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GOVERNANCE WITHIN A GLOBALIZING FRAMEWORK

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Abstract

Governance has emerged as a major challenge at various levels of society, and is one of the most fiercely debated issues of our time. We are witnessing the countervailing trends towards increasing roles for global organisations of various kinds on the one hand, and yet towards greater localisation on the other. There has been a major shift in many countries away from the dominance of the state towards a complex inter-relationship between the state, the market and the community sector. These trends raise major policy issues for governance in all democratic societies.

GOVERNANCE WITHIN A GLOBALIZING FRAMEWORK

INTRODUCTION

In this presentation, I wish to develop three main themes in relation to the challenges that governance faces in the globalizing framework we are experiencing in this new millennium. Those themes are:

the types of changes with which governance must cope;
the importance of adaptation by society to those changes; and
the features of governance required for adaptation.

Governance will be taken to include governance of the state, the market sector, civil society and the inter-relationships between them. I will return to the nature of governance.

Governance can be considered from normative or empirical perspectives. This presentation, concentrates on what "is" and makes some suggestions about how that could be improved with reference to what "ought to be".

1. CHANGES FACING SOCIETY

The "globalizing framework" itself implies that we are in the midst of a process of change. The magnitude of that change is brought home to us by looking back a relatively short time.

In 1964, when Donald Horne's *The Lucky Country* was published, 'globalizing' and 'globalization' were unfamiliar terms. The publication (Saturday 28 August 2004) of his "40 years on" article, *Still lucky, getting smarter* (Horne 2004), is a reminder of the huge, continuing changes to Australia and its governance. However, Horne's attention is to Australia rather than the globe. For a broader perspective on the path societies have taken to the changes now impinging on them globally, consider Alvin Toffler's *Future Shock*, published in 1970. Even there, the extensive index does not mention 'governance', 'globalization' or 'globalizing' and its focus is on nation-states.

Let us begin by considering the changes that societies face. Some events do occur which are utterly outside mankind's control and which do have profound effects to which societies may or may not be capable of responding. An extreme case within the period of recorded history is the sudden, major climatic event of about 536 AD, possibly precipitated by an even bigger explosion of Krakatoa than the 1883 event. That event was associated with severe social disruption and dramatic changes to governance in many societies across the world (Keys 2000). Other climatic changes, some more gradual and extended, have affected the viability of societies. Whilst important issues arise as to how societies do or can respond to such events, that is not the focus here.

In considering change faced by society, it is interesting to cast our minds back to events within our memories. Australian real disposable incomes have more than doubled in fifty years. George Orwell's 1948 book *1984* has passed its namesake and some see evidence of aspects of the fiction becoming reality. Travel to almost anywhere on the globe has become safe, quick and affordable for most and common for many. Huge computing power, even in personal computers, has become a reality and is still growing rapidly. Mobile phones and the internet have revolutionized communication and access to information.

One of the most prophetic publications remains the Club of Rome's *The Limits to Growth* published in 1972 (Meadows 1972). Like Rachel Carson's *Silent Spring* (Carson 1965), *The Limits to Growth* brought to public attention damning evidence of the adverse impact of human behaviour, and

ultimately governance (although that term was not current), on the very ecosystem and other resources on which we depend.

Since its publication, we have become aware of the damage to the ozone layer; governance did operate within a globalizing framework to take effective action.

We can be less sanguine about the response to global warming. Even today, the President of USA refuses to concede and act on the reports by his own agencies affirming that human activity is a major and probably the major factor causing global warming or, as he prefers to characterise it, climate change. The decision of Russia to ratify the Kyoto Treaty may bring the Treaty into force and leave USA little choice but to join the rest of the world, irrespective of the outcome of the November 2004 election. Like the failure of the US to achieve its objectives in Iraq without the involvement of the United Nations, this suggests the continuing evolution of a globalizing framework of governance.

The Club of Rome's projections concerning the life blood of our material standard of living – oil – is starkly close to fulfilment. On the basis of then known reserves and consumption rates, oil supplies would start drying up about now.

Coupled with the evidence of oil consumption's contribution to global warming, rationality might have suggested effective action within a globalizing framework to conserve oil reserves. The oil price shocks had some effect, but they were not an attempt to deliberately curb squandering of the resource.

