Governing Networks in the Hollow State:
Contracting Out, Process Management Or A Combination of the Two?

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Abstract:

The hollow state is characterised by governing through networks. In this article, we explore the nature of the hollow state and trace and illustrate three basic uncertainties in the decision making process which create complexity: knowledge uncertainty, institutional uncertainty and strategic uncertainty. Next, we elaborate the main characteristics of contracting out and address the issue of whether these fit the nature of the hollow state. Finally, we ask if the role of politicians should change given the characteristics of the hollow state. We conclude with some thoughts on effective management in the hollow state and the role of process management and contracting out.

Key Words:
Hollow state, networks, contracting out, (network)management,

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1. Introduction: Governance in the Hollow State

Almost all of the literature on public management agrees on at least one point: the shape of the public organisation and the way it governs and manages societal problems has changed dramatically in the last two decades. More than ever before, governments are dealing with other autonomous actors in order to realise their policy objectives. There are different opinions on the causes of this and how the situation should be handled.

In the view of New Public Management, the situation is the result of reforms in government which has contracted out numerous services and downsized its policy and organisational infrastructure. Governance should be arranged by using contract and other market-like mechanisms (Osborne and Gaebler, 1992; for an overview of public management reform in western industrialised countries, see Pollit and Bouckaert, 2000). From a governance perspective, this situation is simply a result of the growing complexity of society and the dependence of public actors on resources controlled by other actors in order to achieve (public) goals. Governance should be handled by strategies of network management (Rhodes, 1997; Kickert, Klijn and Koppenjan, 1997)

Both arguments probably have some validity and might even be related. Because governments have outsourced services, they increasingly find themselves in networks of autonomous organisations which they have to deal with in order to achieve complex policy aims or service delivery. And because society has become more complex and specialised, governments cannot perform all of the necessary tasks alone; they must rely on other actors and try to outsource or privatise tasks in order to achieve more flexibility.

The Hollow State: A Governance Problem

The result is what has been called a hollowing out of the state. Power and tasks are shifted from the central state and from public actors in general to a wide array of - often autonomous - local, non-profit and private actors. This hollowing out has occurred on the national as well as the local level (Lowndes and Skelcher, 1998; Clarence and Painter, 2001). To overstate the image, one could say that the classic image of the state that organises service delivery and policy making with its own bureaucracy is being replaced by a state which only sets the conditions and tries to specify the products or policy aims it wants to achieve. Then other actors carry out the implementation (see Milward and Provan, 1993; Rhodes, 1997; Milward and Provan, 2000).

But the hollow state is not only characterised by the fact that the implementation of politics and services is increasingly being done by autonomous actors. The hollow state is also characterised the complexity of its decision making. Because policy cannot be controlled from the centre, decision making involves more actors and becomes more complex. This characteristic of governance (see also Rhodes, 1997; 2000) of the hollow state is the main focus of this article.

The hollowing out of the state, both in terms of the autonomous actors who have taken over policy implementation and service delivery and in terms of changing patterns of decision making, raises the question of governance: how can we organise policy implementation and service delivery. Since the seminal work of Pressman and Wildavksy (1983) and the substantial amount of implementation research that followed, everyone knows that implementation is problematic. The New Public Management suggests contracting as an important governance mechanism for

implementation. But does this mechanism fit the characteristics of the hollow state, especially the changing patterns of decision making?

The Structure of this Article

In this article, we briefly explore the nature of the hollow state. This provides the opportunity to look at its characteristics and to consider an answer to the governance question. A substantial amount of research has already been done. In the field of service delivery, in particular, interesting research has been done (see Milward and Provan, 2000). In this article, we focus more on complex decision making instead of service delivery. In doing so, we get a slightly different picture of the hollow state. After this, we examine the characteristics of contracting and try the answer whether this mechanism is suitable for managing the hollow state. We then discuss the role of politics and politicians in the hollow state. In contracting arrangements, they have a very clear role: specifying the product before it is contracted out. We make some critical observations on this assumption and the primacy of politics - which still dominates the empirical practice of decision making - in light of our observations on the characteristics of the hollow state. We conclude with some observations on management.

