

Risk Society and Governance: Current Issues and Challenges

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Abstract

The paradigm shift from "governing" to "governance" we witness takes place at a time of growing public mistrust in government in general and its use of tax resources in particular. This presents governments and politics with new challenges that have to do with various issues of public accountability, transparency and social responsibility. This paper suggests that, as a result of this shift to governance, more attention must also be given to risk management not only by government but also by other formal and covert participants in the governing process.

Introduction

Recent events, like the threats of meltdown of the American banking industry even after Enron's bankruptcy was fully investigated and despite the introduction of new legislation to assure financial responsibility was put in place, are still being hotly debated. The political and economic crisis in Greece is still being closely monitored. These, and corresponding cases from around the globe, underscore the importance of understanding the concept of governance and the resulting issues from the new division of labour it represents. These issues have to do with shifting, sharing or shedding of responsibilities and functions among various levels of government and between them and non-governmental entities. The latter includes civil society-based organisations as well as private entities like those that issue accounting standards (Mattli & Buthe, 2005) or those that are rating securities (Campbell, 2009).

When it comes to risk management, it is easy for citizens to relate to the terrible calamities caused by Mother Nature because they are tangible. Media outlets now broadcast video that captures overt horrors in real time and makes deep impressions. The earthquakes in Haiti and Chile in 2010, and the inundation of the city of New Orleans on August 29, 2005 as a result of Hurricane Katrina are both cases in point.

They devastated whole cities, leaving thousands of citizens dead and even more people homeless and without food or access to medical services. In the aftermath of the earthquakes local and national governments lack the capacity to respond and the call went out for international relief. However, when it comes to the country-specific economic calamities of 2008-2010 actual or pending, the average citizen may not have been capable of relating to developing events even when their toll on society and personal welfare might be greater than a natural disaster. The bailout of banks in America or the international loans to Greece came short of helping the welfare of the most vulnerable elements of society in either country.

In 1982, the first EU Directive 82/501/EEC – so-called Seveso Directive – was adopted. On December 9, 1996, the Seveso Directive was replaced by Council Directive 96/82/EC, so-called Seveso-II Directive. This Directive was extended by the Directive 2003/105/EC. The aim of the Seveso-II Directive is two-fold. Firstly, the Directive aims at the prevention of major-accident hazards involving dangerous substances. Secondly, as accidents do continue to occur, the Directive aims at the limitation of the consequences of such accidents not only for man (safety and health aspects) but also for the environment (environmental aspect). All operators of establishments coming under the scope of the Directive need to send a notification to the competent authority and to establish a Major-Accident Prevention Policy. In addition, operators of upper tier establishments (i.e. having quantities of dangerous substances above the upper threshold contained in the Directive) need to establish a Safety Report, a Safety Management System and an Emergency Plan. Internal Emergency Plans for response measures to be taken inside establishments have to be supplied to the local authorities to enable them to draw up External Emergency Plans. Emergency Plans have to be reviewed, revised and updated, where necessary.

Important new elements require operators to consult with their personnel on Internal Emergency Plans and on the local authorities to consult with the public on External Emergency Plans. The Seveso II Directive contains an obligation to regularly test in practice the Internal and External Emergency Plans. In the aftermath of the Enschede disaster it became clear that the city, the province and the country did nothing of the kind. This oversight is rather puzzling, let alone scandalous, giving the circumstances and context of that disaster.

There are strict rules and guidelines for the storage, manufacture and transport of fireworks in Europe, which were drawn up by NATO. Yet, on May 13, 2000, a devastating explosion at a fireworks depot ripped through a residential district in the eastern Dutch town of Enschede, leaving 22 people dead and 2,000 families homeless. Total material damage has been estimated at half a billion US dollars. The depot was certified safe to the City of Enschede, by an active duty Major in the Dutch Army. Though paid by the city he was certifying the safety as part of the Ministry of Defense's responsibility to assure safety concerning the handling of explosives under the said NATO regulations. Dutch reports in the aftermath of the explosion made no

reference to the EU Seveso Directive nor did the EU take initiative to investigate the disregard of that Directive.

In the aftermath of the 2000 disaster in Enschede questions about accountability, transparency and social responsibility of local, regional and central government agencies have been part of the ensuing finger pointing exercise (Paul, 2000; Brouwer, 2002). The case of Enschede in Europe and Katrina in the USA are just a few examples of the serious issues concerning the management of public risks. The current ambiguity about the expected role(s) of various government entities, when it comes to the management of public risks, results from the emerging new division of labour. This includes, first of all, a new order in terms of responsibilities among various levels of government with devolution sending more and more unfunded responsibilities to lower levels of government. Second, it requires re-definition of what constitutes a government domain, markets and the domains of non-governmental entities such as the underwriters or civil society-based organisations.

These two cases from Europe and the USA, let alone the case of Haiti, illustrate how governments can fail when it comes to the management of risk to property, life and welfare of their citizens. It seems that no government can be relied upon to address all, or even most, man-made emergencies or those caused by forces of nature. If this is the case, is it possible that the reason for it is something other than sheer incompetence or lack of accountability? Is it possible that, to start with, we have unrealistic expectations about the government's role in managing public risk? Does an accurate understanding of the concept of "Risk Society" or its operationalisation imply an urgent need to groom and develop more and better NGOs or other civil society-based organisations to supplement and complement governmental and market forces when it comes to the management of public risk?

The thesis of this paper is that since in the end, government is held politically responsible for any unfortunate event the only way to mitigate such responsibility, if not to manage public risk, must involve a deliberate partnership between government and elements of the private sector. These elements may include commercial entities such as insurance companies that represent market forces, as well as civil society-based organisations such as unions, neighbourhood associations, mutual help organisations, charities or faith-based agencies.

Some of the reasons for this assertion include on the one hand the loss of trust and the credibility of public institutions. On the other hand, there is the reality of the shrinking capacity of governments to act. This grim reality is an accumulated effect of an ever-declining stream of revenues at a time of rapid growth in demands for more and better services along with adequate oversight of non-governmental actors. Under these responsibilities, total risk management is an impossibility. In other words, it is unrealistic to expect the government apparatus to be capable to address, or be prepared for, all emergencies given the complexity of life and society in the 21st

Century. The omnipotence of government as a shield or protector from risk is a thing of the past, if it even ever was.

