Centre for International Corporate Governance Research

VICTORIA UNIVERSITY

Sponsor:

Victorian Department of the Premier and Cabinet

Beyond Fragmented Government: Governance in the Public Sector

15-17 August, 2005

Victoria University City Campus,

12th Floor, 300 Flinders Street. Melbourne, Australia
...an analysis around the world shows that we are in the early stages of fundamental economic and social change, that in due course this will probably come to be seen as significant as the industrial revolution as in shaping the nature of the world. For various reasons, it is useful to describe it as the rise of a global knowledge economy, stressing both the global nature of it, and the rising importance of knowledge. This is not just about high-tech industries, although it’s about that, but it’s about an economy wide process that is affecting all industries and sectors, goods and services, low tech and high-tech industries and firms and businesses and governments, although as I emphasise a new round of fundamental change coming from the high-tech industries, and that we need to do our analysis and seek our understanding and develop our policy responses up to the scale of what is going on.

Just a few concepts. We see the driving forces, we see this as a process that has really been going on now for 30 years or so, that the key driving forces are the information technology revolution and the widespread national and international processes of deregulation are opening up and the links between the two, both obviously IT and communications have both made possible, and in some ways made necessary the opening up of the global economy that’s occurred, whereas that opening up has in some ways driven technological change. The defining characteristics, I take
to be rising knowledge intensity, that is knowledge matters more in everything that we do. I am fortunate enough just to come back from four weeks’ holiday and I spent both before and afterwards, or while I was there lots of time on the Internet looking at places. Even taking a holiday now is a very knowledge intensive business. Rise in knowledge intensity and globalisation and openness and so we’re seeing to some degree already, and we’ll need to see more new structures, systems and institutions emerging.

Many features we could talk about, and there’s a somewhat random list here, just to give you a sense of it. Obviously intense pressure on firms in all countries and in most industries, sharp changes in national competitiveness. Those of you who are old enough – and not all of you, obviously – do remember the debates of the 1980s was about how the Japanese were burying Americans in terms of competitiveness and how by the decade later, Japan was seen as being in a great slump and America was burying everybody else – and that’s in the process of changing again, partly of course because of the emergency of major developing countries such as India and China, changing the world, the reduced role of resources and labour in terms of competitiveness as knowledge becomes more important. The emergence of things like e-commerce and e-learning and open source provision of all sorts of things, computers, knowledge increasingly education and in some cases IP. Continuing changes in the economic structure, health rise, the overwhelming importance increasing of health and education and other services. On a quite different tack, low inflation and high personal debt, employment, social policy implications, rising inequality. So there are lots of different features which one might tie together in a fuller analysis, but the four that I mentioned and I just wish to draw out a bit, are these four: what I’d call pervasive global influences. Whether you’re in business or whether in the university, or in government or in
politics, the impact of global firms, attitudes, institutions, influences their pervasiveness. Research for example that I have been involved in, sort of has changed fundamentally over a decade because everyone who wants a job done, has already read the best work available in the world by looking on the Internet, and I think that's a microcosm of the process that most institutions and agencies face that the global influence is present more or less immediately in most choices and decisions.

I mentioned converging technologies. Firstly, the relevance of advanced technologies. Already education, health, communications, but the future relevance of the convergence of the three technologies. New models for growth and development: The Economist recently asked the interesting question well what happens when everything is made in China? They might have mentioned China and India, but that is just a nice symbol for raising the fact that the knowledge economy does raise fundamental questions of the nature of development and how nations and regions and localities achieve growth and how it is changing, and of course the same issue very much applies to China as well.

And fourthly, the renewed importance of culture and place. We have seen as I have said the reassertion, the apparent reassertion in the face of globalisation of the importance of specific cultures and places at the same time in which the wishes of the knowledge of global economy are putting them under greater pressure. Obviously in terms of economic development and so forth, but also in broader terms. If you look at some of the fundamental conflicts going on around the world for example, so that that raises key issues about how one preserves cultures and communities, while still facilitating integration into the global economy.
So, if this paper was fully developed, and if we had the time, what I would have liked to have done is to develop the governance implications in this sort of matrix. Obviously, these four features I have identified have governance implications, and they have difference implications at the different levels of government. Many of them of course raise important issues of supra national governance, governance above the national level and clearly also at national level but at state, local, and focusing here just on the public sector at this conference is focused on the public sector but clearly also the various dimensions of the private and public sector. Clearly, I can't do all of that but I will try to make some comments under the four headings.