2. The Nature of the Hollow State: Institutional and Strategic Complexity

The discussion on the hollow state seems to be dominated by research on service provision. It focuses on how public actors can organise services such as social security, health care, housing and other services through the efforts of other actors (Milward and Provan, 2000). This attention for service delivery, however, tends to obscure another side of the hollow state, which is no less important: that of complex decision making. Service delivery is characterised by a more or less clear image of a product while many policy problems, i.e. environmental or infrastructural problems, are characterised by a considerable amount of ambiguity. This has consequences for the image we attain of the hollow state.

Decision Making in the Hollow State

Decision making on societal problems in the hollow state is complex. Not only are many different actors involved but problems are often complex in the sense that advanced knowledge is required to provide solutions for the problems (Kickert, Klijn and Koppenjan, 1997; Rhodes, 1997). Complexity in decision making processes has three characteristics:

Knowledge uncertainty; mostly, we simply don't know the nature of the problem because we lack knowledge about the problem, its causes, its effects and so on (Dryzek, 1997). We know we have a problem with the level of CO^2 in the air, and we now know for certain that it is a real environmental problem, but we simply don't know how harmful a high concentration of CO^2 will be in the future. Uncertainty also exists about the right ways to tackle the problem. So in modern network society, (Castells, 2000) many problems are complex simply because we don't have the right information available or if we have the information, it is scattered among a wide variety of actors. In some cases, we might *never* attain that information.

Institutional uncertainty; most societal problems do not fit neatly in existing organisational networks. Because of the fragmentation of the network, decisions which are important for a particular societal problem are being taken by a large number of actors in various policy arenas. Sometimes these arenas are situated in one network but these arenas can also contain actors of different networks.[i] In the last case it is very probable that actors in the arena bring along different rules from different networks. This makes decision making extremely complex from an institutional point of view. Decision making thus often calls for the connection of various arenas in various networks. The complexity of the implementation and the enforcement of the Kyoto Protocol on reducing the CO^2 level in the world are of course an extreme example of this. But also on national or even local level, decision making often calls for the connection of different arenas.

Strategic uncertainty; initiators of policy proposals have to consider the strategic uncertainty of decision making processes in the hollow state. Because so may different actors are involved in decision making and each actor has his/her own perceptions of the nature of the problem and the desirable solution, strategic interactions are complex and can lead to unexpected outcomes (Kingdon, 1984; Klijn and Koppenjan, 2000). This makes decision making in the hollow state unpredictable, and it can result in blockage or stagnation for shorter or longer periods. The CO^2 level and the Kyoto Protocol can again serve as an excellent example of the complexity of strategies of various actors. Each country has it own perceptions on how urgent the problem is and each attempts to act strategically so that its interest are not damaged. A new strategy of one of the important countries, like the refusal of the US to accept the agreement, can cause problems because other countries will react to that.

An Example: Tackling An Environmental Problem

To get an impression of the complexity of decision making in the hollow state and the uncertainties that go accompany it, we examine the decision making in the Netherlands on zinc emission from building materials into water and aquatic sediments. It is the story of a ten-year, highly conflictive, policy battle between central public actors, local public actors and private actors in which each party had its own arguments backed by its own (scientific) research.[ii] While it is a Dutch story, many characteristics can be found in decision making processes in other countries as well (For the UK, see Marsh and Rhodes, 1992; Marsh (ed.) 1997, Rhodes 1997, for the US, see Laumann and Knoke, 1987).

The complexity initially arose from uncertainty about the nature and content of the issues and their solutions. Relevant questions included: what are the environmental risks of high concentrations of zinc in water? What is the ‘natural level’ of zinc concentration? Different research provided different answers and answers shifted over time. The problems became increasingly complicated because each party performed (or contracted) its own research with its own basic initial assumptions.

