



## SND: Organisation and Structure

Delrapport 4 i evalueringen av Statens nærings- og distriktsutviklingsfond gjennomført av Technopolis Group, STEP og Albatross Consulting 15 september 2000

Erik Arnold  
Philip Sowden

**Technopolis**

## Acknowledgements

Being evaluated is a bit like going to the dentist. It may be necessary, but it is rarely comfortable. We are very grateful to the large number of people both at SND headquarters and in the district offices who devoted time and effort to this evaluation. Their participation was clearly not optional, but we were delighted to be so warmly received and by the enthusiasm they brought to the task. While in general we feel that 'no one named, no one forgotten' is a good principle in acknowledging so many people, we do want extend our especial thanks to Pål Hungnes, who has functioned as our link-man with SND throughout the entire evaluation.

We also owe a debt of gratitude to people in various partner organisations of SND, at both national and regional levels, and to the very many customers who helped us with the research for this evaluation.

An advisory reference group has supported the evaluation team through the project. It has diligently read through successive drafts of our work and been a lively sparring-partner at our regular meetings. The members of the group were Tron Bamrud, Odd Jarl Borch, Geir Dalholt, Jostein Djupvik, Karl Gran, Stine Hammer, Pål Hungnes, Anthony Kallevig, Jan Evert Nilsson, Ida Skard and Jartrud Stensli. Their advice has always been interesting. Sometimes, we have even taken it! But it is important to note that this has been an **advisory** group, not a steering committee. The responsibility for the conclusions of this report rests entirely with the authors.

Brighton 15 September 2000

## Summary

This is one of five major sub-reports of the SND evaluation. It considers the period 1993 – 1999. The brief is to consider how well SND's organisation has performed, and SND's role in the Norwegian business and innovation support system.

From the organisational perspective, we regard SND's performance to date as strong. It has tackled some major changes in the business support system, and is in the process of tuning its regional apparatus. SND needs a period of peace and quiet – and, not least, budget stability - to consolidate its achievements. There is always scope for incremental improvement, and we have identified a number of such possibilities for SND's consideration. The Departments of State need to play their part in creating the needed framework conditions.

SND has three categories of customer

- The companies and individuals which it aims to support
- Regional government (Fylkeskommuner – FK)
- Departments of State, and more generally the policy-making apparatus of government

Its customers see SND principally as a reactive provider of finance, distributing the budgets allocated to it by central government. Even if there are opportunities for improvement, SND is generally well respected in this role. We interpret the customer perspectives also as suggesting SND under-exploits its opportunities proactively to define user needs and to support customer development. It should spend more of its time stimulating demand, not only from companies but also from policy makers and planners, at regional and at national levels.

SND represents an important simplification of parts of the business support system, making its quality more uniform and improving the customer interface. It has successively reorganised itself to meet customer needs and has improved its efficiency across a period in which it has been required to perform a growing number of tasks. Its current and future proactive roles in the innovation infrastructure require increasingly high levels of skill, and this will be reflected in a need to maintain an adequate administration budget.

SND has made good progress towards being a modern, decentralised and customer-oriented organisation, though more work is needed in order fully to realise this intention. Key reasons why things have not improved as fast as SND management would prefer include the instability of the framework conditions under which SND operates and the continuous need to reorganise over the past few years.

Our mandate includes a specific question about the integration of Fiskarbanken. This was the first of the state banks to be integrated into SND after the original fusion. A small bank with a staff of 37 at the time of its integration in 1997, it was absorbed with little difficulty. Back-office synergies have been exploited, saving of the order of ten posts. Although there was some limited discontinuity in the level of customer

service, its customers have gained access to a wider range of supports and programmes than previously.

SND Invest addresses failures and weaknesses in Norwegian venture capital markets. Its independence from the rest of the SND system and its ability to fund itself are keys to its growing success in company development and in influencing the behaviour of other investors. Its role needs to be complemented by better co-ordination of the state's venture capital holdings, which are currently fragmented.

SND is a key part of Norway's national and regional business support system (*virkemiddelapparat*). The SND and *Forskningsrådet* reforms of the early 1990s were major contributions to simplifying that support system, which had been built piecemeal since before the War. By and large the division of labour in the system appears satisfactory. The boundary between *Forskningsrådet* and SND is grey, as it is between equivalent organisations in other countries. It is not clear that there is an optimal organisational solution to this untidiness. SND's concept of partnership is central to fulfilling its role in the system. The major development seed is to improve the ability of SND's regional offices (*distriktskontor* – DKs) to provide a 'first stop shop' service to SMEs.