Instead, new finds of massive reserves gave false hope. Mankind has acted as if there are never ending supplies. In fact, there has been a steady decline in volumes of newly discovered oil reserves (over 200 billions barrels in 1960-65 to less that 40 billion for the most recent period (Magoon undated) (a television report at the weekend 28-29 August 2004 stated that there had been no new reserves discovered in recent times), and we now know that Shell dramatically overstated its known reserves over many years, leading to recent sanctions by UK & US regulators (Moore 2004).

Australia's consumption of fossil fuel energy sources has doubled since about 1970 (Earth Trends 2003), with transport and industry accounting for over 70%. It continues to rise, as it does in USA. In Europe, consumption appears to be stable or even falling (The Wolf at the Door 2004).

When rationality suggests we should have been reducing oil consumption to conserve a valuable, limited and non-renewable resource, there has been a continuing rise in the consumption of oil in most places except Europe. There is a limited productive capacity to meet rising demand. Most seriously for material standards of living in Australia and similar societies, it is believed by some that the world is now within a year or two of the tipping point at which supply will be unable to meet demand. The likely effect on prices is obvious; the other flow-on effects are highly dependent on governance. The difficulties faced are summed up by the US motor industry's response to a recent Californian initiative to favour hybrid petrol-electric cars. Rather than deciding to market such cars, Ford tried to block the legislation (Ohnsman 2004)!

Many of these changes are a product of governance; they are within mankind's capacity to influence or control. The manner in which society has responded to the strong evidence of resource depletion and of the contribution of human activity to global warming is itself a reflection on the nature and quality of governance within the globalizing framework.

In lamenting the effects of globalization, George Monbiot asserts that "(E)verything has been globalised except democracy" (Monbiot 2004) (p.83).

To me, Monbiot is too bleak. The outlook is not all doom and gloom. To give one very human illustration of change, corruption of public officials by private businesses and other public office

holders is being tackled as never before. The entrepreneurial use of tax havens to defraud governments, and in Enron's case, investors and the market, has recognised by the US as carrying free enterprise a little too far. Both changes involve globalizing frameworks of governance.
In many parts of the world, we see change manifesting itself as countervailing trends. In the European Union, as power aggregates in the European Commission in Brussels and the European Parliament in Strasbourg, power is devolved to the regions in countries as diverse as UK, Belgium and Spain.

2. SOCIETAL ADAPTATION TO CHANGE

To adapt to changes such as these requires the capacity for society to be creative and to direct that creativity towards innovative reforms that address the changes faced by society.

Creativity

Effective responses to newly recognised or unforeseen issues requires the introduction and application of innovative actions i.e. actions having "new elements or forms". Innovative actions thus rely on elements or forms that must be created where there may have been no similar elements or combinations of elements before, i.e. ideas that have been created (Oxford English Dictionary 1989). Creativity ultimately arises from the thoughts of individual people. Cave (1999) believes that individual creativity "takes place unavoidably inside our own personal, social and cultural boundaries". Cave holds that creative output requires both divergent and convergent thinking. Divergent thinking "is the intellectual ability to think of many original, diverse and elaborate ideas", whilst convergent reasoning involves the "ability to logically evaluate, critique and choose the best idea from a selection of ideas" (Cave 1999).

Divergent thinking may include the re-assembly of pre-existing knowledge, theoretical concepts or ideas in new ways, the discovery of new knowledge (e.g. through scientific research) or the combination of new knowledge with pre-existing ideas.

Thinking beyond the individual person's creative processes, it is seen that within groups of individuals, the interactions between them sparks both divergent thinking and convergent thinking. The essence of intellectual discourse includes the propagation and elaboration of new ideas and theories and their rigorous analysis, leading to new insights. Similarly, the same processes are seen in management and politics, although not necessarily subject to the same intellectual rigour!

Creativity is thus an emergent process through which society's ideas arise from spontaneity, interaction and reflection. The application of creative ideas in turn enables the emergence of the innovative responses to changes in society's environment.

Sensemaking v Determinism

Not all ideas are of equal value and application to a society in its particular circumstances at any one point of time. The capacity to relate ideas to the particular issue being addressed is an important aspect of convergent thinking. Notwithstanding the predilection of societies to react similarly (sometimes reflected in the actions of decision-making leaders, sometimes in societal responses), these are rarely if ever deterministic. There is almost always the capacity for conscious human agency.