The complexity of the issue was exacerbated by the institutional context in which this issue was debated. Actors were involved on the basis of already existing mutual relations. The policy that provided a solution to this environmental issue would not be written on a blank tablet. Multiple policies and multiple networks of organisations focussed on the development and implementation of policy. In this decision making process three networks that were important for the decision making were isolated:

- the environmental and product network, in which the Ministry of Housing, Spatial Planning and Environment (HSPE) and especially the environmental section (the Directorate-General for the Environment), the RIVM (a loosely tied research institute of the directorate) and the industry (not only the zinc industry but also other branches and their organised interests) discuss environmental quality objectives and product innovations;
- the building and public housing network, in which the Ministry of HSPE, especially the housing section (the Directorate-General for Housing) and, provinces, municipalities, and the building sector (private building companies, developers, architects etc.) discuss building and dwelling;
- the water network, in which the Ministry of Transport, Public Works and Water Management (TPWWM), especially the water management sections, the RIZA (a loosely tied research institute to the Ministry of TPWWM), the water boards, provinces and municipalities discuss water quality and efforts to improve it. This network is strongly dominated by public actors that are involved in safeguarding the quality of water.

Public as well as private actors are engaged in all of these networks, although the third network is strongly dominated by public actors. All networks are tightly integrated with a strong sectoral character and actors which frequently interact with each other. Actors, however, interact on a very limited basis with actors from other networks. In addition to these three networks, five arenas were identified where interactions concerning the decision making around zinc emissions occurred. These five arenas were also rather separated from each other. We briefly describe these arenas in Table 1 in order to give a flavour of the institutional complexity.

Table 1 An Overview of the Arenas in the Zinc Discussion

Arena	Objective Setting Arena	Emission Arena	Sustainable Building Arena	Diffuse Sources Arena	International Arena
Main Actors	Ministry of HSPE and the Directorate-General for the Environment, Ministry of TPWWM, RIVM, RIZA, branch organisations of the zinc industry	Ministry of HSPE and Directorate-General for the Environment, Ministry of TPWWM, RIZA, zinc industry, Research bureau's	Ministry of HSPE and Directorate-General for Housing and the Program Bureau for Sustainable Building, The Netherlands Steering Committee for Experiments in Public Housing (SEV), overarching organisations in	Ministry of TPWWM, RIZA, Ministry of HSPE; water boards, provinces, municipalities and their overarching Organisations; Ministry of Agriculture, Natural Resources and Fisheries;	Ministry of HSPE, RIVM, European zinc industry, ministries with authority in this area and research institutes of member states

			building sector, research bureaus, zinc industry	Ministry of Economic Affairs; corporate sector; RIVM	
Existing Since	1985 zinc on list of prioritised substances	1985 zinc on list of prioritised substances	1993 publication of SEV guidelines	1973 new name since 1995	Mid 1990s first overview by RIVM
Subject	Ecotoxicity zinc: environmental risk, objective assessment method, values	Size zinc emissions from building materials solutions and alter-natives to zinc products	Research methods to determine environmental risk solutions and alter-natives to zinc	Steering and instruments emission reduction solutions and alter-natives to zinc	Ecotoxicity zinc: environmental risk, objective assessment methods, values
Level	National	National	National and sub-national	National and sub-national	European Union

Source: Klijn, Van Bureren and Koppenjan, 2000

Not only do the networks and the various arenas have little interaction with each other, but the arenas are situated in different networks as can be seen in Figure 1. Some arenas, like the emission arena where discussion on the amount and sources of zinc concentration in water occur, are composed of actors from two different networks. Other arenas, like the sustainable building arena where lists of desirable and undesirable building materials are composed, are situated in one network.

