimately, the question is what the role of the state should be in democratic societies for the twenty-first century and, accordingly, what institutional and organizational capabilities are required for that role.

The most significant innovations in public management reform and modernization initiatives that have arisen over the last two decades, along with the growing body of literature on public governance, provide the reference framework from which the contents of the relational state are formulated. Like any model, that of the relational state is a simplified and idealized version of an emerging reality.

II. The emerging relational state model

The premise from which the relational state starts off is the acceptance that the state has ceased to be (if indeed it ever was) omnipotent and self-sufficient. As Crozier (1987) puts it, ''the modern state is a modest state'' that recognizes the complexity and interdependence inherent in many social problems and acknowledges that they can only be solved by enlisting the active collaboration of society itself.

Nowadays no one denies that families have a key role to play in tackling the problem of school failure rate. Similarly, on the subject of crime prevention in major cities, changes such as the ''community policing'' or ''neighbourhood watch'' model highlight the importance of the community itself in assuming an active role around an issue that affects it so directly. And the list goes on to include other distressing social problems, like fatal road accidents, gender violence, ethnic-based social exclusion or environmental pollution and, at a global level, climate change.

The above examples show that in order to address these and similar issues, it is crucial for society to take its share of responsibility, which governments can hardly assume on its behalf. In this sense, the relational state locates the relations between the public and the private spheres – between the state and society – in the field of co-responsibility, which is a crucial but missing feature in previous models of state[2].

As we will see, defining the relationship between the state and society in terms of co-responsibility implies embedding the social dimension into civil society and the workings of the market (Midttun, 2005). However, it also means that the public domain ceases to be regarded as the exclusive property of the state, and the participation of society – through both business and civil society organizations – becomes something not only desirable but also legitimate (Mendoza, 1995).

A significant feature of this new articulation between the public and private sectors in terms of co-responsibility is that social needs become the focal point of attention. The criterion for allocating tasks and responsibilities is not established on the basis of the public or private nature of the organizations taking part, but rather on the basis of their ability to meet a particular social need most appropriately and effectively.

In the relational state the principle of subsidiarity, proclaimed in EU treaties but restricted to the public sphere, is extended to business and civil society. In this way, neither are private organizations given intrinsic superiority over public ones nor vice versa. By admitting the possibility of civil society and business organizations taking part in the meeting of collective needs, the relational state also introduces an element of competition into the relationship between the public and private sectors[3]. Competition as well as cooperation, and in some cases the combination of both, appear as alternative ways to achieve social efficiency and effectiveness.

Thus, a second defining feature of the relational state is that governments proactively explore, assess, and eventually engage in opportunities for collaboration both within and outside the public sector. The motives for collaboration with business and civil society organizations and the type of relationship vary according to the nature of the problem to be solved and the contributions expected from the partners.

A traditional motive for resorting to the business sector is to tap into private financing and/or management expertise in order to pursue projects or provide services that could not be afforded by governments alone, or as a means to gain access to economies of scale (e.g. toll motorways, water supply or garbage collection). As noted by the European Commission (2003) in recent years there has been a marked increase in this type of public-private cooperation for the development and operation of environmental and transport infrastructure – the UK's Private Finance Initiative being the most significant scheme and the one most often quoted in the literature.

From the 1980s onwards, markets as resource allocation mechanisms have been applied to the provision of public services in search for a more efficient use of existing resources and a higher degree of responsiveness to users, giving rise to experiments in outsourcing, internal market mechanisms and quasi-markets (Bovaird, 2004; Le Grand, 1991; Metcalfe, 1993; Savas, 2000; Smith and Lipsky, 1993).

The ''new public services'' resulting from these programs of administrative reform and modernization, particularly in the case of health care, are palpable proof of a new articulation between the public and private sectors which to a large extent follows a relational logic. Their characteristic feature is the establishment of new relationships between governments on the one hand and both providers and users on the other.

The relationship with the providers is modified in two different ways as a consequence of the separation of the functions of commissioning (or purchasing) of services and their provision. Firstly, this brings with it the possibility of incorporating non-profit and business organizations. And secondly, this incorporation is accompanied by the introduction of mechanisms encouraging competition, which has given rise to ''quasi-markets'' in which both public and private organizations participate, theoretically on an equal footing (Le Grand, 1991).

As for the users, the aim is to strengthen their position *vis-à-vis* public service providers, with the intention of increasing the degree to which individual demands are met (responsiveness). Service users are allowed to choose providers freely and exercise the exit option. It should be stressed that the new relationship between the government and citizen-users is built on the premise that the latter are informed and mature individuals who can play a more influential role in service delivery and control. Their active participation intends to ensure not only a higher degree of satisfaction but also to make them co-responsible for the service outcomes obtained[4].