How then does society select and translate creative thinking and innovation into the most appropriate responses? Weick has coined the term "sensemaking" to describe the process whereby organisations interpret their changing internal and external environment and adapt to those changes (Weick 1999). It may be speculated with the benefit of everyday observations that similar phenomena occur at the societal level. In Weick's construction, beliefs, values, traditions and ideologies are central to the manner in which an organisation (or society) interprets and

responds to its perceived environment. According to this understanding, convergent thinking relies on much more than the tenets of rational choice theory. It requires that the prevalent values within society form an integral part of the way in which a society evaluates and selects from among new ideas and the innovation that arises from them (Weick 1999).

A key factor in how organisations behave is the conduct of their leaders. Leaders may have a highly influential role in the manner in which organisations behave. 20-30% of the performance of corporate entities is attributable to internal perceptions of their "climate". 50-70% of that climate is due to perceptions within those entities of the leadership (Goleman, Boyatzis, and McKee 2002).

In polities, especially democracies, there are two sides of this coin. Leaders undoubtedly have influence over outcomes in so far as they have executive powers, through the persuasive powers to which they often owe their leadership positions and as a result of the status that their high offices attract. Emotional intelligence may well be one ingredient of their effectiveness. Mayer & Salovey identified "emotional intelligence" as "a type of social intelligence that involves the ability to monitor one's own and others' emotions, to discriminate among them, and to use the information to guide one's thinking and actions" (Mayer and Salovey 1993).

However, where leadership is open to contest and subject to the democratic judgement and authority of the citizens, those self-same citizens have potential roles. Even in non-democratic circumstances, the people have a latent potential as seen dramatically in central and eastern Europe in 1989-90, the toppling of President Marcos in the Philippines and President Suharto's forced resignation in Indonesia.

However, the variability in human responses is exposed by reference to the reverence with which the North Korean leadership continues to be treated and similar examples in several other countries, including the king of the Thai constitutional monarchy. We see our autonomous and interdependent fellow men and women as being susceptible to being led to accepting beliefs and behaving according to beliefs framed by the leader(s) in question. The effect is to limit the divergence of thinking identified as required for creativity.

Features of systems of governance that do not restrict or which facilitate divergence may therefore offer adaptive advantages to their societies. Those in which power is dispersed may be more likely to enable the emergence of creative ideas and innovative responses than those in which the "the intellectual ability to think of many original, diverse and elaborate ideas" (Cave 1999) is not welcomed or is actively discouraged.

Some evidence for this is to be found in the superior social, economic and environmental performance of states with extended periods of parliamentary systems of governance when compared with states in which powers are concentrated through the institutions of the state, organised religion or both (Lijphart 1999). The failures of the command economies to match the economic and environmental performance of the democratic states may reflect that. Ziauddin Sardar has written extensively on the stifling effects of widespread doctrinaire interpretations of Islamic teachings and practices (Sardar 2002).

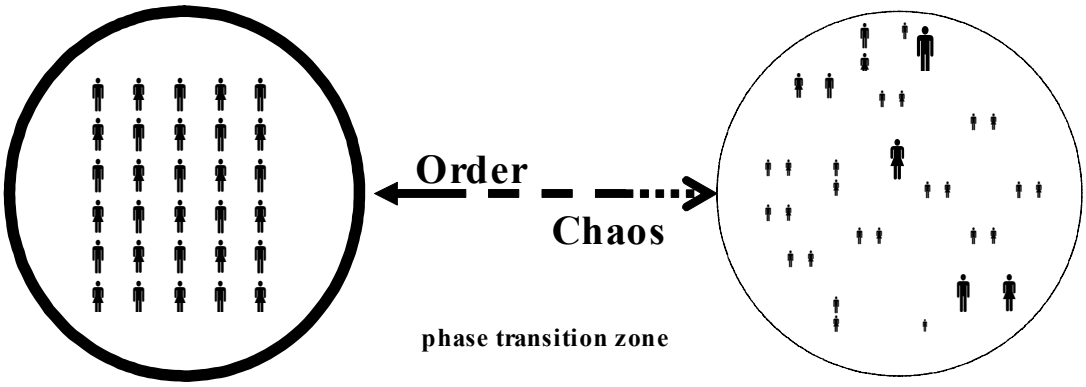
Democratic systems and parliamentary systems in particular appear to render the population less vulnerable to eccentric leadership; absolute monarchy and other forms of dictatorship seem to render populations more vulnerable to such risks.

Limits of Dispersal

The observed risks associated with unlimited dispersal of power must also be explored. Stuart Kauffman has observed that the superior outcomes occur in systems operating in the phase transition zone between chaos and order (Kauffman 1995). The effects of an absence of central rule-making and standard setting can be seen in communities in which the state is weak and ineffectual, such as Somalia of recent years.