This article starts with a brief discussion of the conceptual framework of the "risk society" as coined by Ulrich Beck (1986, 1992) some years ago and some of the notable elaborations of this concept. The paper goes on to address the issue of public management and the use of performance indicators (PIs). It goes on to review some perspectives about the current paradigm change from "governing" to "governance" and how this transition might be related to accountability and social responsibility that would be more closely shared by governments and civil society. This paper highlights recent opinions about the need to include risk management in the evaluation of government agencies in general and as part of a performance measurement in particular. The paper concludes by pointing out two things: first, that while performance measurement within government is becoming a common practice, institutionalizing regular reporting of performance measurement and the use of PIs by the non-governmental partners in the governance process has a long way to go; second that the management of risk by many such partners is almost non-existent. This is leaving the public, under the current framework of governance, without due protection as illustrated by the opening cases from Haiti, the Netherlands and the USA.

"Risk Society": The Concept and its Possible Implications

"Risk society" is a term that emerged during the 1990s to describe the manner in which Western society organizes in response to risk. The term is closely associated with the writings on the ecological consequences of undesired and unanticipated results of developments in science (e.g., genetically modified crops) technology (e.g., poisonous materials and by-products of information technology-related activities in Silicon Valley (Siegel, 1994)), economics (e.g., over fishing and over cutting of the old forest) and last, but not least, demography (e.g., urban sprawl). While a comprehensive discussion of the concept of the risk society is beyond the scope of this paper some brief remarks are in order. For example, Beck's notion (1986, 1992) notion of the risk society, consists of two main elements: "reflexive modernization" and the issue of "risk".

Beck (1992) concentrates on the dark side of the consequences of developments in science and technology as the basis of industrial development, which symbolizes "modernity". He asserts that the risks and hazards that result from it cross the boundaries of time and state lines and, unlike risks of the past, are incalculable. In order for society really to evolve, Beck maintains modernization must involve an inward examination that he calls "reflexivity". This reflexivity, in turn, may result in a different kind of rationality, which may have a moral claim that is similar to that of modern science. For Beck, modernization involves not just modification of social

structures but the evolving ability of social agents to disregard the structure in order to shape the modernization process as illustrated by the activities of Green Peace.

For Beck the risks paradigms pretend to be the results of critical pluralistic debate across and within academic disciplines that are competing for influence and recognition in the management of the risks that result from the evolution of modern technologically advanced society. Yet, he notes that the critical force of all this fervent is limited due to cultural heritage and institutional constraints.

In one of his most recent public lectures Beck (2006: 1) made the following observation:

The narrative of risk is a narrative of irony. This narrative deals with the involuntary satire, the optimistic futility, with which the highly developed institutions of modern society – science, state, business and military attempt to anticipate what cannot be anticipated. Socrates has left us to make sense of the puzzling sentence: I know that I know nothing. The fatal irony, into which scientific-technical society plunges us is, as a consequence of its perfection, much more radical: we do not know what it is we don't know but from this dangers arise, which threaten mankind...The irony of risk here is that rationality, that is, the experience of the past, encourages anticipation of the wrong kind of risk, the one we believe we can calculate and control, whereas the disaster arises from what we do not know and cannot calculate. The bitter varieties of this risk irony are virtually endless; among them is the fact, that, in order to protect their populations from the danger of terrorism, states increasingly limit civil rights and liberties, with the result that in the end the open, free society may be abolished, but the terrorist threat is by no means averted. The dark irony here is that, while very general risk-induced doubts in the benevolence of the promises of governments to protect their citizens lead to criticisms of the inefficiency of scholarly and state authorities, critics are blind to the possibilities of erecting (or expanding) the authoritarian state on this very inefficiency.

This Beck observation highlights the two key ideas he associates with the concept of the "risk society." First is the realization that we do not know what it is that we do not know. This, in turn, may be the source of threats to property and life. Second, because of this lack of knowledge about the consequences of "modernity", government efforts to anticipate risk may be futile in terms of reducing or eliminating risk but may encroach on individual freedoms and privacy and thus can be undermining democracy.

Giddens (1999) offers an elaboration of Beck's ideas about the risk society. For Giddens, risk society is a society where we increasingly live on a high technological frontier which no one completely understands. The origins of risk society, Giddens

(1999: 3) asserts, "can be traced to two fundamental transformations... the end of nature and the end of tradition." The "end of nature" has to do with the shift of concerns away from "what is the risk to society from nature" to "what is the risk to nature from society". Concern about nature's risk to society was an important cornerstone in the rationale for the forming and existence of government in ancient times. Government was the means for dealing with floods or, as illustrated by the biblical story about Joseph in Egypt, with famine and drought. Archaeological discoveries in Mesopotamia (i.e., canals for flood control and irrigation) and South America (i.e., the terraces to pre-empt mud slides and for allowing farming on the slope of mountains) are other cases in point. Concerns about societal risks to nature manifested themselves in a variety of public policy initiatives such as *The Limits of Growth* (1972), The Kyoto Protocol (United Nations, 1997) on climate change, and the more recent 2009 Copenhagen Conference on the same issue.

The end of tradition is "essentially to be in a world where life is no longer lived as a fate" (Giddens, 1999: 3). Class mobility and the changing role of women in society illustrate this idea. Science and technology, he notes, change every aspect of human life rendering past experience useless as a guide for behaviour. Giddens asserts that the risk society is not intrinsically more dangerous or hazardous than earlier forms of social order. He also argues that the notion of risk did not exist in any culture in the past (1999: 3). The reason he offers, "is that dangers... [Have been experienced] as given. Either they come from G-D or they come simply from a world which one takes for granted." The idea of risk, according to Giddens, "is bound up with the aspiration to control and particularly with the idea of controlling the future" (1999: 3). Facing the unknowns that result from scientific and technological developments "people have to take a more active and risk infused orientation to their relationships and involvements (Giddens, 1999: 4). With this in mind it is not hard to see the rationale and the need for civil society-based organisations as a means that complements government and facilitates better control of one's environment and, thus, the future. Giddens articulates this point in the following way:

Manufactured risk is expanding in most dimensions of human life. It is associated with a side of science and technology which the early theorists of industrial society by and large did not foresee. Science and technology create as many uncertainties as they dispel - and these uncertainties cannot be 'solved' in any simple way by yet further scientific advance. Manufactured uncertainty intrudes directly into personal and social life - it isn't confined to more collective settings of risk. In a world where one can no longer simply rely on tradition to establish what to do in a given range of contexts, people have to take a more active and risk-infused orientation to their relationships and involvements.