I have had some trouble characterising adequately this sense of the pervasiveness of global influences, but it seems clear that in one way or another, global forces are immediately present for example in business at the firm and industry level both in terms of immediate competition for markets in terms of technology provision and innovation and technological competition and so on, and this is present now very much more than it was 10 or 15 years ago. I mentioned research as an example, and universities and governance processes for universities, Commonwealth government processes for universities, are struggling, to some degree failing to respond to this pervasiveness of the global in terms of the research process, and how you preserve the local characteristic and quality of research while ensuring that it meets the global standard. Government analysis and decision making, we have seen a widespread adoption of methods within Australia that reflect global processes and make access for global firms and institutions greater, and also in service delivery methods, technology and institutions.

The generic that I call global influences, which covers firms, products, attitudes, institutions and so forth
obviously is attractive because it brings a whole world of knowledge, a wealth of experience and so forth but it also brings vested interest, the specific objectives of the global party and views formed on the basis of different conditions and experiences. So, there are major governance challenges here which it seem to me we are only beginning to think seriously about in this country. The general issue is the issue of using global influences and resources to achieve local objectives, that is our objectives in our conditions. This requires a level of sophistication in governance process, a level of clarity about what our objectives and our conditions are, and an ability to determine and to think clearly about what aspects of global models and global resources can be utilised to best achieve our objectives and while protecting and developing local capability. It is often difficult, in my experience, to determine the optimum utilisation of those models and the best way of adapting them. There are lots of examples. You can see the big debate we had in the 1980s in the 1990s about the freeing up of the competitive markets, financial markets and the costs that were brought to Australia by the way that we did that. There are the questions about privatisation in Victoria in the 1990s, and the extent to which there was an unnecessary loss of capability in achieving those. Continuing issues about how we managed tendering out contracting and so forth and many, we could go on with many of these issues. In education, I mean these issues are going to become an increasingly important area as intellectual property, knowledge and educational resources become more readily and freely available globally.

I won’t perhaps, given the time constraints, talk too much about convergent technologies, but perhaps more just talk briefly about the case of health, which is one we have lots of debates about in Australia. Health is an interesting case in the sense that it is the sciences which underlie health
are probably the main focus of global innovation these days. The implication, health and health technologies have already generated widespread benefits for people. We have many obvious governance issues in how we deal with, price and resource existing health technologies and new health technologies and they’re issues which are going to become much more rather than less important, and they are issues which all countries whatever their health system, the nature of their health system, whatever that faces. Many of you will have seen, be familiar with the intergenerational report of the Commonwealth government which looked at the cost of new medical technologies. We've had a further discussion of that from the Productivity Commission. We have now continuing debates about the funding of pharmaceuticals, funding of new medical technologies and how we can reform the structure and the governance of the health sector in Australia, Federal/State issues and other issues to help us deal more effectively with these emerging technologies, and that is an issue which spans governance at the very local level, how individual health centres and hospitals are run and managed and linked into national and global processes up to how we manage the national health system and integrate it into global trends.

Just a word to briefly on new models of growth, which I was aware I can’t develop, but I think we all realise that governments of various levels continue to see economic development within their region as a key objective, and they continue to develop structures and governance targets to achieve that. The challenge they face, they realise, at least partly, has changed fundamentally. How it has changed is probably a task for another the time.

Just a word on this business of specific cultures and local places which I think is also very relevant to Victoria and to Melbourne and to some of the challenges we face, but it’s
again a global phenomenon. We are seeing widespread rejection of a supposedly universal western culture, and both on the one hand attempts to defend the local autonomy and local culture and defend the capability of particular places, while at the same time trying to facilitate integration into global economic structures. There are really major governance challenges which we are just beginning to address as to how you can do both those, how you can integrate communities into the global knowledge economy at the same time as permitting the preservation of the communities and their cultures and the growth of the social capital which is imbedded in those. And, in Victoria we have seen what I think is a potential really important initiative, one of the first I have seen anywhere, the Department of Communities which as I understand is an attempt at the structural level to try to set up ways of addressing this sort of question.

So to conclude, what I have been trying to do is simply to say that given the massive changes going on, how we govern our nations, our regions, our institutions, will be critical to what these changes mean for us, but that’s very hard when we still have so much limited understanding of these forces - and I am not here to try to give you anything definitive on that - but it seems to me those of you who have to address immediate governance issues that to see them in this context may be of some value, not so much by providing the solutions but by enabling people to ask better and more pertinent questions when dealing with the multitude of people who pretend to have solutions, which they don't really have. Thank you.

- - - - -