# GOVERNING BY NETWORK

## The New Shape of the Public Sector

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# The New Shape of Government

On a crisp San Francisco morning in 1993, National Park Service superintendent Brian O'Neill got some good news and some bad news. The good news? The 76,000-acre Golden Gate National Recreational Area (GGNRA) that he oversaw had been given hundreds of acres of prime waterfront real estate just steps away from the Golden Gate Bridge. The bad news? The land, Crissy Field, was an environmental nightmare. For decades the Presidio military base had used it as an industrial storage yard, and by the time the military deeded it to the National Park Service, Crissy Field was loaded with upward of 87,000 tons of environmental contaminants. It would cost tens of millions of dollars to reclaim and improve the land, and Congress—naturally—had not allocated any money for the improvements.

The traditional response from a federal employee in O'Neill's situation would be to ask Congress for more money. Brian O'Neill, however, is not the typical federal manager. Instead, he paid a visit to his old friend Greg Moore, executive director of GGNRA's nonprofit partner, the Golden Gate Conservancy. "Let's try to raise the needed funds ourselves," proposed O'Neill. After a little persuading, Moore agreed to give it a try.

O'Neill's National Park Service colleagues were not so enthusiastic. Some thought his idea was crazy; after all, no one *voluntarily* gives money to the federal government. Others worried that if GGNRA succeeded in

raising the funds, Congress would be less willing in the future to open its checkbook to park service projects.

O'Neill, characteristically, ignored the naysayers and with Moore's help plunged wholeheartedly into the enterprise. The result exceeded everyone's expectations—even O'Neill's. Not only did they raise more than $34 million for the renovation, but they also mustered unprecedented community support for the park. O'Neill even managed to convince dozens of nonprofit organizations to provide educational and environmental programs at Crissy Field. The end result: the concrete-laden environmental wasteland was transformed into a picturesque shoreline national park and environmental learning center.

By typical park service standards, this result would have been considered an extraordinary achievement. For Brian O'Neill and the staff at GGNRA, however, it was just another day at the office. During O'Neill's tenure, he and his team have partnered with hundreds of outside organizations. In fact, nonprofits do everything at the recreation area from maintaining historic buildings to rehabilitating stranded marine mammals. But outside involvement in the park extends beyond nonprofit contribution. Concessionaire firms provide tours of Alcatraz Island, contractors operate the park's housing rental program, and a real estate firm runs an international center for scientific, research, and educational activities. The partnerships are so extensive that National Park Service employees constitute only 18 percent of the GGNRA workforce; partners, concessionaires, contractors, cooperative associations, and volunteers compose the other 82 percent. "This park wants to partner," explains Alex Swisler, executive director of the Fort Mason Foundation, a nonprofit supporter of the park. "They talk about it and have made it part of the culture."

As a result of O'Neill's efforts, the Golden Gate National Recreational Area—which encompasses such breathtaking scenery as Stinson Beach, Muir Woods, Marin Headlands, Fort Point, and the Presidio—has become less like a government-run park and more like a network of interlocked public-private partnerships. Golden Gate operates on the premise that park employees should not do anything that the greater community could do as well or better.[1] O'Neill and his management team live up to this principle by establishing a vision, writing a strategic plan, and then seeking help from the broader community to make it a reality. "Within

the broader community are people with a whole set of talents who can make things happen," explains O'Neill. "My job is to figure out who our strategic partners should be and how to bring them together and inspire them to be a part of it."

This partner-centric approach represents a radical departure from the way that most national parks operate. Since its inception in 1916, the National Park Service has had a reputation for cultivating an insular culture. "The philosophy has always been that the best way to do things was to do it yourself," explains O'Neill. "It was a fortress mentality—put a gate around the park and keep the community from interfering."

O'Neill felt that he had no choice but to work outside this model. An insular attitude simply would not work at Golden Gate; O'Neill and his colleagues maintain more than 1,000 historic buildings, steward 76,000 acres of environmentally sensitive land, and produce a steady diet of educational and environmental programming. GGNRA infrastructure needs run into the hundreds of millions of dollars. Relying solely on federal funding would have been a recipe for failure. "The only thing static or losing ground [in this situation] was our own budget," recalls O'Neill. Two of the park's most important partners, the Golden Gate Conservancy and the Fort Mason Foundation, contribute close to 20 percent of the park's total support each year. For the nearly twenty years of its existence, the conservancy has invested a whopping $70 million into the park. The Fort Mason Foundation has pitched in more than $18 million in physical improvements and oversees more than 40 nonprofit tenants and 15,000 program events annually on behalf of GGNRA. In its role as intermediary between the park service and the dozens of organizations that occupy space and deliver programs at Fort Mason, the foundation provides invaluable management assistance to O'Neill and his staff. "We can serve as a buffer between the park service and the nonprofits," says Fort Mason's Swisler. "This gives them [the nonprofits] greater flexibility and freedom than they might have if they were dealing directly with the federal government."