To be more active and to have risk-infused orientation is a call for a proactive posture, one that takes place only through individual involvement and participation in

civic society-based organisations with likeminded other individuals, i.e., through a more extensive citizen participation (Halachmi & Holzer, 2010).

Performance and Risk Management in the Public Sector

Boorsma (1995) notes that when we try to ascertain performance in the public sector, it behoves us to remember that each outcome measure is meaningful only when viewed in its proper context, i.e., as a link in the production chain of societal goods and services. Take, for example, the case of Criminal Justice. Performance indicators (PIs) of any achievement are more meaningful if they are examined in the proper context. Thus, reporting a better rate for police apprehending suspects within an hour after a crime is reported, as a percentage of all reports of criminal activities, is always good news. However, the achievement may or may not be significant, as a dependent variable unless it is examined in the proper context, namely, the optimal use of information technology and resources (with meaningful comparisons to the past or other comparable agencies and depending on the overall performance of the Criminal Justice system). Where the Criminal Justice system does not prosecute criminals shortly after they are accused of committing a crime or where routinely convicted criminals get early release from prison due to over-crowding, a better rate of apprehension by the police might be even better news than what it looks like on first sight. Considered in the proper context, i.e., as a link in the production process of the Criminal Justice system, is the only meaningful way to reveal how significant a change in such important PI is. By the same token, commonly used PI, like the number of cases successfully prosecuted, does not tell the whole story if they are considered out of context, e.g., in isolation from the total number of cases handled by the system. If performance data is allowed to be reported without due consideration of context, prosecutors may be tempted to litigate only the "simple" or "easy cases" and drop the difficult ones where the odds of success are low. Dropping the "difficult" cases means that some criminals, most likely the really bad ones, would go unpunished. Under such circumstances the Criminal Justice system may look good in the short run. However, a decision not to prosecute "difficult" cases in order to boost performance data may be dysfunctional from society's point of view in the long run.

Like the prosecutors in our Criminal Justice example, hospitals, schools, social workers, banks, insurance companies and other service providers are likely to look more successful if they are allowed to skim the cream, i.e., to be selective and deal only with "easy" cases, rather than a true sample of the whole population they are expected to serve. However, appearances can be misleading. The true merit of any report on performance should be derived from the instrumental value of the alleged achievement, in other words, the achievements' contribution to the overall societal production of goods and services (i.e., the systemic function). In order for performance reports to be more than anecdotal snapshots and in order to minimize the likelihood of false impressions about performance, reports must be considered in context. One way of assuring due consideration of performance data in context is by

compiling the relative value of any performance in comparison with common benchmarks such as past performance, "best in the class" or professional standards. However, such comparisons, while necessary and beneficial, are not enough. As would be claimed below, considering performance data along with the corresponding implications for risk can offer additional insights that are commonly overlooked. Considering performance with its risk implications is part of any prudent approach to management and thus goes to the heart of the issue of accountability.

Recent efforts to institutionalize performance measurement in government, such as the American Government Performance and Results Act (GPRA) of 1993 are consistent with the point articulated by Boorsma (1995) about the need to examine the performance of each sub-system as a link in the production process. Agencies are expected not only to measure performance, but to point out how the measure of any one activity is related to the agency's (or program's) overall progress toward the attainment of a given objective and how this objective is related to the attainment of the overall mission of the administrative unit and the Department (or Ministry) to which it belongs.

The purpose of legislation like GPRA, according to its own language is two-fold. First, it is to help legislators guard the public interest by living up to their oversight and policymaking responsibilities as representative of the public. Second, it is to help managers do a better job as administrators. Performance measurement, therefore, has to do with norms of accountability (i.e., what happens), transparency (i.e., how resources are used or who makes what decisions) and social responsibility (i.e., to what extent the polity's general welfare is enhanced).

The rationale for legislation that mandates performance measurement in connection with requirements for formal documentation of strategic planning, performance budgeting and, periodic reporting on their implementation is not new. It does not take much time to see how this rationale can easily fit within the conceptual framework of what neo-institutional economists study under the label of "agency relations", i.e., the study of transactions among parties in the presence of mistrust, asymmetry of information and mutually exclusive interests which each side is aiming to maximize at the expense of the other (Halachmi & Boorsma, 1998). As was already noted elsewhere (Halachmi, 2002) these sentiments are well articulated in the "Findings and Purposes" section of GPRA (GPRA, 1993).

However, what is new with the current interest in measuring government performance has to do with two issues that are critical to the welfare of society:

- a) operationalizing accountability as a way of assuring legitimacy, trust and confidence in government and
- b) managing risk to prevent systemic collapse from a political, social or economic point of view.

Accordingly, the rationale for mandating periodic reports of performance measures is to allow citizens to know how their tax money is being used so agencies and government officials can be held accountable. The rationale for reporting on performance concerning the management of risk is not much different (Ammons & Canada, 2000). In fact, one may argue, if the public may be asked to pay for the undesired consequences of an action (or lack of action) by a public agency, it is entitled to know what is being done to reduce the magnitude, if not the odds, for such a payment.

Also, this rationale for reporting on risk management performance is consistent with the argument advanced earlier in this article, namely any data about performance should be considered in terms of its possible contributions as a link in the societal production process. With this claim in mind it is not hard to see why it behooves us to be as interested in complementary intelligence that addresses the handling of possible threats to that part of the production process which is under study.

National "standards" on risk management first appeared in Australia and New Zealand in 1995, then in Canada in 1997, and in the United Kingdom in 2000. Other countries and regions (e.g., Europe) are currently studying similar standards, and the International Standards Organisation is preparing a list of common global definitions for risk management terms (Kloman, 2002). An indication of the continuing interest in risk management is the publishing of the revised joint Australian/New Zealand Standard on Risk Management (AS/NZS 4360, 1999) or the Guidelines for Managing Risk in the Public Sector of Australia (Guidelines, 1996). Such documents address the processes which should become an integral part of the strategic planning and management of any organisation. As illustrated by the catalogue of possible performance measures for risk management in local authorities (Ammons & Canada, 2000) the current interest in risk management has to do not only with what is done or intended to be done to mitigate or handle risk but also with what programmatic actions are avoided deliberately to affect the scope or level of risk or what might happen if something goes wrong within or outside the organisation.