Figure 1 here

The Hollow State and the Network Society: Complexity is Here to Stay

The hollow state is characterised by complexity. The hollow state is a state where services and policy outcomes are formed and realised through networks of organisations. Policy formation and implementation are ongoing processes that influence each other, decisions are being taken by a wide variety of actors and in different arenas which sometimes belong to different networks. Interesting products or policy outcomes can only be achieved by co-operation among different public and private actors (Rhodes, 1997; Kickert, Klijn and Koppenjan, 1997; Osborne 2000). These characteristics of the hollow state call for very sophisticated forms of management.
In this complexity and its network character, the hollow state resembles modern society which has been labelled the network society (Castells, 2000). Some characteristics that can be attributed to the network society are presented in the following list:

- *globalising;* partly as result of information techniques, firms operate on a global scale and economic activities are less tied to a given space. Economic activities not longer restrict themselves to nations. This also makes it harder for public actors to govern economic activities (Faulkner, 1995; Castells, 2000).

- *chains and interdependencies;* as result of specialisation and growing demands of consumers, more and more, products are produced in chains or networks of specialised firms. Knowledge is specialised and dispersed among different actors. This characteristic of interdependency increases the importance of horizontal relations at the expense of vertical relations. Quality of products and services increasingly rely on the chain between organisations instead on the performance of one single organisation (Alter and Hage, 1993; Castells, 2000; Nooteboom, 1998).
- *individualisation;* as a result of mass media and information techniques - but also as result of emancipation processes - citizens identify less with a group and determine their own values and identities. This results in far more variation of values and ideas than some time ago. Citizens do not necessarily show less solidarity, but their solidarity has become an option which they choose to exercise instead of something self evident (Sociaal Cultureel Planbureau, 2000);
- *loss of political identity;* citizens feel less attached to political parties or political systems. Memberships of parties has declined rapidly, citizens tend to evaluate public actors critically and do not accept decisions of public actors at face value. They have to be convinced (Sociaal Cultureel Planbureau, 2000; Castells, 1997).

The rise of the network society will make society more fluid, more horizontal, more plural in values and less likely to be governed from above by public actors. At the same time, problems in this society will call for more integral solutions that have to be realised with many different actors with different knowledge. The network characteristics of the hollow state clearly show the effects of the emergence of the network society and the complexity that goes along with it. It is very unlikely that this will change in the time to come.

3. The Limits of Contracting

Contracting as a governance mechanism has increased rapidly during the last decades (Deakin and Michie, 1997; Pollit and Bouckaert, 2000). Is a strong emphasis on contracting out a solution for the governance problems of the hollow state? To answer this question, we must first look at the characteristics of contracting out and relate these to the characteristics of the hollow state which were analysed in the previous section. Contracting as an organisational arrangement assumes at least two basic conditions: that you can specify the product and that you can monitor the interactions. Neither of these assumptions are unproblematic in the light of the previous elaborated characteristics of the hollow state.

Contracting and the Need for Product Specification

Product specification is essential because you have to know precisely what you are contracting out. It is also important because it provides the opportunity to evaluate the performance of the contractor. Is what he delivers in accordance with the specifications of the product? Interestingly, this need for specification goes along with a renewed interest for political guidance. The aim of most of the public management reforms was to transform governments into leaner, more

effective steering organisations; or to do 'more with less' in the words of Osborne and Gaebler, proponents of these government reforms. Governments should be steering - that is setting goals and trying to achieve them, instead of rowing - that is carrying out all of the service provisions by themselves. In their own words: "Governments that focus on steering activity shape their communities and nations. They make more policy decisions. They put more social and economic institutions in motion. Some even do more regulating. Rather than hiring more public employees, they make sure other institutions are delivering services and meeting the community's need" (Osborne and Gaebler, 1992, pp ..).

Osborne and Gaebler's plea for an entrepreneurial government essentially comes down to a plea for clearer specification of desired products or services and the outputs that must be achieved in relation to these services. But it also implies a clear separation of responsibilities between decision making on the one hand and delivery and implementation on the other; and between political actors and providers.

In this view, governments operate as skillful buyers who decide what they want, specify outputs and then discern which organisation - public but autonomised, non profit or private - can best deliver the service that government wants. Political steering and responsibility is guaranteed by a clear specification at the beginning and by separating policy formation from policy implementation (Lane 2000; Pollit, et al, 2000). Thus, interdependencies and responsibilities are separated. But one of the main characteristics of the hollow state is that such a separation is hard to make because of institutional fragmentation and strategic and knowledge uncertainty. Often, we simply do not know what the problem is, how much we know about the problem and how to tackle it. But it is also very hard to make a clear distinction between policy formation and implementation and between the various decisions that are being made by a wide variety of actors in different arenas.