Another twenty or so nonprofits, together with one for-profit entity, operate and maintain GGNRA buildings and facilities on behalf of the park service. Under long-term lease arrangements, these organizations provide all the upkeep and capital improvements themselves. In fact, the Golden Gate National Recreational Area Park was the first national park

to invite external service groups to occupy park buildings on its behalf. In all, partner organizations have contributed more than $100 million in capital improvements to the park since GGNRA was founded in 1972.

Such success has silenced the critics who dogged O'Neill and his team as they built this new management model. O'Neill has faced—and overcome—resistance from diverse camps, including environmentalists, who worried that some capital improvements would degrade the environment, and government lawyers, who sometimes were more skilled at hindering innovation than facilitating it. "When you're out there trying to do innovative stuff, there are a whole lot of people trying to bring you down," says O'Neill. "All sorts of folks hoped we'd fail."

Managing a governmental entity that achieves most of its mission through networks of partners requires an approach and skill set different from traditional government models. For example, how many executive leaders could conceptualize such a broad redefinition of their responsibilities and then implement the changes as O'Neill did? The average National Park Service employee tends to have professional and technical knowledge but lacks experience negotiating and collaborating with outside organizations—two skills essential to network management. "Traditionally, our folks [National Park Service employees] have felt comfortable in their own kingdom; they feel less comfortable networking with the outside world," explains O'Neill. He is working to change this mind-set at Golden Gate. In fact, he is trying to transform altogether what it means to be a park service employee. "It's an entirely different role for public employees," explains O'Neill. "Rather than see themselves as doers, we try to get our people to see themselves as facilitators, conveners, and brokers of how to engage the community's talents to get our work accomplished."

The Department of the Interior has called the Golden Gate National Recreational Area the "archetype of a national park in the 21st Century." But GGNRA represents something more: a microcosm of the broader shift in governance around the globe. Its heavy reliance on partnerships, philosophy of leveraging nongovernmental organizations to enhance public value, and varied and innovative business relationships are all hallmarks of these shifts. Governments working in this new model rely less on public employees in traditional roles and more on a web of partnerships, contracts, and alliances to do the public's work. We call this development

"governing by network." In this book we examine what this means, how it is changing the shape of the public sector, and how to manage a government in which achieving policy goals increasingly depends less on what public officials produce themselves and more on how they engage and manage external partners.

## New Challenges, New Governance Model

In the twentieth century, hierarchical government bureaucracy was the predominant organizational model used to deliver public services and fulfill public policy goals. Public managers won acclaim by ordering those under them to accomplish highly routine, albeit professional, tasks with uniformity but without discretion. Today, increasingly complex societies force public officials to develop new models of governance.[2]

In many ways, twenty-first century challenges and the means of addressing them are more numerous and complex than ever before. Problems have become both more global and more local as power disperses and boundaries (when they exist at all) become more fluid. One-size-fits-all solutions have given way to customized approaches as the complicated problems of diverse and mobile populations increasingly defy simplistic solutions.

The traditional, hierarchical model of government simply does not meet the demands of this complex, rapidly changing age. Rigid bureaucratic systems that operate with command-and-control procedures, narrow work restrictions, and inward-looking cultures and operational models are particularly ill-suited to addressing problems that often transcend organizational boundaries.

Consider homeland security. Acting alone, neither the Federal Bureau of Investigation nor the Central Intelligence Agency can effectively stop terrorists. These agencies require the assistance of a law enforcement network that crosses agencies and levels of government. They need communications systems to capture, analyze, transform, and act upon information across public and private organizations at a speed, cost, and level that were previously impossible. Similarly, the Centers for Disease Control and Prevention cannot adequately respond to an outbreak of anthrax, smallpox, or other bioterrorism incident on its own. An effective response would require the activation of robust public health and emergency responder networks.

The hierarchical model of government persists, but its influence is steadily waning, pushed by governments' appetite to solve ever more complicated problems and pulled by new tools that allow innovators to fashion creative responses. This push and pull is gradually producing a new model of government in which executives' core responsibilities no longer center on managing people and programs but on organizing resources, often belonging to others, to produce public value. Government agencies, bureaus, divisions, and offices are becoming less important as direct service providers, but more important as generators of public value within the web of multiorganizational, multigovernmental, and multisectoral relationships that increasingly characterize modern government. "[W]hat exists in most spheres of policy is a dense mosaic of policy tools, many of them placing public agencies in complex, interdependent relationships with a host of third-party partners," explains Lester Salamon, author of several books on the role of nonprofits in public service delivery.[3] Thus government by network bears less resemblance to a traditional organizational chart than it does to a more dynamic web of computer networks that can organize or reorganize, expand or contract, depending on the problem at hand.