Management fashion in the late 1970s and early 1980s embraced the culture of "management by exceptions" (MacKintosh, 1978). Following theorists' activities, in particular since the year 2000 and in the aftermath of the global financial system meltdown of 2008 and 2009, the current administrative culture seems to accept "management by minimizing potential liabilities." Thus, management by risk consideration is evolving as a prudent approach to management of all organisations regardless of sector.

However, this new management posture is not without its own faults. For one, it can stifle innovations which involve departure from the safe practices of the past in search of better performance. In the context of economic approach to risk management, i.e., where risks can be shared or shifted to the market, it may cost rather than benefit society. For example, risk management is blamed sometimes as one of the

reasons why American hospitals and doctors stop performing certain gynaecological procedures, or get out altogether from this and other areas with high rates of malpractice lawsuits (Krueger, 2003).

Yet, as pointed out by the opening sentence in the Western Australian publication cited above, "risk management is recognized as an integral part of better management. It is being promoted both in Australia and internationally as a good business practice that is applicable to both the public and private sectors" (Government of Western Australia, 1999).

It should be noted that, conceptually, risk management does not imply the need to minimize all risks regardless of the involved ratio of cost to benefit. Elimination of all risks, despite its attractiveness to politicians on the campaign trail is not the normative position managers should strive to assume. Rather, the expectation, from a fiduciary or good management point of view, is that risks (or steps to address them) should be taken commensurate with the expected value of the resulting consequences (McPhee, 2002).

As pointed out earlier it is possible to draw some parallels between the rationale for introducing performance measures into the public sector, as illustrated by the case of GPRA in the USA, and the conditions for agency relations (Halachmi, 2002). For our purposes here it should be noted that the parties in agency relations may have opposing preferences when it comes to management of risk. The less risk averse party in agency relations may prefer to limit the cost of risk mitigation to the *expected value* of the known undesired consequences. Such an approach would be attractive to that party because it can reduce the opportunity cost of dealing with known risks. For example, when having insurance is a condition for getting a contract, if the Agent is the less risk averse party he/she would be calculating the *expected value* of such insurance. Accordingly, that party is likely to prefer the least expensive insurance policy accepting a higher amount of money for self insurance. At the same time the more risk averse party to the same agency relations may be using the *expected utility* of the desired insurance as a guide. That insurance is meant to provide the risk averse party, most likely the Principal, with some peace of mind about the end result of the transaction. Under these circumstances the Principal would be willing to demand that as a condition for the contract, the Agent purchase the more expensive insurance. In terms of risk management, the utility of the more expensive insurance is that it elevates the Principal's margins of safety, i.e., it is likely to buy him/her greater peace of mind. In our example, the Principal may ask for a more comprehensive insurance to cover a greater range of possible adverse results or he/she may limit the amount for self deduction – the part of the risk the Agent insures himself. In either case, the risk averse Principal would be eliminating possible cost to him/her because something is not covered by the insurance or because the Agent defaults on the amount he/she is expected to pay out of pocket before the insurance kicks in.

In the past two decades, we have witnessed a massive growth in academic studies of risk and the rapid development of a risk industry (Gabe, 1995; Hutter, 2005). There are a variety of disciplinary approaches to the study of risk and a range of different foci of interest, from the individual to the cultural. According to Hutter (2005), discussions of the problems of industrialization have been replaced with broader discussions about modernization, and relatively simple discussions of harm have been replaced by increasingly sophisticated discussions of risk and uncertainty.

Risk is now seen as a characteristic of modernization, with all aspects of modern life being interpreted in terms of risk. Hutter (2005) notes that risk has emerged as an important concept in academic discussions and also in the worlds of business and government. As implied by the concept of "management by risk" which was discussed above, peril becomes a new lens through which to view the world. For some writers (Hutter, 2005) this is consequential upon the evolution of the global village and transformations in modern societies. Thus, risk is perceived, among others, as a by-product of the significant changes in the worlds we inhabit necessitating updated conceptualizations of the dangers surrounding us. Hutter (2005) asserts that there is a class of risks peculiarly associated with modern societies. These are involuntary, manufactured risks – that is, risks that are products of recent advances in technology, the growth of large-scale organisations, and globalization. These unintended results go together with exciting new developments in technology, manufacturing, commerce, transportation and every aspect of our daily life and carry with them unintended dangers. These are the primary and second order risks of issues such as global-warming, pollution, health threats to humans and animals. As demonstrated by the global financial meltdown in the fall of 2008, these developments have the capacity to upset financial markets at a great speed, upsetting national economies and possibly the political stability of some regimes. Such risks affect the food we eat, the air we breathe, our health and safety at work, the stability of our economic systems, and so on. It is these risks that are associated with regulation. Whether man-made or the forces of nature, politics expect their respective governments to manage these risks and mitigate their consequences when they are realized.

In the United States, risk management became a salient management consideration after September 11, 2001. Since that tragic day there are new public concerns about the quality of risk management within government and by other entities whose actions, or failure to take action, can affect the welfare of society. A grim reminder of the need to keep thinking about the unthinkable at all levels of government is the failed attempt of a deranged citizen to hurt the Dutch Queen Beatrix and her family during a holiday parade on "Princes Dag," April 30, 2009. Though the Queen and her entourage were not hurt, four spectators were killed and 14 others were admitted to a hospital. This event took place in a country with a rich tradition and experience of forecasting, planning and readiness to address risks. Concerns about risk management go to the heart of the conceptual framework concerning the current paradigm change from "governing" to "governance."