This makes the contracting out arrangement only suitable for a limited number of cases: situations in which consensus has been reached on the type of solution and the knowledge uncertainty has been reduced by mutual consensual validated knowledge. If these conditions have not been met - and this will be the case quite often in the hollow state - then contracting out will not be suitable as a governance mechanism.

Contracting and the Need for Monitoring

The possibility of monitoring interactions is important because the quality of the output is dependent on the effort that the contractor puts into the production process. Because the contractor might have an incentive to put in less effort, monitoring will be needed (Deakin and Mitchie, 1997; Williamson, 1996). Thus monitoring is used to protect against potential opportunistic behaviour of the contractor.

These possibilities for opportunistic behaviour become more important as actors become more dependent on each other because of specific investments (Williamson, 1996). Safeguards in the contract are often used to protect one's self against the opportunistic behaviour of other actors. But monitoring and including safeguards in the contracts assume that interactions *can be* monitored and that behaviour can be foreseen. But we have already seen that interactions in the hollow state are very complex and often unforeseen. This makes the possibility of monitoring interactions and/or providing safeguards somewhat difficult. As interactions involved in realising a product or service or realising policy outputs increase, the more difficult it will be to monitor

them. So tightly structured contracts are probably not very well suited to complex situations where monitoring is costly.
One additional observation is that if governing services or policy in the hollow state frequently requires a whole network of organisations, the performance of these networks is enhanced by a certain amount of trust and learning (Grabher, ed., 1993; Lane and Bachman, 1998; Klijn and Koppenjan, 2000). But tendering stimulates competition and self-oriented opportunistic behaviour among organisations (at least during the phase before the actual tendering takes place). Milward and Provan find a tension between the need to tender the service provision to acquire and maintain incentives for cost efficient services and the need to promote interaction and learning processes between organisations to promote better service delivery. Contracting tends to disrupt the network after which new learning and interaction processes are needed (Milward and Provan, 2000).

To Relational Contracting and Long Term Relations

Thus, contracting out as governing mechanism for the hollow state is not without problems. It does not always fit the existing networks and it is not always possible to specify a product and organise an effective monitoring strategy. Interestingly enough, a number of researchers in business and organisational science see a growing importance in long term contracting and trust in business relations (Miles and Snow, 1986; Alter and Hage, 1993; Hakanson and Johanson, 1993, Lane and Bachman, 1998), although this trend varies in different sectors and also accordingly to national cultures (see, Fukuyama, 1995; Sako 1998).
Because consumers have high expectations of products, knowledge is specific and requires specific investments and the product life of products is short, firms have to co-operate more than ever to survive in rapidly changing markets (Miles and Snow, 1986; Hakansen and Johansen, 1993; Alter and Hage, 1993; Nooteboom, 1998; Castells, 2000). The number of strategic alliances has grown enormously despite the high mortality rate of these co-operations of more than 50% of the cases (Faulkner, 1995). It is obvious that private firms have to realise new and better products on the market which can often only be achieved by co-operation between firms. They take the failures for granted in search for the successes.
And although one can also find long term contractual relations between public actors and private firms, like defence contracting in the UK (see Heartley and Parker, 2001), relationships between public actors and private actors seem to differ from relations between private actors. The question of control seems to dominate the first relation more than the last. This probably has to do with the character of public actors and the position that is reserved for political actors.