# Contents

1	Introduction and terms of reference	1
2	SND from the Customer Perspective	3
2.1	Companies	3
2.1.1	SND's Customer Survey	3
2.1.2	STEP's Survey of SND Customers	9
2.1.3	Evidence from Case Studies	10
2.2	Fylkeskommuner	12
2.2.1	Background	12
2.2.2	The Counties and the Regional Offices in Practice	14
2.2.3	Conclusions	18
2.3	Departments of State and Policy Makers	19
3	SND's Performance over Time	23
3.1	Organisational history	23
3.1.1	SND's Ancestors	24
3.1.2	The Evolving Structure of SND	28
3.1.3	The Decentralised Organisation	31
3.2	Productivity	35
3.2.1	The Initial Merger	35
3.2.2	Productivity Over Time	36
4	How well does the decentralised organisation work?	45
4.1	The district offices	47
4.1.1	The Process of Decentralisation	47
4.1.2	The Introduction and Expansion of the Regional Office Network	51
4.1.3	Operational Control of SND	52
4.1.4	Regional Office Operations	56
4.1.5	Perceptions of Corporate Culture at SND	65
4.2	Headquarters	68
4.2.1	Næringsdivisjonen	68
4.2.2	Russia and Eastern Europe Division (RØED)	75
4.2.3	Staff Departments	76
4.2.4	External Partners, Managed at SND Headquarters Level	81
4.3	Conclusions	84
5	Fisheries and the Integration of Fiskarbanken	87
5.1	SND in Fisheries before the Fiskarbank Merger	87
5.2	Fiskarbanken	88
5.3	Integration into SND	89
5.4	Conclusions on the Fiskarbank Integration	92

6	SND Invest and the Provision of Venture Capital	93
6.1	The need for intervention in the venture capital market	93
6.2	History and performance	93
6.3	SND Invest in the venture capital market	98
6.4	State venture capital funds	99
6.5	Conclusions and Recommendations	102
7	The support portfolio	104
7.1	A conceptual framework for business support	104
7.1.1	Innovation Systems	104
7.1.2	Different Firms have Different Needs	106
7.2	The Norwegian business support infrastructure	109
7.3	Is the division of labour between SND and others the right one?	110
7.3.1	Business support organisations	111
7.3.2	Forskningsrådet	113
7.4	Conclusions	118
8	Conclusions and Recommendations	120

# 1 Introduction and terms of reference

This is one of four major sub-reports of the SND evaluation. It considers the period 1993 – 1999. Our mandate<sup>1</sup> was to review the way SND's organisation has worked from the outset, starting with the merger of *Industrifondet*, *Industribanken*, *Småbedriftsfondet* and *Distriktenes Utviklingsfond*, which created SND. We had to take account of later institutional changes, such the spin-out of SND's venture capital activity into SND Invest and the integration of *Fiskarbanken* into SND. Not least, we were asked to examine the decentralisation of SND, which used to be an essentially Oslo-based operation with a handful of sub-offices in the regions. In the space of about three years, it has transformed itself into a regionally-based organisation with branches nation wide, aiming to deliver its services close to the customer and to play a role in the implementation of regional development plans.

It has not been an ambition that this should be a full-blown organisation study. It is an evaluation, conducted with rather modest resources, and aims to provide the Departments of State and the taxpayer with a partial view of SND's performance. Based on discussions with NHD and the evaluation reference group, we have chosen to devote particular effort to the issues associated with the decentralisation of SND over the past few years, as these appear key to future performance.

Our methods have been deliberately eclectic. We have used inputs from other parts of the evaluation such as the large-scale customer survey, interview-based company case studies and analysis of the relationship between SND and the departments of state. We have reviewed past evaluations and other studies relevant to our task. We have conducted a large number of interviews among SND management and staff both centrally and in the regions, SND's external partners, the departments of state and people in *fylkeskommuner* and regional-level SND boards. SND has also supplied us with valuable data about its operations. Draft reports and the results of our calculations have been passed to SND, which has provided amplifications and comments.

The report begins, as we feel it should, with the customers. Chapter 2 discusses the perspectives of the companies, regional authorities and departments of state which are all, in various ways, customers of SND.