A contributory factor may be found in the two components of creativity. Dispersed power is understood to facilitate divergent thinking.

However the second component, convergent thinking, requires the "ability to logically evaluate, critique and choose the best idea from a selection of ideas" (Cave 1999). The opportunity to undertake logical evaluation and the associated steps generally requires a relatively stable and secure environment in which the thinkers can put aside concerns for survival in order to fully examine and debate the products of divergent thinking. A highly unstable environment derogates from that opportunity. Reduced creativity in responding innovatively to environmental change can be expected to lower the adaptivity of the socio-political system.



ORDER
Rigid government control
(= command economies)

CHAOS
No government coordination
(= anarchy)

The most productive outcomes appear to be in the transition zone between a totally neo-liberal approach and centralised command and control. It is in this zone that there are high levels of interaction, leading to creativity but with sufficient social policy co-ordination to direct creative ideas into productive innovation orientated towards preferred social outcomes.

Diffusion of Ideas

The diffusion of ideas is clearly closely related to the divergent thinking associated with creativity. Changes which diminish the exchange of ideas have the potential to limit or depress creativity, whether driven by state actors as in the case of censorship or by the operation of "market forces".

Governance Design for Uncertainty

These considerations can be compared with the contemporary thinking on the desirable features of governance. According to the UNDP Bureau for Policy Development Public Private Partnerships for the Urban Environment (PPPUE)

> Good governance is among other things participatory, transparent and accountable. It is also effective and equitable and it promotes the rule of law. Good governance assures that political, social and economic priorities are based on broad consensus in society and that the voices of the poorest and the most vulnerable are heard in decision-making over the allocation of development resources (United Nations Development Program 1997).

A similar definition was adopted by the 1999 World Conference on Governance which declared that good governance required:

> a system that is transparent, accountable, just, fair, democratic, participatory and responsive to people's needs (World Conference on Governance 1999).

Participatory, democratic practices can be seen to be conducive to divergent thinking whilst accountability can be seen as providing incentives for convergent thinking by some actors and requiring it of others. Transparency is closely related to accountability but also facilitates the free exchange of ideas that aids divergent thinking.

Application of the principles of fairness and justice contributes to ensuring that governance reflects values prevalent in the community and thereby to the stability that is conducive to convergent thinking, as does responsiveness.

Lest it be thought that decentralisation is part of the answer, as implicit in Alvin Toffler's 'anticipatory democracy', it is useful to reflect on the capacity of specialist interests to give priority to broader issues, or to coalesce around agreed solutions to common problems.

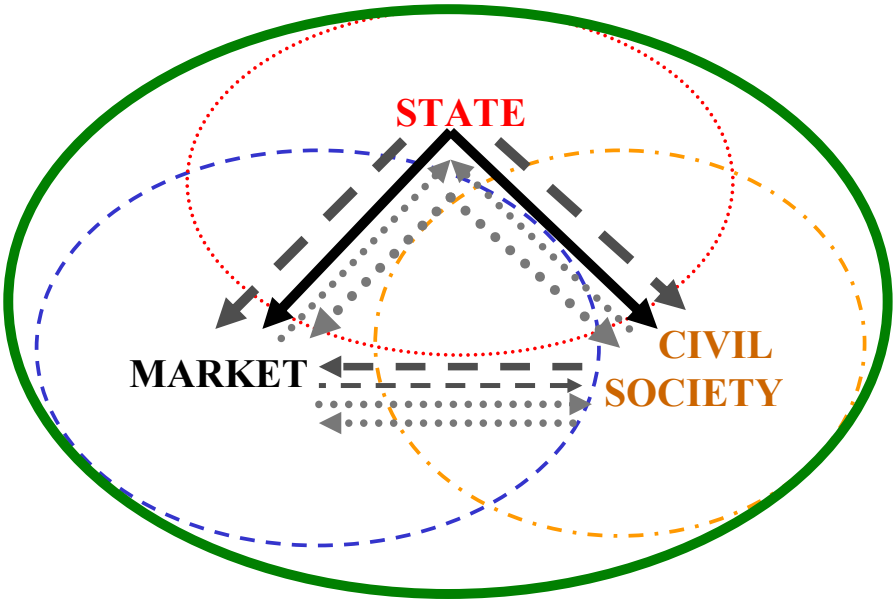
Greater localisation of governance represents a serious threat to governance affecting global policy issues. Local political authorities almost invariably put more immediate considerations ahead to wider interests. Local authorities put the interests of the local polity ahead of the broader society within which it is located. That is to be expected. Local authorities often put the short term ahead of the long term. We see that more explicitly in corporate governance, where the incentives and rewards are usually much more narrowly focussed than in almost any political institution. In civil society, a very wide range is seen, but some with the most global of geographic interests may nonetheless have a very limited "one issue" remit.