The Transition from Governing to Governance: A Needed Change Even when Unplanned

Van Kersbergen and Van Waarden (2004: 143) offer the following observation:

Modern societies have in recent decades seen a destabilization of the traditional governing mechanisms and the advancement of new arrangements of governance. Conspicuously, this has occurred in the private, semi-private and public spheres, and has involved local, regional, national, transnational and global levels within these spheres. We have witnessed changes in the forms and mechanisms of governance by which institutional and organisational societal sectors and spheres are governed, as well as in the location of governance from where command, administration, management and control of societal institutions and spheres are conducted. We have also seen changes in governing capabilities (i.e., the extent to which societal institutions and spheres can, in fact, be steered), as well as in styles of governance (i.e., the processes of decision making and implementation, including the manner in which the organisations involved relate to each other). These shifts tend to have significant consequences for the governability, accountability, responsiveness and legitimacy of governance institutions.

In a similar way Northrup and Thorson (2003: 3) assert that:

Government denotes formal institutions of authority and power. Thus we speak of the US government and, in so speaking, are referring to institutions such as the president, congress, etc. Governance, on the other hand, denotes the larger non-hierarchical web of formal and informal institutions, organisations, groups, norms, traditions, authority structures, and behaviours within which individuals and groups live their lives. In this sense, a governance system, while it may well include particular governments, is a richer concept that includes such notions as non-governmental organisations, corporations, identity groups, civil society and, increasingly, a plethora of governments and quasi-governmental institutions.

In the context of these two citations it is important to note that the paradigm change from "governing" to "governance" in the last part of the 20th Century (Neu, 1996; Adashead & Quinn, 1998; Mayntz, 2002; Rhodes, 1996; Rhodes, 1997) raises questions about what is meant by accountability, transparency and social responsibility. In a related way Van Kersbergen and Van Waarden (2004: 144) note that "many of the problems of legitimacy, accountability and legitimacy arise from shifts from traditional national political institutions to other levels, sectors and organisations of society." However, pondering these questions in depth gets complicated in the context of the recent interest of society in a proactive management of risk by government.

The notion of governance has been used by various writers (Mayntz, 2002; Björk & Johansson, 1999; Peter & Pierre, 1998) to depict an effort to meet the welfare needs of citizens in a better way through partnerships with other elements of the "civil society." The purpose of such partnership is the overcoming of any limits on action due to governmental structures, institutions or procedures. However, so far little has been done to address the question how current governance practices enhance (or undermine) the management of risk. Addressing this issue is important because of its possible implications for homeland security. The task of assuring the safety and security of people and property has always been a part of the rationale for having government in place. Following the events of September 11, 2001 there has been a renewed mandate to all levels of government to make this task a top priority.

Sabel and O'Donnel (2000) assert that quietly, without the raucous clash of party and program that mark even lesser stirrings, democracy is on the move. They note that the economic turmoil and political revolts of the 70s and 80s together with the globalization of world markets that continues today resulted in both renewal and disruption. At the local level, they note, citizens in many countries are directly participating with government in solving problems of economic development, schooling, and policing the management of complex ecosystems or drug abuse. Their successes, though manifestly fragile, already suggest possibilities for public co-ordination that even recently seemed beyond reach. According to Sabel and O'Donnel (2000) central governments of nearly all political colours encourage such participation by devolving authority to lower levels. This observation is consistent with the position taken by other writers (Neu, 1996; Reid, 1999; JRF, 2001) about current and future reshaping of local authorities. Sabel and O'Donnel (2000) point out that governments have been loosening the grip of public bureaucracies on the provision of some services while wholly privatizing others. As illustrated in *Reinventing Government*, (Osborne & Gabler, 1991) central governments can tolerate local experimentation by waiving formally, or through inaction, their statutory rights to specify how programs are administered.

The central governments' tolerance of such developments by lower level authorities seems to suggest that the centre is reformable. Such conclusions, Sabel and O'Donnel (2000: 1) argue are "surprisingly so, given recurrent fears that the modern state would prove a new feudal overlord". However, they note that such a view of the central government is remarkable more in its capacities for self-limitation and dis-entrenchment than its positive abilities to co-ordinate and construct. The authors are quick to point out that when viewed from the local problem-solving units, the central government seems indispensable as an ally in the consolidation of nascent innovations, but capriciously unreliable in its ignorance of local circumstance and its own potential to foster development. The two perspectives offered by Sabel and O'Donnel take government as disjointed and fragmentary, not formative and framing. In this, they invite questions about the practicality and legitimacy of representative

democracy, which centres law making in the legislature, in a world where the centre devolves more than it directs.

According to Carmichael (2002) whereas "government" is concerned with the formal institutions of government, "governance" signifies a change in the meaning of government, focusing upon wider processes through which public policy is effected. Governance, he suggests, refers to the development and implementation of public policy through a broader range of private and public agencies than those traditionally associated with elected government. Thus, government is increasingly characterized by diversity, power interdependence and policy networks (Peters & Pierre, 1998; Mayntz, 2002; Rhodes, 1996; Rhodes, 1997). According to Carmichael (2002) there is a hollowing out of the nation-state as functions are either pooled upwards to supranational bodies like the EU, downwards to devolved administrations and regional bodies, or outwards to civil service agencies or even removed from direct public sector involvement altogether by privatization.

Stren (2000: 1) notes that "by the 1990s a subtle new concept was making its way through development seminars and research studies". This concept was "governance". The term, he notes, "began to be used in the development literature in the late 1980s, particularly in Africa". According to Stren (2000: 2), the Report of the Governance in Africa Program of the Carter Centre at Emory University in Atlanta spoke of governance as "a broader, more inclusive notion than government" and "the general manner in which a people is governed".

As cited in McCarney *et al.* (1995: 94) governance "can apply to the formal structures of government as well as to the myriad institutions and groups which compose civil society in any nation".

A more restrictive and state-centred view was that of the World Bank, defining governance as "the manner in which power is exercised in the management of a country's economic and social resources for development" (World Bank, 1992: 3).

A lengthy discussion of governance – as it applied to urban examples throughout the developing world – concluded that the important element that was explicitly lacking in many official and agency-based definitions was the connection of government, and particularly local government, to emerging structures of civil society. Accordingly, McCarney, Halfani and Rodriguez (1995: 95) proposed to define governance as "the relationship between civil society and the state, between rulers and ruled, the government and the governed". Stren (2000: 1) claims that "this definition [of governance] was picked up by other researchers writing about comparative local government in developing countries and was eventually established as the essence of the UNDP's definition". In its publications UNDP offers the following definition:

Governance can be seen as the exercise of economic, political and administrative authority to manage a country's affairs at all levels. It comprises the mechanisms, processes and institutions through which citizens and groups

articulate their interests, exercise their legal rights, meet their obligations and mediate their differences (UNDP, 1997: 2-3).