Chapter 3 reviews the history of the organisation, and its evolution towards a decentralised form. It is extremely difficult to estimate the productivity of an organisation with as many goals and tasks as SND. We adopted a simple approach, which focuses on SND's core activities of lending and granting money and processing cases. The Chapter shows both that there has been progress in productivity and that decentralisation has had important costs.

Chapter 4 focuses on the way the decentralised operation works. The integration of *Landbruksbanken* into SND from 1 January 2000 fell outside our mandate. While

---

<sup>1</sup> The full terms of reference (8 pages) were set out in *Evaluering av statens nærings- og distriktsutvilingsfond (SND), Tilbudsdokument*, Nærings- og handelsdepartementet, 24 juni 1999

this does introduce greater scale into the operation and a number of complexities in regard to regional as against national authority over project funding decisions, the main lines of our analysis and conclusions are little affected by this development. The Chapter reviews, in turn, the operation of the district offices and the headquarters, and makes some modest proposals for incremental improvement.

Our mandate explicitly calls for an analysis of the Fiskarbanken merger. This is provided in Chapter 5.

We have also considered SND Invest separately, as it was spun out of SND into a daughter company. We review SND Invest in Chapter 6, and consider (mainly using secondary sources) its role in the wider provision of seedcorn and venture capital by the state.

Finally, Chapter 8 draws conclusions and makes recommendations. These focus on incremental improvement rather than on further radical change.



## **2 SND from the Customer Perspective**

SND has three categories of customer

- The companies and individuals which it aims to support
- Regional government (Fylkeskommuner – FK)
- Departments of State, and more generally the policy-making apparatus of government

Its customers see SND principally as a reactive provider of finance, distributing the budgets allocated to it by central government. Even if there are opportunities for improvement, SND is generally well respected in this role. We interpret the customer perspectives also as suggesting SND under-exploits its opportunities proactively to define user needs and to support customer development. It should spend more of its time stimulating demand, not only from companies but also from policy makers and planners, at regional and at national levels.

### **2.1 Companies**

SND's own customer survey provides one useful basis for understanding how well SND serves company needs. Other sources include STEP's survey of SND customers and the evaluation team's 53 company cases.

Companies tend to respect SND's professionalism and desire to help. It is seen more as a funding source than as a provider of rounded business understanding and support. The closeness to customers made possible by decentralisation is appreciated. Customers can identify a number of operational improvement opportunities for SND, which are largely consistent with the views we formed in our interviews with members of SND itself.

#### **2.1.1 SND's Customer Survey**

The customer survey suggests that companies see SND as a special kind of bank, able to take higher risks and a longer-term view than other funders. In line with its mission, SND therefore allows comparatively risky projects to be realised. Companies do not go to SND for business advice. While they get more of this than they ask for, it is rarely significant to the firm and it is most likely to be important if it relates to SND's 'core business' of financing.

SND's service orientation seems quite good, and its accessibility to customers has improved through the period of decentralisation. However, in some areas, customers have rather modest service expectations. SND is not seen as a proactive organisation. It could bring more knowledge and creativity to project definition and financing.

The customer survey provides some limited evidence to suggest that regionally delivered but nationally organised service provision obtains better customer ratings than regionally managed provision. From the customer perspective, therefore, SND's current organisation is an improvement on the past.

### 2.1.1.1 SND's Customer Surveys

SND has been buying customer surveys since the mid-1990s. While this has increasingly become normal practice among similar agencies internationally, SND began the process rather early and it is unusually brave of it to allow the results to be published. The surveys are based on telephone interviews with samples of companies shortly after projects have been approved. There are follow-up surveys of the same firms at the end of projects.

While these surveys are independently and professionally executed, we need also to be careful to understand what they measure

- They tell us about company perceptions, not about objective 'facts.' Perceptions are interesting, because human actions are based on them, but they need interpretation
- They tell us about company expectations based on their existing implicit definition of what SND is and what it does today. It might be a good idea for SND to add ice cream to its product range, but the customer survey will not tell us that
- It is important, and should be reassuring to the customers, that the surveys are not conducted by SND. Nonetheless, as was clear from our face to face interviews, companies do not always readily distinguish between SND and someone asking questions about SND. This may be a source of systematic positive bias in responses
- The relatively high proportion of repeat customers in SND's portfolio means that some companies will have repeated exposure to similar types of question about SND – not only from Møreforsk but also from others, including ourselves – and this can encourage them to learn the 'right' answers over time
- The surveys deal with companies, which have successfully obtained support from SND. Those whose applications have been rejected will have less complimentary things to say, so the customer survey does not tell us about 'average' company interactions<sup>2</sup>

We therefore treat the customer surveys as one among a number of indications about SND's customer service performance.