Networks can serve a range of impromptu purposes, such as creating a marketplace of new ideas inside a bureaucracy or fostering cooperation between colleagues. We use the term in this book, however, in reference to initiatives deliberately undertaken by government to accomplish public goals, with measurable performance goals, assigned responsibilities to each partner, and structured information flow. The ultimate goal of these efforts is to produce the maximum possible public value, greater than the sum of what each lone player could accomplish without collaboration. Public-private networks come in many forms, from ad hoc networks that are activated only intermittently—often in response to a disaster—to channel partnerships in which governments use private firms and nonprofits to serve as distribution channels for public services and transactions.

In a world in which elusive, decentralized, nonstate entities like al Qaeda, Hezbollah, and narcotic-trafficking cartels represent the biggest threat to Western democracies, the networked approach has become critical to national security. As RAND analysts John Arquilla and Dave Ronfeldt

explain: "It takes a network to fight a network."[4] Government alone, for example, cannot thwart cyber attacks on telephone systems, power grids, financial systems, dams, municipal water systems, and the rest of our nation's critical infrastructure. Why? The private sector owns between 85 and 90 percent of the infrastructure. Recognizing this, the federal government has formed several multisectoral networks to coordinate cyber-security efforts. The government and private sector have established private computer networks that allow private industry and government to share information and remain in contact in the event of a large cyber attack. These networks, Information Sharing and Analysis Centers, exist in the financial, telecommunications, chemical, transportation, food, energy, water and information technology sectors.[5]

This networked model for combating cyber terrorism demonstrates the extent to which government is changing in response to today's more complicated problems. In simpler times the federal government might have employed a command-and-control approach for such a critical initiative. But in the wake of the September 11th terrorist attacks, a centralized approach was neither feasible nor desirable. As President George W. Bush explained when unveiling his federal cyber-security initiative: "The cornerstone of America's cyberspace security strategy is and will remain a public-private partnership. . . . Only by acting together can we build a more secure future in cyberspace."

## The Rise of Government by Network

Historically governments have collaborated extensively with private firms, associations, and charitable organizations to accomplish public goals and deliver services. The ancient Greeks, for example, outsourced tax collection to tax farmers and leased out the state's mines to concessionaires.[6] However, thanks to a variety of factors, including advances in technology and the broader changes in the economy and society that favor networked forms of organization, today's networked government trend is both greater in breadth and different in kind than anything seen previously. In particular, governance by network represents the confluence of four influential trends that are altering the shape of public sectors worldwide.

- *Third-party government:* the decades-long increase in using private firms and nonprofit organizations—as opposed to government employees—to deliver services and fulfill policy goals.
- *Joined-up government:* the increasing tendency for multiple government agencies, sometimes even at multiple levels of government, to join together to provide integrated service.
- *The digital revolution:* the recent technological advances that enable organizations to collaborate in real time with external partners in ways previously not possible.
- *Consumer demand:* increased citizen demand for more control over their own lives and more choices and varieties in their government services, to match the customized service provision technology has spawned in the private sector.

## *Growth of Third-Party Government*

This book focuses on situations where government officials intentionally engage networks of providers to enhance the delivery of public goods. These relationships are typically more complex than simple government-to-vendor outsourcing, but their roots nevertheless emanate from the varied and increased growth of third-party government, which is transforming the public sector from a service provider to a service facilitator.[7] We concentrate here, however, more on those networks that require ongoing public leadership and management. Third-party service delivery models—contracts between government agencies, commercialization, public-private partnerships, outsourcing, concession arrangements, and privatization—are a central component of the trend toward networked governing. New Deal–style initiatives, in which government assumes the dominant service delivery role, have become increasingly rare, especially for newly developed programs. As University of Pennsylvania professor Donald Kettl notes: "Every major policy initiative launched by the federal government since World War II—including Medicare and Medicaid, environmental cleanup and restoration, antipoverty programs and job training, interstate highways and sewage treatment plants—has been managed through public-private partnerships."[8]

This shift is particularly apparent in the area of service contracting. Between 1990 and 2001, federal-level contracting jumped by 24 percent in real terms.[9] (This increase is more remarkable considering the huge defense cutbacks resulting from the end of the cold war.) According to Paul Light of the Brookings Institution, federal contractors outnumbered federal employees by more than two to one and contract-generated federal jobs soared by more than 700,000 between 1999 and 2002. During the same period, the number of civil service employees actually fell by 50,000.[10] In fact, the federal government now spends about $100 billion more annually for contracts than it does for employee salaries.[11]

Similar shifts are under way in state and local government as well. According to the Government Contracting Institute, state government contracts to private firms rose 65 percent between 1996 and 2001, reaching a total of $400 billion.[12] Contracting now consumes about 19 percent of state operating budgets, and when state-delivered Medicaid benefits are included, the percentage goes even higher.[13]

Third-party delivery models are increasing found not only in long-established areas such as information technology, trash collection, and social services but also in many nontraditional sectors. In the United States, the Netherlands, and the United Kingdom, for example, dozens of school authorities have contracted with the private sector not only to build and modernize their schools, but also to operate them. As a result, delivering education services and managing schools has become big business. The number of for-profit companies managing public schools grew by 70 percent in 2001 in the United States. One of the largest education service firms, the Edison Project, opened its first school in 1995 and now operates 130 public schools that serve approximately 132,000 students in twenty states.