The afore-mentioned types of public-private cooperation are managed in the framework of a contractual relationship. Agency theory establishes that cooperation will create additional value when private providers are more efficient that public ones, contracts are well defined and transaction costs are kept low over time. But the latter two conditions are not always easy to meet when we deal with public services. Transaction cost analysis argues that where complex contracts are needed, and consequently transaction costs are high, public organizations might be better off undertaking in-house service provision unless relational contracts could be set up. Relational contracts rely on mutual trust, rather than purely economic incentives in traditional or ''transactional'' contracts, and form the basis for long-term collaborative relationships (Bovaird, 2004, p. 206).

Therefore, one should expect that the incorporation of civil society organizations (and more recently private companies) into the provision of many of the characteristic public services of the welfare state (health, education, social services) will tend to display features of relational contracting to a varying degree. It seems reasonable to assume that governments will expect a commitment from providers around policy objectives and the public interest that goes beyond their own legitimate particular interests, while providers will in turn expect stable contractual frameworks and a commitment to sustain a specific policy. And both sides will expect an open attitude and mechanisms for dialogue to adapt to changing circumstances. It is important to point out that mutual trust and collaborative relationships are easier to develop and sustain if they are based in a sense of co-responsibility.

However, making the provision of public services more efficient and responsive through the incorporation of civil society and business organizations (although important) is only one aspect of the challenges faced by governments. As mentioned at the beginning of this section, the need to respond to ''wicked social problems'' requires public agencies to be prepared to work in partnership with other public, civil society and business organizations (Bovaird, 2004; Kickert *et al.*, 1997; Stoker, 1998). But at the same time governments also have to be prepared to raise society's awareness and promote the acceptance of co-responsibilization. That is, the governance of our complex and interdependent societies will not be possible unless we turn the sense of responsibility among their many social actors into one of co-responsibility (Lozano *et al.*, 2006).

Here the term co-responsibility involves: first, the recognition of interdependencies and the identification of common interests that lead to shared objectives; second, common agreement on the respective contributions necessary for their attainment; and third, effective articulation of the responsibilities assumed by each party.

In a pluralistic context, in which hierarchical control is not possible and contest and criticism are legitimate, what stimulates civil society and business organizations to collaborate with governments is the degree of coincidence in the objectives of a particular public policy and how it is implemented. This collaboration takes the form of joint projects in which the involved parties reach an agreement on the objectives to pursue, contribute resources to that end, and therefore assume responsibility for the outcome to be jointly achieved (Mendoza, 1991). These joint projects can adopt a variety of forms ranging from sharing information and best practice to public-private partnerships (PPP) or conflict resolution networks.

Promoting social volunteer work jointly with NGOs, the drafting of city-level strategic plans and their use as a forum for dialogue between the various public agencies and economic and social actors; promoting public-private partnerships for the regeneration of city centers and the conservation of historical sites; overseas promotion of small and medium-sized companies through public-private consortia – all these are examples of relational practices underway in most European countries.

As explained throughout this section, the relational logic seeks to accomplish the greatest possible synergy between the resources, knowledge and capabilities of the public sector with those of civil society and industry. From this viewpoint, the solution to social problems is not necessarily linked to the incrementalistic trend in public spending that characterized the welfare state. Governing is no longer synonymous with spending capacity, but with ability for leadership and consensus to mobilize the public and private resources available to a society and thus meet social needs.

So far we have analyzed public-private relationships as articulated through cooperative or competitive arrangements. Beyond that, relational governments also engage in promoting society's co-responsibility for solving social issues. In that respect, the role of governments fostering corporate social responsibility (CSR) appears as one of the most critical activities in this domain[5].

In its origins, CSR is the result of the interplay between civil society organizations, trans-national corporations and the media. As Ruggie points out, the rights and powers of trans-national corporations have expanded significantly since the 1990s, and that has triggered demands that corporations accept greater global social responsibility. Interestingly enough these demands have not been led by governments or international organizations, but by civil society organizations (Ruggie, 2004, p. 511).

CSR is already present on the political agendas of most European governments. The current debate on the role of business in society is instituting new expectations concerning the responsibility of these corporations – not only in economic development, with the social and environmental dimensions this entails, but also in relation to their contribution to global social issues. Certainly, governments face an important challenge in providing a response to the new role of companies (Lozano *et al.*, 2006) and at the same time it is a major opportunity to develop the relational state[6].