4. Politics in the Hollow State: The Problem of the Primacy of Politics

If we acknowledge the fact that the hollow state is characterised by complexity and ambiguity, this must have consequences for the role of politics. While other roles of politics are being discussed along with the role and function of politics in the modern network society (Hirst, 1997; Castells, 1997; Klijn and Koppenjan, 2000a), the thinking about the role of politics continues to be dominated by the idea of the primacy of politics. This suggests that we choose politicians who are going to implement the policy program we want, and that political institutions are located at

the centre of all policy making processes. Empirical research during the last decades has proven time and again that this assumption is empirically incorrect even though political decisions do matter. Nevertheless, the notion that politics is at the centre still remains an important normative assumption. It is this assumption and the expectations of politicians which are often problematic in experiments with interactive decision making or other methods for including more actors in the decision making process (Klijn and Koppenjan, 2000a).

Contracting As 'Central Steering Revisited'

The idea of contracting out fits surprisingly well with traditional ideas of politics at the centre. This probably accounts, in part, for the attention it has received. In the ideas of the new public management, politicians only have to specify the product. By separating policy formation from policy implementation, they can gain control over the content and leave the service delivery to other actors thereby becoming more effective 'entrepreneurs'. If the implementation process does not proceed according to their wishes, they adjust the contract (or re-tender the job) by making it more detailed and including more incentives for compliance. One can find these tendencies to refine the contract in the practice of the Private Finance Initiatives in the UK where public tasks (like the building and maintenance of traffic roads) are being contracted out to private firms in a long term Design, Finance, Building and Maintenance (DFBO) contract. But these tendencies can also be seen in the discussions on public-private partnerships in the Netherlands. In both cases, public actors want to shift as many risks as possible to private partners. This is labelled under headings such as 'value for money' or 'risk transfer'. At the same time, public actors want maintain a firm grip on the content of the contract and the implementation process (Highway Agency, DBFO Value in roads, 2000; Kenniscentrum PPS, 1999). The main argument for this practice is that political decisions have to be made by political actors (Kenniscentrum, 1999). Interestingly enough, in this case long term contracting does not go hand in hand with more reliance on trust but with somewhat strict control and contract enforcement.
In this sense the new contracting out arrangements seem to have a rather *top down flavour*. In fact, the instrument, i.e contracting - which tends to be a relation between equals in the private sector, is transformed into a top down relationship in the hands of the public sector. Also, contracting out tends to show the same dynamics as the classical central rule approach. If the implementation does not work: create more rules to provide the right incentives.[iii] The result is an ongoing refinement of rules which have been so severely criticised in the seventies and eighties. The difference is that in the classical situation, the rules were aimed at the public bureaucracy (and their implementing agencies) and in the contracting situation the rules are aimed at the contracting parties.
The problems, however, are the same. The tendency to fix the content and implementation process does not fit the need for flexibility during the policy making process. It does not fit the complex character, the institutional fragmentation and the changing content of decision making of the hollow state.

To New Roles of Politics and Politicians in Complex Decision Making

In the classic image of the role of politicians, their main task is that of goal setting and/or making final binding decisions. In this view, politicians set the goals and these are elaborated and implemented by the bureaucracy: an image which fits with the notion of contracting.
However, the idea that the content is being fixed at the beginning of the decision making process does not conform with the complex decision making process of the hollow state; nor does it conform with the extensive, necessary freedom of action of actors within the network. The fact that problems are never clearly defined and solutions are unavailable or have to be elaborated is enough reason to doubt the reality and the usefulness of the classical image. Empirical research has shown numerous situations in which political decisions that were believed to be decisive just did not function that way in reality. Like other decisions, political decision are only one of the decisions, though often important, in the whole sequence of decisions.
And if politicians are involved at the end of the decision making process, they are either too late because all of the alternatives have already been chosen, or they frustrate the results of the interaction processes which have occurred in earlier stages. So other roles for politicians are needed in the hollow state.
While this is not the place to elaborate extensively, we can mention two directions toward which the role of politicians should shift in order to correspond with the complex decision making in the hollow state (for a more detailed view, see Klijn and Koppenjan, 2000a). These concern the content and process of decision making:

- *from goal setting to the creation of variety*; politicians could be stimulators in search for new interesting solutions and should be actively involved in that search. If knowledge is dispersed among actors and the network society needs new high quality, integral solutions, more effort needs to be invested in this search. This should not be a search for one solution for one defined problem, but a search for various interesting solutions to a far more tentative formulation of the problem. Because problems are human constructions, they tend to change over time (Dery, 1983; Kingdon, 1984). Fixing the problem and finding one optimal solution poses the risk that in the end, we have a very detailed solution which does not fit the problem since the problem has changed in character (Teisman, 1997). Politicians could set the stage by specifying different assumptions on which this search could be based and by specifying criteria which could be used for selecting interesting solutions. These criteria could also be used as a feedback mechanism. If they are unworkable or serve as an impediment for working out interesting solutions, this could then be an incentive for a new discussion about the selected criteria
- *from control to guiding learning and selection processes*; instead of a preoccupation with control, politicians should pay more attention to guiding learning processes and creating the conditions for those processes. They should leave processes open to other actors and use their knowledge while at the same time establish the direction for the learning processes since they are important for the outcomes as well as for the possibilities for implementing outcomes. This role is also more in accordance with the critical attitude (in terms of evaluation of goals and policy) of citizens toward public actors.

In general, politicians should guide and mediate instead of determine the content and control the process. This, however, asks a lot of management strategies which is subject of the last section.

5. The Hollow State: From Sequential to Parallel Managing

The complexity of decision making in the hollow state requires forms of management which are not based upon a clear sequence of phases, i.e. analysing the problem, choosing the solution and implementing that solution. These sequential management forms do not fit the institutional and strategic complexity of the hollow state. Any management of the hollow state must recognize that:

- policy formation and implementation occur continuously and simultaneously and are always influencing each other;
- decisions are made in various arenas in different networks;
- interdependencies exist and resources are needed from various actors;
- these actors must be attracted to and willing to invest in the decision making process;
- concrete products of high quality are demanded by citizens who do not take actions from public actors for granted but critically evaluate the performances of public (and private) actors.

Management strategies have to focus on managing various activities along side other. Process management is needed to deal with the complex nature of decision making in the hollow state and to link actors together and reach consensus about interesting policy outcomes.[vv] Because goals and content in the hollow state have to be developed, process management is important to achieve consensus on goals, products, solutions and ideas. This management activity is an ongoing process.
At the same time, concrete projects and products have to be realised to keep the participating actors interested and the citizens satisfied. Contracting out is one way to organise these projects and products. These projects are the result of process management and developed during that process. Implementation is always temporary, and new projects and products can be different than they were first intended. In this sense, there is continuos feedback between process management and project management. This will require a lot from public actors in the 21 century. The classic sectoral demarcations between departments and internal hierarchies will be unable to cope with the new demands for governmental management. On the other hand, the institutional resistance to change is likely to be strong. It is going to be a very interesting time for scholars of public management.

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[i] Arenas can be defined as action situations in which actors interact about policy. They consist of a set of actors, the decision making situation they find themselves in, and the organisational arrangements involved. Arenas are temporary. Networks can be defined as "more or less durable patterns of social relations between interdependent actors which take shape around policy problems and/or clusters of resources" (Klijn and Koppenjan 2000). Thus, arenas can be visualised as "activated game fields from a network or more than one network".

[ii] The empirical material is from a recent research done by this author with Ellen van Bueren and Joop Koppenjan (Klijn, Van Bueren and Koppenjan, 2000) The networks are being deduced from a survey among those involved in the policy making process.

[iii] In fact, this is also implied by neo-institutional economics. The contract is seen as an instrument and safeguard against opportunism. The only difference is that in this theory, a balance has to exist between the transaction cost and

the gains. But this notion gets far to little attention in public administration because the ultimate consequence is: if the cost are to high, don't try to enforce.

[vv] Process management intends to improve the interaction between actors in policy games, this can be done by strategies like facilitating interaction, trying to achieve convergence in perceptions of actors, trying to improve institutional conditions in the network. For more detailed information, see Klijn, Koppenjan and Termeer, 1995; and Klijn and Koppenjan 2000.