McCarney (2000) observes that when governance, defined as the relationship between civil society and the state, is considered at the local level, a notion of urban governance helps to shift thinking away from an equation with good government and, more generally, from state centred perspectives that have predominantly focused on urban management. Accordingly, an urban governance framework, he claims, allows us to include elements, which, in conventional terms, are often considered to be outside the public policy process. These elements, McCarney (2000) asserts, are instrumental in the socio-economic and cultural development of third world cities, and are highly responsible for shaping the urban landscape and built form of these cities. These elements according to McCarney (2000) include civic associations, "illegal" operators, "informal sector" organisations, community groups and social movements, all of which in fact exert an indelible impact on the morphology and development of urban centres.

This possible conclusion is consistent with more recent claims by Dror (2001:3) that (1) the quality of governance constitutes a major variable shaping the future of societies, states, and humanity as a whole and, (2) that this is the case despite contemporary illusions that free markets and civil society can be relied upon to bring about by themselves a positive future.

Like other writers (Peters and Pierre, 1998; Björk & Johansson, 1999), McKinlay (1999) notes under the impact of globalization the capability of national governments in developed countries to intervene in pursuit of desired outcomes gradually diminishes. The economic problems of Japan in recent years may be a case in point. For our purposes here the main difference between the periods before and after the end of the cold war is the frequency with which a lack of government capacity to intervene manifests itself. In a developing country context, the lack of capability on the part of formal government institutions, whether central or local, is immediately apparent (Wunsch, n.d.). What this lack of capacity suggests is that the formal structures of government are just one of the means available to the community (civil society) to pursue its objectives. Furthermore, it proposes that the necessary means for attaining important societal objectives may not always be available no matter how critical the specific issue may be to the good governance of the community. From this perspective, governance appears as the process of the community, evolving its preferred futures and choosing the appropriate means for pursuing those.

A similar perspective on governance comes from the work of the Canadian Governance Co-operative. In a paper published in June 1998, the Governance Co-operative declared (cited by McKinlay, 1999: 6):

Governance has to do with the institutions, processes and traditions for dealing with issues of public interest. It is concerned with how decisions are taken and

with how citizens (or stakeholders) are accorded voice in this process. In its early form government was seen as a process whereby citizens came together to deal with public business....Today, government is viewed as one of several institutional players, like business or labour, with its own interests...The emergence of government as a free-standing organisation in society with its own agendas and interests has created the need for a word to describe a process distinct from government itself.

March and Olsen (1995: 248) assert that "the democratic creed is predicated on the possibility of improving the organisation of society and thereby the ability of citizens to achieve their purpose and better their lot". But how can the organisation of society be improved? As can be derived from the previous review of scholarly perspectives, understanding "governance" and moving from "governing" to "governance" is one way of doing it.

For the purposes of this paper the conceptual migration or paradigm change from the concept of governing to the concept of governance can be explained in the following way:

- Governing has to do with *control* while governance has to do with *steering*. Governing is the sole prerogative of governments because it involves the possible use of coercion while governance involves cooperation and collaboration among multiple governmental and non-governmental actors with diverse economic and non-economic interests.
- Governing is *state-centred* while governance assumes a *polycentric* (or at least a decentralized) institutional structure with the government apparatus as only one of several centres. Simultaneously, in concert or independent of each other, these centres are seeking legitimacy, initiating a variety of programs, competing for and mobilizing public and private resources.
- Governing takes *place within the national or internationally recognized borders* of a given polity while governance results from *interactions within and across national borders*. Governing assumes the existence sovereignty and clear hierarchy of norms (i.e., a legal system) with actors playing either primary or subsidiary roles. Governance is multidimensional with actors playing a given role in one public policy arena and different role(s) in other public policy arenas.

Governance, Accountability, Transparency and Social Responsibility

The descriptive views of "governing" and "governance" as outlined above is useful for understanding and recounting the kind of developments which have been observed by the various writers like those cited above. However, even in a world where there is a consensus that concepts such as accountability, transparency or social responsibility represent important values, the descriptive view of "governing" and

"governance" has little instrumental value. The reason is that the appearance of consensus about the importance of accountability, transparency and social responsibility as desired societal norms does not imply that there is a common understanding of these terms (Halachmi, 2003, 2005; Van Kersbergen & Van Warden, 2004).

The descriptive view of "governing" and "governance" is not conducive to the process of developing a common understanding of these values and thus, to any attempt to operationalize them. Without operationalizing the concepts of accountability, transparency and social responsibility efforts to measure progress toward attaining them during or through the governance process may amount to manipulation of symbols at best and to sheer deception at worst.

Van Kersbergen and Van Warden (2004) offer a six-way classification of the various approaches or understanding of the concept of "governance":

- 1) *Good governance*--The first prominent modern usage of "governance" is in the field of economic development, where the World Bank and other international organisations have been stressing sound or good governance. Good economic governance belongs to the so-called "second generation reforms", consisting of reducing wasteful public spending; investing in primary health, education and social protection; promoting the private sector by regulatory reform; reinforcing private banking; reforming the tax system; and creating greater transparency and accountability in government and corporate affairs.
- 2) *Governing without government I: International relations*--A second meaning of the concept stems from international relations theory and refers to the possibility of governing without government in the form of international or even global governance and global democracy. This literature has pointed to the possibility of policy cooperation between nation-states in an international system that *prima facie* is not conducive to such cooperation.
- 3) *Governance without government II: Self-organisation*--A third use of governance refers to self-organisation of societies and communities, beyond the market and short of the state. Typical is the work of Elinor Ostrom (1990), who studied the capacity of communities in different places and times to manage common pool resources and prevent their depletion (a prime example is overfishing). Small local communities have done so without the help of a formal government through bottom-up self-government by associations, informal understandings, negotiations, regulations, trust relations and informal social control rather than state coercion. Ostrom's focus was on the conditions that facilitated such governance arrangements and made them effective, efficient and stable.
- 4) *Economic governance (with and without the state): Markets and their institutions*--A fourth usage is economic governance. This approach has developed in a variety of disciplines. They have all done so more or less in discussion with neo-classical

mainstream economics. While classical economics assumed markets to be spontaneous social orders that flourish best in the absence of any intervention, many political theorists and lawyers start from the opposite assumption. Following Hobbes (1651), they assume that the natural societal condition is one of chaos, uncertainty and conflict.