An important part of the explanation for this phenomenon is to be found in the operation of power and its capacity to override rationality, demonstrated by Flyvbjerg in his study of decision-making in Aarlborg, Denmark (Flyvbjerg 1998).

3. ADAPTIVE GOVERNANCE

Toffler, looking forward in *Future Shock* in the final chapter "The Strategy of Social Futurism" concentrated on planning by societies and the state (e.g. 'The death of technocracy', 'The humanization of the planner', 'Time horizons', 'Anticipatory democracy') in a way that is the antithesis of the neo-liberal ideology that continues to so strongly influence our thinking. However, his final proposal - "anticipatory democracy" - was a concept that has some resonance today. It focussed on the dispersal of power and mass democracy. The idea is attractive but it fails to recognise some major difficulties.

The governance of society occurs through more than the state and its institutions. Three major sectors of society are recognised: the state, the market and civil society (Boulding 1970; Offe 2000; Polanyi 1957). These in turn correspond with three major forms of governance: the state, which has exclusive use of legislative and coercive power, corporate and other market sector governance and civil society governance. Civil society and its governance includes bodies such as the Australian Institute of International Affairs and the influence it has in public discourse and policy making.



Society:

State, Market and Civil Society interconnected, interdependent & interacting as a complex evolving system

Rule setting

Coercive power

Persuasive power

A recent example illustrating this model of governance within a globalizing framework comes from corporate governance reform. Following various corporate scandals and collapses such as HIH (Australia), Enron (USA), Equitable Life (UK) and Vivandi (France), there have been both national and international steps to reform both the law and the practice of corporate governance.

The actual collapse of Enron is instructive. The information that led to its downfall had been in the public arena for months, in documents posted with the Securities and Exchange Commission (SEC). They documented a highly complex set of financial arrangements which effectively took liabilities off the balance sheet of the parent company, creating a false picture of its profitability. The SEC chairman saw the SEC as a mere post box, making information available to the market as part of the government's role as a service industry. Two curious journalists, stimulated by the implausible resignation of Enron Chairman Skilling, unravelled the scam and the Wall Street Journal revealed it to the world. In this capacity, the media can be seen as performing a civil society function.

The stock market and financial institutions dealt harshly with Enron. Their auditors, Arthur Andersen, had been compromised by the value of consulting work also undertaken for Enron. The market for auditing and accounting services forced a precipitate collapse of Arthur Andersen.

Subsequently, the US Congress used committees of both House to investigate Enron and similar matters. Their public hearings and the interactions of organs of the US Government, business, accounting and auditing professional bodies and other civil society, through their inputs to the deliberations of Congress, ultimately produced the Sarbannes-Oxley Act. This Act forces audit independence and a number of other corporate governance reforms.

These events in USA caused ripples that spread throughout the globalizing framework of corporate governance. Other financial scandals led to inquiries and reforms in national jurisdictions.

In Australia, the Corporate Law and Economic Reform Program (CLERP) process was helped along by the HIH Royal Commission. The recent CLERP 9 Act was the product of a highly interactive process involving Treasury, the Royal Commission Report, business, professional bodies and other inputs.

There was also a profound global effect. The US which had defiantly resisted efforts by the rest of the world for global accounting and auditing standards and attempted to force acceptance of its own domestic standards, conceded weaknesses in those. The US co-operated with the International Accounting Standard s Board (IASB). The IASB is a non-government professional body, based in London, in which a Melbournian, Warren MacGregor, plays a key role. The result was the development of the new international standard.

These types of interrelationship between the state, the market sector and civil society seem to be developing as especially important in the creative development of innovative solutions to change affecting society.

However, it would be misleading to suggest that good governance is necessarily simply a matter of getting the processes right. It is crucial to recognise that institutional structures are insufficient in themselves to guarantee democratic behaviour by individuals or institutions such as the executive government. Flyvbjerg has reported a detailed study of the actual operation of democratic institutions in Aarlborg, Denmark. Aarlborg is the city at the centre of a region of about 500,000 people. Flyvbjerg found that the use of power and the rationalisation of the exercise of power severely comprised democratic ideals of decisions arising from reasoned consideration of facts and arguments.