Prison administration is another area in which third-party service delivery has soared recently. In 1990 private correctional facilities worldwide housed only 15,300 prisoners. By 2000 this number had reached 145,160—an 849 percent increase in a single decade.[14] In the United States 158 private correctional facilities now operate in thirty states, Puerto Rico, and the District of Columbia. Texas leads this trend, with as many private prisons as the next three states combined.

Private contractors have even become an integral component of warfare. Since 1991 the number of active duty troops in the United States

Army has plummeted by 32 percent—from 711,000 to 487,000. Private companies have taken up much of the slack, carrying out many tasks formerly reserved for soldiers.[15] Indeed, when nations go to war, armed forces rely increasingly on private military support firms to establish communications systems, coordinate logistics, and maintain bases. Approximately 8 percent of the Pentagon's overall budget is spent on contracts with such firms. This number does not include contracting costs incurred in the Iraq War.

Even more striking is the role played by the approximately 1,000 private military companies involved in nearly every component of warfare—from training soldiers to transporting armed vehicles into war zones to simulating war games.[16] Explains Paul Lombardi, chief executive officer of Northern Virginia–based DynCorp International, which provided armed security for Afghanistan president Hamid Karzai following the October 2002 war in Afghanistan: "You could fight without us, but it would be difficult. Because we're so involved, it's difficult to extricate us from the process."[17]

Nowhere has the increased reliance on private contractors and military companies been more apparent than in Iraq, both during the war and the reconstruction efforts. In the 1991 Gulf War, there was one contractor for every fifty to one hundred soldiers. By 2003, when the United States invaded Iraq, the ratio of contractors to soldiers was down to one to ten.[18] The U.S. government hired contractors to do every kind of task imaginable, from maintaining military planes and cooking soldiers' food to training the new Iraqi army and police forces and even interrogating prisoners.[19] Dozens of contractors were killed in Iraq in 2003 and 2004 performing these duties. "The military and the civilian-contractor role are exactly the same," said Mel Goudie, the former director of the Baghdad Police Academy and an official with the U.S. Coalition Provisional Authority.[20]

The unprecedented use of contractors in Iraq became a lightning rod for criticism. Allegations ranged from favoritism in awarding contracts for reconstruction to excessive profits to a general lack of accountability of contractors after charges that at least one may have allowed, or encouraged, soldiers to abuse prisoners at the infamous Abu Ghraib prison in Baghdad.

Brookings Institution scholar Peter W. Singer, author of *Corporate Warriors: The Rise of the Privatized Military Industry,* cites three major reasons for the rapid rise of contractors on the battlefield.[21] First, the global military downsizing has created a labor pool of more than 6 million recently released or retired soldiers just as the number of violent conflicts around the world has increased. Second, warfare has become more dependent on extremely sophisticated technology systems, increasing military reliance on civilian specialists who can operate these highly complex systems. Third, Singer believes this rise reflects the broader privatization movement that has swept much of the world since the 1980s. We would add a fourth reason: private companies have become increasingly skilled at managing sprawling, complicated logistics chains (that is, networks), and by using these sophisticated private integrators, the military has been able to enhance its core war-making function.

However one feels about this development—and there are good arguments on both sides—the fact of the matter is that the line between military personnel and contractors during war has become blurred. "I'm not sure there is a line," says retired major general Edward B. Atkeson, "It's at the edge of a cloud and we've been fading into it and we're still trying to determine how far we want to go."[22]

Less spectacularly, governments also rely increasingly on private firms and nonprofits to deliver varied resource management and environmental services. Private companies across the country manage nearly 70 percent of waste tonnage generated in the United States and own more than 53 percent of its solid waste facilities.[23] Countless environmental public-private partnerships are also flourishing across the country. In Texas, for example, where 87 percent of the land is privately held, the state has entered into public-private partnerships with hundreds of landowners to conserve and restore open space and wildlife habitat. On the global front, New Zealand has privatized its forests and fisheries, while in Africa several entities have formed the Congo Basin Forest Partnership, which aims to combat illegal logging and enforce antipoaching laws.[24] Partners include twelve countries, scores of nongovernmental organizations such as Conservation International and the World Wildlife Fund, various private companies, and a host of government agencies.[25]