New institutional economics, economic sociology and comparative political economy brought these approaches together by emphasizing that markets are not spontaneous social orders, but have to be created and maintained by institutions. These provide, monitor and enforce rules of the game, which among other things fix property rights, back up contracts, protect competition, and reduce information asymmetries, risk and uncertainties. Societies have produced a variety of institutions to govern economic transactions, help reduce their costs and hence increase the likelihood of their occurrence. Governments are only one source of such institutions. Others are contracts, commercial businesses, private sector hierarchies, voluntary associations, courts, clans and communities. In other words, "governance" is a broader category than "government". Much of it takes place without direct state involvement. The shadow of hierarchy may either incite private actors to create private governance institutions (to pre-empt state intervention) or back up private governance arrangements (e.g., courts enforcing contract law). Comparative political economy consists of four conceptual approaches to economic governance: national policy styles literature, neo-corporatism, neo-institutionalism and the organisation of production.

- 5) *Good governance in the private sector: Corporate governance*--The fifth usage is that of corporate governance – a watchword, for those who wish to improve the accountability and transparency of the actions of management, but without fundamentally altering the basic structure of firms in which indifferent shareholders are the principal beneficiaries of the company. As a generic concept, it refers to the system of direction and control of business corporations. This usage is connected to the "good governance" approach of the OECD. The OECD has established a set of (non-binding) principles of corporate governance that "represent a common basis that OECD member countries consider essential for the development of good governance practice" (see www.oecd.org/daf/governance/principles.htm). One idea is that governments can increase macroeconomic efficiency by promoting good corporate governance because investment possibilities increasingly come to depend upon it.
- 6) *Good governance in the public sector: New public management*--The sixth use of governance is found in the New Public Management (NPM) literature. While corporate governance brought "good governance" practices to the business sector, new public management has endeavoured to introduce what it considered "good governance" into public organisations. This entailed the import of

management concepts from private sector for use by government agencies (e.g., performance measurement, customer and bottom line orientation, restructuring of incentives) as well as the conditions that would facilitate this, such as deregulation, outsourcing, tendering out and privatization. Many of these ideas have been packaged and marketed as New Public Management (NPM).

Sabel and O'Donnell (2000) claim that the driving idea of the NPM was taken directly and openly from US economics of the 1980s. Its aim was to re-establish the control of the democratic principal – the sovereign people acting through elections – over its agents in government by reducing insofar as possible the ambiguities of delegation that became necessary for "governing". Just as shareholders were to wrest control over the corporation from managers, perhaps in collusion with the work force, so the citizens were to retake control of their state from public officials and interest groups. When such efforts are successful it is possible to assert that accountability is restored.

The assertion of "straight-line" accountability requires a profound transformation in the organisation and scope of government according to Sabel and O'Donnell (2000). Conception of policy ends was to be separated from execution of programs to achieve them. Borrowing from Agency Theory (Halachmi & Boorsma, 1998), they assert that the self interested Agents can effectively set self serving tasks for themselves as they collaborate in the setting of goals for a given community. The reason Sable and O'Donnell (2000) suggest is that the Agents are always inclined to recommend goals that provide themselves with rewarding tasks regardless of whether those goals are in the interest of the public (i.e., the Principal in this agency relations) or not. The proposed remedy according to Sabel and O'Donnell (2000) is that politically appointed ministers, supported by expert staffs and hired consultants, were to determine strategy, and civil service managers were to execute it. By the same logic the scope of responsibility of individual ministries, and the programs within them, was reduced.

Asked to pursue multiple goals simultaneously, Agents will naturally have to make tradeoffs among them, and will favour trades that serve their interests first, and the public interest accidentally if at all. It follows that the narrower the scope of the ministerial portfolio or individual program, the less the danger self interested Agents can use competing purposes as a lever for pursuing their own ends.

Sabel and O'Donnell (2000) assert that these concerns about the behaviour of the self-serving Agents, i.e., government bureaucracies, result in some important changes such as: decentralization of authority within administrative units, an increased emphasis on measuring performance, and increase the satisfaction of the citizens (now recast as customers). The clearer the goals and the less chance for conflict among them, Sable and O'Donnell (2000) reason, the smaller the need for middle managers. Middle managers are needed to break complex tasks into simpler ones, adjudicate

differences of opinion about the priority of competing programs, or rate the performance of subordinates in the face of further ambiguities. Instead, given the narrow, flatter structure of administration, front-line managers with a clear understanding of their purpose would determine how best to achieve it. Customer satisfaction would be the measure of their success.

All these changes went hand in hand with an emphasis on the use of global performance measures such as: (improvements in) crime rates, (reducing) the number of unemployed persons, (better) test scores (on the competency test of students at various grade levels and those of their teachers), and so on. Performance of tasks sufficiently simplified to admit straight-line accountability, could be captured by such metrics. Conversely, the definition of the performance metrics helped encourage the necessary simplification of tasks. Instead of trusting co-ordination of public policy to unreliable, self interested bureaucrats, negotiation among all the interested parties or even a collegial consultation among civil servants may lead to better management of public affairs.

The result of these reforms, Sabel and O'Donnell (2000) argue, was a reduction in the scope of government itself. The clearer the purposes of government, and the more measurable the results of actions taken by its agencies, the easier it is to translate the tasks of public administration into contracts, and to hold contractual partners accountable if they fail to meet their obligations. This made it easier for government to function in several ways. Under President Regan in the USA or Prime Minister Thatcher, government opted to contract with private parties, instead of its internal units, for the provision of service. What mattered to the public as citizens and consumers became the contractual terms. Such a strategy, it should be noted, served also the public quest for greater transparency. First of all, under these new arrangements the terms under which services have been provided became an open record because they were enumerated in the contracts. Second, the involved cost (if any) to the taxpayer is clear because it is fully allocated and the process of awarding a contract has been opened for scrutiny through the use of compulsory tendering process.