To sum up, all this spells a different role for governments which, although they appear as just another social actor, are endowed with a specific dimension and hold a privileged status to guide and mobilize society. The relational state is characterized by its ability to articulate social interrelationships and the intangible aspects that this represents (by producing and spreading information, raising society's awareness of its responsibility, promoting social self-regulation, acting as intermediary between different social actors, etc.). Hence, the relational nature of its activities becomes the core attribute of the process of public value creation.

The legitimacy of the relational state stems from its capacity for dialogue and openness towards different social actors, its ability to foster social inclusion as well as to assume leadership and obtain results through partnerships and interorganizational networks, its transparency in the articulation of the public and private spheres, and its modesty in accepting that the protagonism belongs to the collective goals pursued.

The organizational model (in a broad sense) that corresponds to the relational state is that of public entrepreneurship, based on the ability to create and manage partnerships and complex interorganizational networks involving both public and private organizations. Relational policy-makers and managers are known for their ongoing search for opportunities to mobilise society's public and private resources and also for fostering social experimentation and innovation in order to respond to social problems and needs.

In the welfare state the responsibility of public managers focuses on achieving the goals set for their respective organizations by optimizing their own resources. According to this way of thinking, the budget stands as an absolute limit to the government's ability to solve social problems. It is the managerial version of the political belief that ''governing is spending''.

In contrast, in the relational state, the principles of social efficiency and effectiveness redefine the concept of public management. The responsibility of public managers is viewed as being able to obtain results through the cooperation with those public and private organizations that participate in any given policy domain. The inter-organizational dimension thus appears as one of the key features of the relational approach to public management. In this light, the managerial challenge lies in achieving the greatest possible multiplying factor on its own budget and resources. The focus is no longer exclusively on outcomes obtained by individual organizations, but on the overall social impact accomplished by the collective set of participating organizations.

Significant changes also occur in the field of the organizational configuration of governments. In the welfare state, the agency or divisional form – based on the criteria of task specialization, managerial autonomy, results or output-based control mechanisms, and attainment of economies of scale – is viewed as the most suitable design for public organizations with service provision responsibilities. Instead, in the relational state, the interorganizational network – grounded on criteria of complementarity and interdependence, negotiation and mutual adjustment, attainment of economies of scope and governed by reciprocity and reputation (Powell, 1990) – becomes the most appropriate organizational form to articulate interrelationships among multiple, public and private organizations. This, in turn, requires sophisticated central capabilities to provide strategic direction as well as monitoring and evaluation mechanisms.

III. Challenges in adopting the relational state model

The relational state model focuses on the new role that governments play within advanced societies in confronting the crisis of the welfare state in the face of globalization. Its progressive adoption represents a significant challenge for society at large and the difficulties entailed should not be taken lightly. We would like to wrap up this paper by presenting a few reflections on how to move forward.

First, governments should explore their relational role proactively and with a learning attitude. However, realism is also important: the risks of ''mythifying'' civil society or networks or overdoing ''collaboration at any cost'' should be averted.

The challenge clearly lies in finding suitable formulae to orchestrate interactions among public agencies, civil society and business organizations, exploiting their individual strengths and avoiding their respective weaknesses or deficiencies. Thus, it is not about non-profit or business organizations replacing public ones. Rather, all sectors should cooperate and complement each other or even, in some public services, compete with each other.

Second, incorporating civil society and the business sector into a specific public policy field raises several questions that should be explored carefully:

■ What activities present the greatest opportunities for joint social value creation through such incorporation?

■ What are the goals to be accomplished through public-private collaboration?

■ What type of public-private relationship is the most adequate? How are risks, expenses and benefits going to be shared?

■ What are the minimum requirements to be met by private organizations entrusted with public tasks and responsibilities?

■ How should the relationship with these organizations be managed?

It should be noted that current opportunities and goals pursued in each specific case actually determine the nature of suitable public-private relationships. Additionally, the last three questions reveal the significance of having an appropriate institutional framework and a set of ''game rules'' to enable effective cross-sector interactions.

Third, the relational state approach is not void of risks and constraints. In fact, it relies on a strong, autonomous, mature and responsible civil society and business sector. Similarly, it requires politicians and public managers with significant social leadership abilities and strong skills for strategic management and the operation of decentralized, pluralist systems. It is not hard to imagine the problems that may arise should these requirements not be fully met. For instance, a lack of transparency in public-private relationships may lead to the state's seizure by powerful corporatist interests. Without the necessary strategic and operating capabilities, managing a plural system with multiple decision-makers may turn into an impossible task leading to governance failure.

These arguments stress governments' special responsibility in creating a proper institutional framework and suitable incentives to encourage both the co-responsibility of different social actors as well as the development of the organizational competencies required to ensure effective public-private associations.