Private firms and nonprofit organizations also play an integral role in moving citizens from welfare to work. Thanks to the landmark 1996 welfare reform law, states have enormous freedom to contract with nonprofits, private companies, and religious organizations for wefare-to-work service delivery. Dozens of counties—including Palm Beach in Florida, San Diego in California, and Hennepin in Minnesota—responded by creating public-private welfare-to-work networks. The most far-reaching of these networks is in Wisconsin. In Milwaukee a welfare recipient can use most of the social service system without encountering a single public employee. In all, state and local governments spend more than $1.5 billion a year—13 percent of federal and state maintenance-of-effort expenditures—on private contracts for welfare-to-work-related services.[26]

A similar trend is under way in child welfare. Arizona, Florida, Kansas, Michigan, and Ohio have outsourced all or part of child welfare service delivery to the private sector. In Florida community-based nonprofits now run the child welfare systems in dozens of counties, and the state's entire child welfare system is slated for eventual privatization. In Kansas a network of nonprofit and for-profit providers has delivered all foster care and adoption services statewide since 1997.

In the United Kingdom as well, government increasingly uses nongovernmental entities to deliver social services. In 1980 government agencies in Great Britain delivered the overwhelming majority of social services in that country. Only 14 percent were provided by private firms or voluntary organizations. Less than two decades later, however, that number had jumped to 40 percent.[27] "The distinctions between public and private are eroding rapidly," says David Henshaw, chief executive of the Liverpool City Council in the United Kingdom. "As these boundaries crumble . . . collaborative joint venture partnerships, where partners focus on outcomes, success, and solutions, are inevitably the future."

The public sector outsourcing trend shows no signs of abating. In fact, governments are likely to respond to two other major developments of this decade—the giant baby-boomer retirement wave that will soon hit the public sector workforce and fiscal limitations that require more for less from government—by relying even more on outside partners in coming years than they do today.

### *Joined-Up Government*

Of course, outsourcing alone cannot cure the problems of hierarchical government. When a narrowly focused, inward-looking government bureaucracy contracts a service to a private company, citizens still receive the service through a narrow, isolated channel, and dealing with four contractors, for example, is not much of an improvement over interacting with four government agencies.

This problem has led to the second trend driving the growth of networked government: the joining up of various levels and agencies of government to provide more integrated services. Often referred to in the United Kingdom and elsewhere as "joined-up government," this reform entails dismantling the stovepipes so prevalent in hierarchical government and enabling agencies to better share information and coordinate their efforts. Success in this area is critical to improving much of what government does today—from fighting the war on terrorism to meeting complex environmental challenges.

Joined-up government is the signature component of British prime minister Tony Blair's modernization program. "Many of the biggest challenges facing government do not fit easily into traditional Whitehall [United Kingdom government] structures . . . ," Blair has explained. "We need better coordination and more teamwork right across government if, for example, we are to meet the skills and educational challenges of the new century or achieve our aim of eliminating child poverty within twenty years."[28] One of dozens of the Blair administration's recent joined-up efforts is an initiative to reduce social exclusion by reintegrating those who have "fallen through the cracks" into society.[29] The agency established to coordinate the effort includes representatives from ministries such as Education, Environment, Transport, and Health.[30] According to the Blair government, since the initiative was launched in 1997, fewer people sleep on the streets and fewer children drop out of school.

Australia has also undertaken a host of integrated service efforts. The largest, Centrelink, is an ambitious project that draws together under one roof a variety of social services from eight different federal departments as well as from various state and territorial governments. The goal is to offer one-stop shopping across a variety of services for citizens.

Joined-up government efforts are also burgeoning across the United States. For example, Oregon's "No Wrong Door" initiative operates on the principle that citizens seeking state-level human services should be able to access help from the first point of government contact—regardless of which agency they contact. Oregon's new, integrated human services model replaces its previous, fragmented structure that required clients to deal with up to five networks of field offices, multiple case workers, and multiple case plans to obtain services. Under the new model, the five networks of field offices have been reduced to one integrated network.

At the federal level, joined-up government is seen in the Bush administration's twenty-four cross-agency, cross-government e-government projects. Each initiative—whether campground reservations or business registration—involves multiple agencies, and some efforts even incorporate multiple levels of government. For example, the Business Gateway, a Small Business Administration project that reduces paperwork for businesses, involves both state and local governments. This collaboration meets one of the Business Gateway's goals: small firms should be able to complete their paperwork once, in one place, rather than reporting the same information to multiple levels of government. For instance, today a trucker interested in operating a rig may be required to complete up to thirty-eight forms from a jumble of federal and state agencies. According to the trucking industry, such red tape costs the average trucker about $500 in lost time. To streamline this process, the Business Gateway, the Department of Transportation, and the trucking industry are working to standardize federal and state filing requirements. They are also working to employ interactive "smart" forms and Wizard tools in the reporting program. The goal? Allow truckers to submit their information one time and in one place.