Flyvbjerg puts ten propositions:

1. Power defines reality.

2. Rationality is context-dependent, the context of rationality is power, and power blurs the dividing line between rationality and rationalization.

3. Rationalization presented as rationality is a principal strategy in the exercise of power
4. The greater the power, the less the rationality.

5. Stable power relations are more typical of politics, administration, and planning than antagonistic confrontations.

6. Power relations are constantly being produced and reproduced.

7. The rationality of power has deeper historical roots than the power of rationality.

8. In open confrontation, rationality yields to power.

9. Rationality-power relations are more characteristic of power relations than of confrontation.

10. The power of rationality is embedded in stable power relations rather than confrontations (Flyvbjerg 1998).

Those findings resonate with our observations of the operations of governance in many settings. There may be one significant difference relevant to Australia. The seventh proposition suggests that the operation of power reflects long-standing historical power relations. Those power relations are much less settled and less significant in essentially immigrant societies like Australia, USA and Canada compared with most of Europe, Asia and Africa. Nonetheless, the general point that power and rationalisation can prevail over rationality notwithstanding democratic institutional

structures remains true. The reason is that human behaviour may be limited by rules and structures but it is still a key factor in how rules are interpreted and structures are used.

The role of cultural norms, which express themselves as informal rules of behaviour, is central to the manner in which governance operates. As Sen puts it:

> The need for institutional developments has some clear connections with the role of codes of behaviour, since institutions based on interpersonal arrangements and shared understandings operate on a basis of common behaviour patterns, mutual trust and confidence in the other party's ethics. The reliance on rules of behaviour may typically be implicit rather than explicit – indeed so implicit that that its importance can easily be overlooked in situations where such confidence is not problematic. But wherever it *is* problematic, overlooking the need for it can be quite disastrous (Sen 2001, p. 265).

These observations highlight the significance of the nature of interactions in the real world of mankind. Jervis (1997) has described a wide range of interactions which commonly conform to certain psychological patterns which are susceptible to definition and prediction to varying degrees. He has derived these mostly from observations in international relations. (Jervis 1997; Monbiot 2004).

We can derive a number of behavioural features that are conducive to good governance:

1. trust
2. willingness or desire to reach agreement
3. shared culture
4. consistent values
5. compatible objectives
6. norms of behaviour in common
7. processes agreed e.g., formal rules of procedure (codes of conduct, regulations, etc)
8. rules of procedure provide basic infrastructure for interaction
9. rules of procedure allow flexibility
10. actors have similar bargaining power
11. actors are fully, or similarly, informed (adapted from Coghill 2004)

Whilst these features are conductive they nonetheless must confront the realities of power. As shown by Flyvbjerg, rationalism is the weapon of the less powerful against rationalisation used by the powerful to resist change. The ideals of the United Nations are based on rationalism but we see power-rationalisation used by the powerful to defend/advance their own interests e.g. Iraq. Only belatedly did rationalism make a comeback.

We have seen similar rationalisation used by IMF bureaucrats to force conditional financial assistance on countries in crisis. Too often we have seen a cycle of IMF prescriptions for countries in financial crisis deepening the crisis – most immediately Argentina, but recently Indonesia (Monbiot 2004).

The World Trade Organisation is another instance in which rationalism as used by less powerful is in fierce conflict with the rationalisation of the powerful seeking to defend/advance their interests.

These examples highlight the importance of using structure and process in conjunction with constant efforts to moderate the use of power and rationalization to frustrate rationality. Neither alone will suffice.

We are left with Monboit's observation that "(w)e cannot warrant that democracy will deliver what we consider to be the right results. We can warrant that the absence of democracy will deliver the wrong ones" (Monbiot 2004, p.85).

The globalizing framework requires governance that balances power more equitably, as it does within true democracies. The world needs contestability or competition for political power – power and rationality.

Monbiot proposes a parliamentary forum at United Nations level, as did Professor Lord Meghnad Desai at Monash University last week. Its great value would be in raising the level of accountability for the actions of governments, intergovernmental bodies and global institutions.

What type of future governance can we then look forward to? The optimist's view suggests that mankind will continue to grope along with incremental improvements and occasional leaps ahead, orientated towards good governance.

A global democratically elected assembly would seem to be one leap ahead – a lofty goal of good governance in a globalizing framework. It is the type of goal for which we should all strive.

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