

NGI101x - Governance Challenges

Welcome back to the course. My name is Hans de Bruijn. I'm professor of Public Administration and Management at the TU Delft. My research is on complex decision-making processes in the public sector and at the intersection of the public and private sector, including various utility sectors

This lecture is an introduction to the governance of privatized or liberalized utility sectors, like transport, electricity, natural gas or telecom.

The basic philosophy of liberalization has always been very simple. There is a network and there is a service. For example, Rail and transport. Or a electricity network and the delivery of electricity.

The costs of the roll out and maintenance of a network are sometimes so extremely high, that no private party is willing to invest in it - and the network is therefor in public hands. In some countries there is an additional argument for that: networks are strategic assets and should therefor not be owned by private parties. But in other countries have no problem with networks being owned by private parties.

The owner of the network should not be the one who delivers the service – so the unbundling of network and service delivery is key in the liberalization philosophy. Former incumbents, that owned the network and delivered the service, have been split up. One part of the incumbent's organization has developed into a network owner; the other part delivers a service.

But service delivery should not be a monopoly, so the former incumbent that is now only delivering a service, is faced with competitors.

This is a blueprint for a greenfield situation. And we all know, blueprints do not work and greenfield situations do not exist! There are many differences between sectors, many different brownfield situations, incumbents sometimes tried to hamper new parties, business models proved to be less attractive than originally thought - but the basics of this philosophy are visible in almost all utility sectors.

One of the main consequences of this philosophy is the extreme organizational fragmentation of the utility sectors as we also explained to you in the animation during week 1. In the old days, there was sometimes only one organization, a public monopolist, that owned the network and delivered the service. Now there are many companies delivering services and there are sometimes even competing networks – particularly in the world of Internet and telecom.

So there is this fragmentation, but there is another thing - the convergence of utility sectors. In the old days there were clear distinctions between for example electricity and transport - but now these two sectors are converging. Solar and wind energy are unpredictable sources of energy, so there might be under- or over-production. That's a problem and the storages

of electricity might be the solution. How can we store electricity? Well, perhaps the batteries of electric vehicles are the solution - and the sector of electricity and transport are suddenly closely connected.

So fragmented sectors are converging, and the result is a spaghetti-like situation. Many actors, many interdependencies - what the social scientists call 'a multi-actor network'.

As part of the assignment for week 2 we showed you how to make an actor analysis. Sometimes these actors have to work together. Take the transport sector, with its many players: several modalities, many regions and per modality, per region a number of players, both public and private, with completely different interests and no central authority. No single actor is in control, there is a network of interdependencies between these actors. As said, sometimes they have to work together - from a client's perspective, it is very attractive to have one pass that can be used in the whole country.

Cooperation in a multi-actor network is extremely difficult - because of the many different interests. How to get actors aligned, when they have conflicting interests. In the remaining part of this lecture,

I will explain the essence of getting actors aligned in a multi-actor world. And I will use a simple example: a family. A family of five - father, mother, a 19 year old daughter, a 16 year old daughter and a boy of 8 years old. Fragmentation. And there are probably different interests in the family. There is no central authority. Mum and dad are equals, and the eldest daughter is 18 years old.

The father has a brilliant idea. He has planned a summer holiday to Italy, in August next year. And he is trying to get his family aligned. Unfortunately, no one agrees with this idea. There is no support for this plan. And you will understand, pushing this idea through is a pointless endeavor.

What to do? The idea is: change this game from a one issue game to a multi-issue game. Put more issues on the agenda than just the summer holiday. Just a few examples: party rules, buying a dog, investing in more iPads, spending weekends together, the skiing holiday, pocket money. Etc., etc.

The mechanism is: the agenda has so many issues, that there is potential gain and potential pain for each of the players.

What's the impact of a multi-issue game? 4 things.

1. A multi-issue game is an incentive to sit down with each other. An incentive to enter the process of cooperation. Each player knows - there is something in it for me, and without cooperation, there is no perspective of gain. And believe me, once you have entered the process, it is very hard to leave the process

2. A multi-issue game. is an incentive for unfreezing. In a one issue game, there is always the risk of an either-or situation. Either in favor of a summer holiday in Italy or against a summer holiday in Italy. And that might easily result in a stalemate. In a multi-issue game, parties will almost automatically become more flexible, because the multi-issue game forces them to play the game of giving and taking.

3. A multi-issue game has strong incentives for cooperation. How does that work? Suppose this family has had several meetings and has reached deals on each of this issue. So there is a deal on party rules. Two family members like the deal, three others don't. there is a deal on the dog – three agree, two don't. A deal on the skiing holiday - four proponents, 1 opponent. Per issue, we'll find another coalition of proponents and opponents. So there are changing coalitions. And changing coalitions create incentives for cooperative behavior. Why? You are my opponent on issue 1. Normally, I Would try to block you. But I know I need your support on issue 2, on which we agree and work together. Because of that – I will behave moderately when talking about issue 1.

4. And then this. Can you imagine that the conclusion of this family is that there will be no summer holiday at all, and that the father of the family is perfectly happy with that? Yes. Why? Because the father will learn during the process. There are so many issue on the agenda, that there are many other ways to serve his interest – having his family together. Multi-issue processes are an incentive for learning.

Back to the world of infrastructure. There is more fragmentation than before.

That makes it, one the hand, harder to cooperate.

One the other hand, more organizations often means more issues, and more issue make it easier to find common ground. So when all the organizations in the transport sector have to reach consensus on one travel card, never say: this is the envisaged cart, please accept it, but try to collect a series of issues. The more issues you have, the easier it is to get the parties aligned!