Some of the United States' most ambitious joined-up efforts are unfolding in federal and state homeland security. Such innovations have been prompted by post–September 11 revelations that better information sharing and better interagency collaboration might have prevented the attacks on the Pentagon and the World Trade Center. Many states, for example, have developed sophisticated information systems to break down the walls between territorial law enforcement agencies. Colorado's Integrated Justice Information Network links five state-level criminal

justice agencies—law enforcement, prosecution, courts, adult corrections, and juvenile corrections—to create one virtual criminal justice information system.

### *The Digital Revolution*

Back in the 1930s an economist named Ronald Coase was trying to figure out what explained the rise of huge, modern corporations when he hit upon a unique insight—one which eventually landed him the Nobel Prize. Coase posited that the size of organizations is determined by the cost of gathering information. Large business organizations developed, he said, because of the transaction costs involved in creating, selling, and distributing goods and services.[31] Firms exist to minimize these transaction costs. The higher the transaction costs of performing a given function, the more likely the organization was to do that function itself, rather than contracting with another firm to perform it. At the time of Coase's observations, the transaction costs of doing business between organizations were generally extraordinarily high—information and supplies both moved at a glacial pace. As a result companies chose to produce many goods themselves, rather than contracting with outside companies. In so doing, they built massive, hierarchical structures to gather, process, certify, and store all the information they needed to take orders, make products, ship goods, and sell to customers. Coase's theories helped to explain the growth of hierarchical bureaucracy in government and in the private sector in the first half of the twentieth century.[32]

Now the Internet has reduced the cost of information to a fraction of what it once was. Along with e-mail and other communications technologies, the Internet has made communicating and collaborating with partners across organizational boundaries infinitely better, faster, and cheaper. The traditional costs of partnering such as travel, meetings, document exchange, and communications—all very real and often very large—have dropped by many orders of magnitude. Modern technologies allow organizations to share data and integrate their business processes with partners outside the four walls of the organization, enabling them to share information in real time about supply and demand and customers' preferences. The Dell Computer Corporation illustrates this change. The

company shares production scheduling, demand forecasts, and other information with its suppliers electronically, allowing Dell to respond more quickly to changing customer needs and eliminate the need to stockpile weeks of inventory. Moreover many of the company's routine transactions with its partners have been automated, thereby further driving down the transaction costs of collaboration. The result of these and other innovations? As Coase predicted: more partnerships, more alliances, and more outsourcing as it increasingly becomes more cost efficient for organizations to partner than to do certain tasks themselves.[33] "It [the New Economy] enables you to have more specialization and greater production, because you're more efficient," Coase said decades later in 2000. "You'll get more small firms as a result, but large firms will also get larger, because they can concentrate on core activities and contract out what they can't do well."[34]

As the Dell example demonstrates, the digital revolution has also enabled complex systems to be organized in new and different ways. These technological advances strongly favor networked organizational forms. The U.S. military, faced with fighting far-flung networks of terrorist cells, is exploring the development of networked approaches in all facets of warfare.[35] For example, the Pentagon's Joint Forces Command is experimenting with ending the practice of setting up large battlefield headquarters, opting instead to send only a small staff into war zones. This group would use information technology to tap into a network of specialized civilian, military, and contractor expertise back on the home front. Such an approach simply would not have been possible two decades ago.

### *Citizen Choice*

Citizens today expect to be able to buy goods through multiple channels, both retail and e-tail. And despite the growing size of large private corporations, consumers expect more control over their choices. They want to tell the manufacturer what color and options they prefer. Dell leads its customers through dozens of online options to configure a new laptop. Music services track what their customers listen to and send them music closer to their tastes. Mass commercial customization has made consumers less tolerant of going to an official motor vehicle license branch some distance from their house and waiting in line for mediocre service.

People in need of social services want the ability to configure how and when they secure help.

In his inaugural address President George W. Bush called for a nation of "citizens, not spectators; citizens, not subjects." Engaged citizens accept responsibility and participate in the marketplace and in civic affairs, but they also do not sit meekly at the bottom of hierarchical delivery systems waiting for the delivery of undifferentiated products. Responding to choice demands a different model of government. The more important that variety and customization becomes in service delivery, the more networks will be the preferred delivery form.