Governance and Improvement of Public Risk Management

Ackerman (2004) asserts that participation is usually seen to be important only insofar as it reduces government costs and responsibilities. It suddenly appears to be "practical" and attractive when governments can offload service delivery to nongovernmental organisations (NGOs) and community groups or convince local residents to donate volunteer labour or materials. Indeed, he argues that the opening up of the core activities of the state to societal participation is one of the most effective ways to improve accountability and governance. However, how can the transition from governing to governance enhance a polity's capacity to manage risk? The short answer to this question is that government's ability to deal with risks can be

improved by on-site and real time assistance of civil society based organisations. The premise of this answer corresponds to the logic of governance as a concept: legal, economic, technical and political constraints prevent government from being omnipotent and omnipresent when it comes to risk management. Partnership and cooperation with commercial and non-profit entities can help government overcome some of these constraints. The role of social groups in controlling deviant behaviour that may endanger life and property (e.g., Alcoholics Anonymous) and drunkenness is a good example of such an arrangement. The same goes for the various incentives used by insurance companies, or even the makers of alcoholic beverages, to individuals who arrange for a designated driver if they intend to drink.

However, the current culture that advocates public risk management has yet to rise to the new challenges and the new problems which result from the transition from governing to governance. As central governments delegate authority to lower levels of government or as they unload past responsibilities through outsourcing they must rely on and cooperate with a growing number of public and private entities which are not a part of them. Consistent with the concept of governance, the American Government, for example, allowed the Financial Accounting Standard Board (FASB), a non-government entity to determine proper accounting standards. According to Arthur Levitt (2002), former Chairman of the US Security and Exchange Commission (SEC) and, as illustrated by the collapse of Enron in 2001 and that of many financial institutions in the fall of 2008, FASB and other oversight agencies (e.g., the stock-exchange) cannot control or prevent corporate mismanagement and faulty accounting. All this is due to Congressional politics. Pressures and direct intervention by elected officials prevent oversight entities from living up to their legal or fiduciary responsibilities. In the aftermath of these collapses the federal government was left holding the bag. The cumulative result of the collapse of giant American corporations like Enron and WorldCom in the last few years has yet to be calculated. The bailout of many American banks and other financial institutions in 2008-2009 is already over two hundred billion dollars, more than the national budget of several countries.

As a result of these financial scandals people lost their lifetime savings and retirement annuities, pension funds cannot meet their obligations. The write off of bad debts to the failed mega corporations eroded the economic base of many smaller companies creating a domino effect and undermining the welfare of many communities both in the US and abroad. The poor risk management by FASB, or debt/securities rating agencies such as Moody's, Standard & Poor's and Fitch – all non-government organisations – brought the federal government to the brink of being in default of its obligations under the social responsibility standard. Since most of the public were not aware that compiling accounting standards and enforcing them were not carried out by government employees, the federal government might have been violating the common principals of accountability and transparency as well. The government delegation of the authority to regulate the accounting profession or the

rating of debts to non-governmental entities resulted in serious damage to the welfare of the citizens the government was expecting to protect.

Delegating or partnering with non-governmental entities as part of the governance process is not a matter of choice anymore. Under the current conditions when the citizenry demands new and better services while the government cannot mobilize the necessary additional resources outsourcing, partnering and load shading are the only viable options for meeting such demands. Regardless of what option a government may select, governing is being replaced by governance. Yet, even when government is trying to correct a problem area, it can endanger the public interest due to lack of sufficient attention to risk management. A case in point is the North American Free Trade Agreement (NAFTA). In this case, lack of proactive action by government agencies turned out to be as bad, in terms of risk management, as the slow action by FASB to correct the accounting standards. The current litigation by foreign corporations against the USA under Chapter 11 of NAFTA is the result of a sloppy job by bureaucrats and understaffing. Chapter 11 of NAFTA includes language that was put in place to protect the interests of investors from capricious government decisions such as nationalization or confiscation of corporate assets. However, at the time of its writing little was done to make sure that Chapter 11 cannot be abused. Litigations under Chapter 11 of NAFTA by foreign corporations in recent years is challenging the authority of American government institutions such as the court and jury system or the authority of local governments and residents to manage their environmental affairs in order to reduce health and safety risks. The foreign plaintiffs are asking for a huge amount of money as compensation because specific court decisions about zoning disputes or local ordinances concerning environmental issues interfere with the profit making of the involved corporations.

The examples of Enron and the litigation under Chapter 11 of NAFTA in the USA, like the disaster of the fireworks explosion in Enschede (The Netherlands) illustrates the problematic nature of dealing with risk management and accountability when governance replaces governing. In other words, the move from governing to governance did not result in corresponding demands that active participants in the governance process assess, disclose and manage the risks their operations may pose to society or other participants in the process.

Concluding Remarks

I began this paper by reference to the Boorsma (1996) framework for dealing with performance indicators not as independent values but in the context of a systemic view of the production chain. In that view one must consider several things including the following: first, one must remember that every system is a sub-system for a higher system(s) while having functional dependency on the performance of its own sub-systems. Second, one must recall that the strength of the chain is equal to the strength of the weakest link – the risky link.

I went on to describe some of the views concerning the recent contention that we are witnessing a paradigm shift or a transition from "governing" to "governance" where partnerships between government and elements of the "civil society" are aimed at overcoming structural, institutional, and procedural limitations of traditional governments. In this context, I have pointed out the problematic need for dealing with the issues of accountability, transparency and social responsibilities. This problem might be looked at as a re-manifestation of some of the issues common to any agency relationship.

The request for performance measurement data by the public and their elected officials can be seen, in part, as an effort to address some of the issues involved in agency relationship concerning the issues of accountability, transparency and social responsibility of governments.

I have concluded by pointing out that although there is growing recognition that risk management is an important consideration in assessing the quality of management current practices leaves much to be desired. After September 11, 2001 and given the global consequences of the chain reaction following any natural or man-made disaster, risk management has to be more salient on the agenda of both practitioners and academicians. More attention should be paid to better strategic and operational risk management within government.

At the same time, a corresponding effort should be made to get other participants in the governance process to do the same in the name of accountability and transparency if not for the sake of social responsibility.

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