Fourth, all these elements and changes clearly portray the need for public managers' relational leadership and network entrepreneurship skills. Indeed, today's context is already requiring public managers to exercise a ''humble and facilitating'' leadership style, based on openness, dialogue and participation, with the ability to think at the partnership/network level, give strategic direction and encourage experimentation and diversity. Generally speaking, more and more relational competencies will be required (Longo, 2004). This will naturally have highly significant implications for public managers' education and training.

Notes

1. A recent OECD (2005) study reports the following trends: public administrations are becoming more open and transparent, currently focusing much more on results, which, in turn, has increased planning, accountability and control. Public administrations' accountability and control systems are being updated, while resources have been reallocated and budgetary management has adopted a more strategic role. Market mechanisms have become mainstream and, finally, the nature of public employment at OECD countries is evolving substantially.

2. As rightly noted by Midttun (2005, pp. 163-164) the liberal state model presumes that the public and private spheres, that is, the exchange arenas between government, civil society and industry, are fairly decoupled. The ideal of arms length distance between regulators and market actors as well as the minimalist approach to policy indicate strongly the de-coupling and the existence of well defined boundaries between the two spheres (in terms of distinct roles and responsibilities). In its turn, the

welfare state was born with a clear interventionist profile. The public sphere became the predominant one as reflected by the strong influence exerted by the state over the economy and its engagement in a wider public service provision. While the ''politically negotiated intermediation'' and the resulting tighter integration of the exchange arenas between government, civil society and industry appears as a key defining element of the welfare state (Midttun, 2005), it also maintained a clear demarcation of the public sphere, where the general interest was considered to be the exclusive domain of the state (Mendoza, 1995).

3. A well-known example is provided by the garbage collection service delivered by competing public and private providers in many US cities. When service outsourcing fails to provide the results desired, local administrations step in (Savas, 2000).

4. Other frequent measure applied to strengthen users' position *vis-à-vis* public service providers we find the use of marketing in public services and the implementation of service quality strategies, both of which have had a major ideological impact as citizens are no longer viewed as administered, subordinated users and come to be considered as the clients of the administration with the ''right'' to exercise greater influence on the services received and their delivery process (OECD, 1987).

5. The European Commission defines CSR as ''the voluntary integration of social and environmental considerations into business operations and in the interaction with their stakeholders'' (European Commission, 2001).

6. In his insightful study on the CSR policy adopted in the UK, Moon (2004) concludes that the British government saw CSR as a contribution by the business sector towards the challenges of the social governance crisis that affected British society in the 1980s and 1990s in issues such unemployment, the regeneration of socially and economically less-favored areas, vocational training, and business start-ups.

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About the authors

Xavier Mendoza is a professor at the Business Policy department of ESADE. He was one of the founding members and the first Director of the Institute of Public Management (1986-1989). He has been Dean of ESADE Business School (2000-2008) and is currently Deputy Director General of ESADE. His teaching and research are in the fields of public management, corporate social responsibility, international strategy and management of professional organizations. Prof. Mendoza has been visiting professor at SDA-Bocconi School of Management in Milan (1989-1994), and has lectured and presented conference papers at various academic and professional forums in Europe, North and South America, and Asia. Prior to his appointment as Dean, he combined his academic activities with consultancy in business strategy and organizational development for private companies, public administrations and non-governmental organizations in Spain. He is a member of the Board of Directors of The Association to Advance Collegiate Schools of Business (AACSB International); the Supervisory Board of the European Academy of Business in Society (EABIS); the Editorial Advisory Committee of Corporate Governance: The International Journal of Business in Society; and the Advisory Council of the Mediterranean League Against Thromboembolic Diseases Foundation. Xavier Mendoza is the corresponding author and can be contacted at: xavier.mendoza@esade.edu

Alfred Vernis is a Professor at the Business Policy department of ESADE and a member of the Institute of Public Management (IDGP), where he also collaborates with the Institute of Social Innovation (IIS). He co-directs the programs ''The Managerial Function in Non-Governmental Organisations'', and ''Leadership and Social Innovation'', with the collaboration of *Fundació ''la Caixa''*. He currently manages the Social Enterprise Knowledge Network (SEKN) research at ESADE, led by the Harvard Business School and supported by Avina Foundation. He has published various articles and books on management in the third sector. He is a co-author of *Non-profit Organizations: Challenges and Collaboration* (Palgrave, 2006) and *Effective Management of Social Enterprises* (Harvard University, 2006). In recent years Professor Vernis has collaborated on strategic planning projects with the Jesuit Refugee Service, Intermón-Oxfam, Medicus Mundi and other ONGs. He is a member of the Board of Trustees of the *Fundació Catalana de l'Esplai* (Barcelona) and member of the Social Council of the Inditex Group (Arteixo, Galicia).