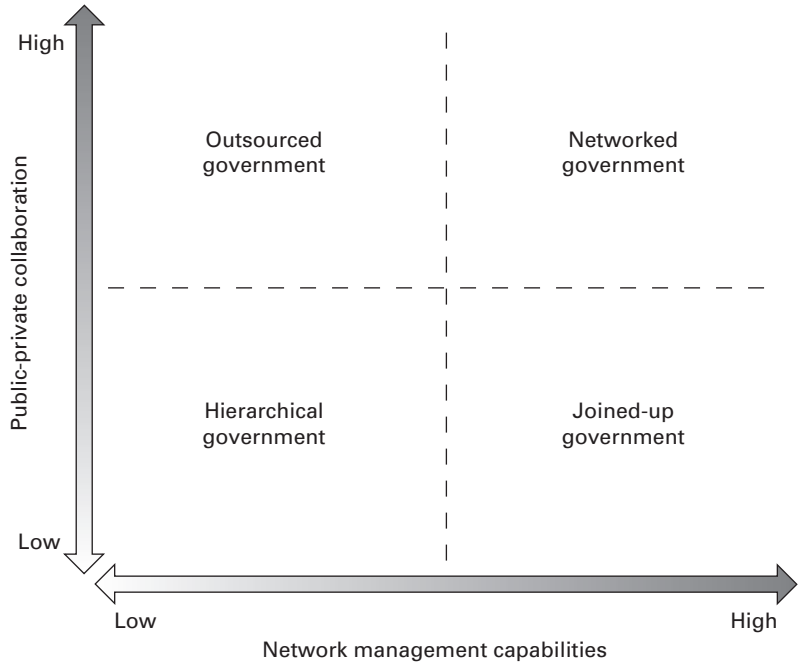
## Wired, Joined-Up, and Pushed Down

Governing by network represents the synthesis of these four trends, combining the high level of public-private collaboration characteristic of third-party government with the robust network management capabilities of joined-up government, and then using technology to connect the network together (figure 1-1) and give citizens more choices in service delivery options.

This synthesis is seen in the way that the city of Birmingham, England, delivers drug and alcohol treatment services. Birmingham officials discovered that different city agencies received treatment funding from several central government agencies, meaning that each agency operated its own treatment programs and negotiated its own contracts with community providers. "We had to break out of the silos created by the dedicated funding streams," says Jamie Morris of the Birmingham Public Safety Partnership. The city accomplished this by pooling all treatment funding appropriated by the central government. It then created a joint commissioning group—composed of representatives from each agency—to oversee the fund and negotiate contracts with the providers that would actually deliver the services. The result? A government network that manages a network of nonprofit and for-profit providers.

As is the case in Birmingham, the most complex networks often exist when government is horizontally joined up and the delivery of services is vertically pushed down. Local governments often face interrelated, seemingly intractable, problems—youth crime, teenage pregnancy, drug abuse,

**FIGURE 1.1 Models of Government**




lack of affordable housing. To address these, governments often weave together networks of solutions and then push the delivery down to community groups. In Indianapolis, for example, public health, public housing, and community policing groups joined community development and neighborhood leaders to develop and deliver a wide range of regenerative services to long-neglected neighborhoods.[36] The city combined funding from the U.S. Department of Housing and Urban Development and the U.S. Department of Labor with local public health, infrastructure, and philanthropic investments to produce a broad network of connected, customer-responsive community services. The various levels of government did not actually *deliver* a single service in this model—all were delivered by private and nonprofit entities.

These complex public-private, network-to-network collaboration models operate, with varying degrees of success, in nearly every area of public

policy. The building of the National Aeronautics and Space Administration (NASA) Jim Webb Space Telescope, for example, involves multiple governments (the Germans are supplying many of the instruments; the French, the launch vehicle), multiple contractors (Northrop Grumman is the prime contractor), and several universities as well as NASA's in-house capabilities (the agency is doing the testing itself). Medicaid is a federal-state program in which health care services are delivered by private and nonprofit organizations, while a third party processes claims. Likewise, most job training programs, funded at least partially by federal and state governments, are administered by local workforce boards and delivered by networks of private and nonprofit providers. At the state level, Wisconsin's welfare delivery model engages multiple levels of government, multiple state agencies, a handful of nonprofit and for-profit administrators, and dozens of community-based subcontractors. At the municipal level, twelve local authorities in Manchester, England, joined up to procure from private and nonprofit providers placement services for adults and children with special care or educational needs. In short, as governments confront increasingly complex problems and technology facilitates more sophisticated responses, government's use of third-party public service delivery models also grows in complexity.

Indeed, discussions about government innovation rarely center on outsourcing versus bureaucracy anymore. The pressing question has become how to manage diverse webs of relationships in order to create value.

## Management Challenges

As government relies more and more on third parties to deliver services, its performance depends ever more on its ability to manage partnerships and to hold its partners accountable.[37] For example, NASA and the U.S. Department of Energy both spend more than 80 percent of their respective budgets on contracts. The Department of Energy has only 16,000 employees; contractors at the agency outnumber employees by more than 130,000 people. These two agencies have become de facto contract management agencies. For NASA, the Department of Energy, and a growing number of other agencies at all levels of government around the globe, the skill with which the agency manages networks contributes as much to its

successes and failures as the skill with which it manages its own public employees. This development has prompted some critics to coin the term "hollow state," referring to a government with little or no capacity to manage its partners, let alone deliver services itself.[38]

We believe that governments can in many instances produce more public value through a networked approach than they can through hierarchical methods, but we also recognize the enormous challenges associated with implementing this new model.[39] Some of these risks relate to structure and deal making. When a public official like the National Park Service's Brian O'Neill resorts to a network as a means to attract private uses and private finances, he must ensure that the more generalized public purpose is protected and that the private participation is congruent with and enhances those uses.

The second problem is managerial. As John Donahue, author of *The Privatization Decision,* told us: "Governing by network is hard, really hard. There are countless ways it can go wrong." One big obstacle: government's organizational, management, and personnel systems were designed to operate within a hierarchical, not a networked, model of government, and the two approaches often clash. Managing a portfolio of provider networks is infinitely different than managing divisions of employees. It requires a form of public management very different from what governments and their citizens have become accustomed to over the past hundred years. Government cannot through partnerships avoid its ultimate responsibility to the public for both the quality of a service and whether it is justly delivered. The problems of Iraqi prisoner abuse, for example, are every bit the problem of the Pentagon, whether they are committed by private contractors or by U.S. military personnel.

Unfortunately there are very few places for public officials to turn to learn more about managing networks. They have few guideposts to help them determine how they should use a network of providers to enhance value or how authority or money can help them set a network in motion. Guidance on issues as varied as whom to invite to the table or what level of government oversight is appropriate for a specific function are simply not addressed. In short, with some notable exceptions, current public management theory lags behind the practice of government by network.

This is not to say that there isn't a rich body of literature exploring issues around hierarchies, bureaucracies, and networks in the public sector.[40] A number of top-notch academics have made a career of analyzing government's use of networks, while the literature on how the public sector should organize the delivery of services includes classic tomes such as Max Weber's *Theory of Social and Economic Organization,* Oliver Williamson's *Markets and Hierarchies,* and James Q. Wilson's *Bureaucracy*.[41] These and other essential books on the subject have greatly informed our thinking, but missing from the growing body of work on networks and government is a practical guide, based on real-life lessons, on how to govern a public sector that does less and less itself.

*Governing by Network* aims to help fill this void and to facilitate debate and discussion on this important transformation. We have deliberately steered away from getting into an ideological argument about privatization in this book. Both of us have been intimately involved in this debate for many years.[42] But it is a debate that has grown stale. It simply does not reflect the reality of a world in which public and private boundaries are becoming increasingly blurred and governments of all ideological bents are partnering with private companies and nonprofit organizations to do more and more of the government's work.[43] As the networked approach to governance proliferates, polarized and simplistic debates about the pros and cons of contracting out government services are becoming increasingly irrelevant. More important is learning how to *manage* a government composed more and more of networks instead of people and programs. Exploring this issue is the main purpose of this book.

*Governing by Network* is divided into two major parts. Part one explains why networked governance is on the rise and addresses the myriad challenges government officials face when implementing this new model. Part two provides a framework as well as a set of tools for managing it.

## CHAPTER 1—THE BOTTOM LINE

### KEY POINTS

- The era of hierarchical government bureaucracy is coming to an end. Emerging in its place is a fundamentally different model—governing by network—in which government executives redefine their core responsibilities from managing people and programs to coordinating resources for producing public value.
- Governing by network represents the confluence of four trends that are altering the shape of public sectors worldwide:
  1. The rise in the use of private firms and nonprofits to do government's work,
  2. Efforts to "join up" governments horizontally and vertically to streamline processes from the perspective of the customer-citizen,
  3. Technological breakthroughs that dramatically reduce the costs of partnering, and
  4. Increased citizen demands for more choices in public services.
- As governments rely less on public employees and more on a web of partnerships and contracts to do the public's work, how well an agency manages networks contributes as much to its successes and failures as how well it manages its own public employees.

### PITFALLS

- Changing the way goods and services are produced without changing the structure of government.
- Getting mired in the stale debate of whether contracting out is good or bad and ignoring the more important question of how to *manage* a government that does less and less itself.

### TIPS

- Don't underestimate the management challenges of governing by network.
- Don't try to use traditional hierarchical controls to manage a horizontal government. Networked government requires a form of public management different from what the country has become accustomed to over the past 100 years.

### EXAMPLES

- *The Golden Gate National Recreation Area.* This national park relies so heavily on partners to do everything from maintain historic buildings to rehabilitate stranded marine mammals that National Park Service employees constitute only 18 percent of its total workforce.
- *Iraq War and the U.S. Military.* Contractors have become an integral component of warfare, even on the battleground. During the Iraq War, there was one contractor for every ten soldiers.