### 2.1.1.2 Findings from the Surveys

For this evaluation, we are most interested in SND's recent performance, because that will tell us how customers perceive changes linked to SND's decentralisation. We have therefore focused on the latest survey<sup>3</sup> of companies, after they have received project approval. Where this reports changes in performance over time, we refer to these. For simplicity, we focus on the part of the analysis, which relates to

---

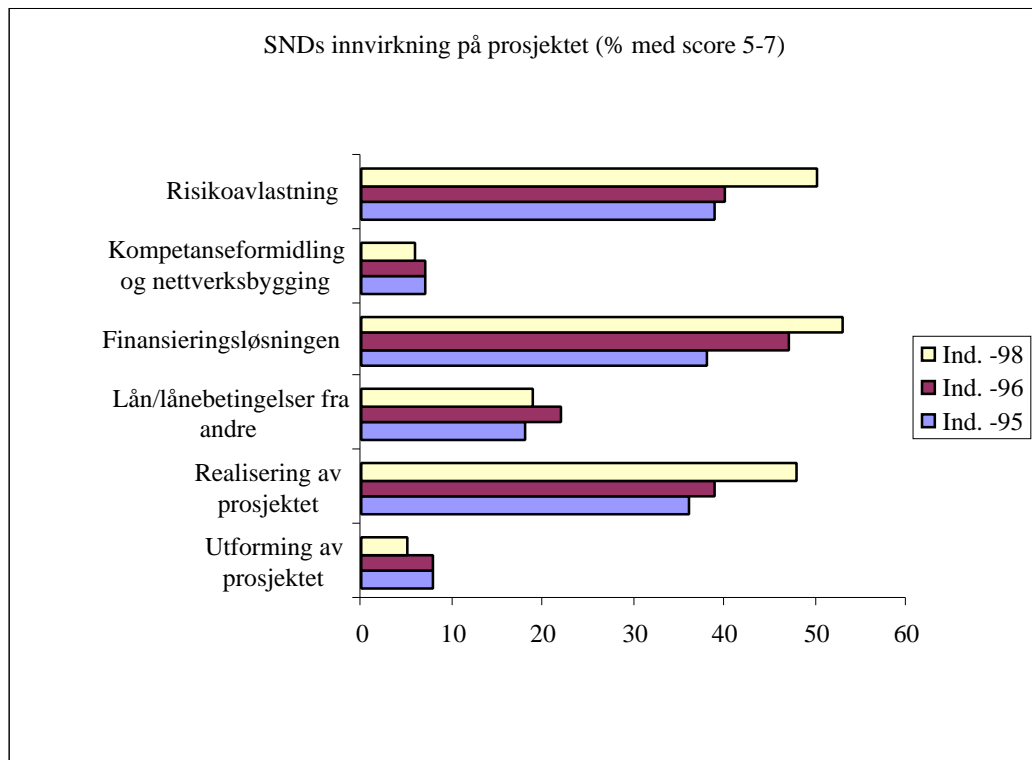
<sup>2</sup> Our experience in trying to extract information from rejected applicants in other evaluations is that there is little useful to be gained. The main message is usually a rather stereotypical "we were robbed"

<sup>3</sup> Lasse Bræin, Bjørn Greger Bergrem og Arild Hervik, *Kundeundersøkelse av SNDs bedriftsrettede virkemidler: Hovedundersøkelse – bedrifter med tilsagn 1998*, Arbeidsrapport M9918, Molde: Møreforskning, 1999

manufacturing industry: SND's traditional customer base. We mention other branches only where their responses are very different from those of manufacturing.

Møreforskning asked companies to rate SND's influence on their projects along a range of dimensions, using a 1 - 7 point scale. **Exhibit 1** shows the percentages of manufacturing customers rating SND's influence on their projects as high (5 to 7)<sup>4</sup>.

**Exhibit 1** Effects of SND on Manufacturing Customers' Projects



Source: Møreforskning, 1999

The customer survey suggests clearly that companies go to SND because it has money to let them realise comparatively risky projects, sometimes on better terms than other potential funders. They do not go to SND seeking much in the way of other help or advice.

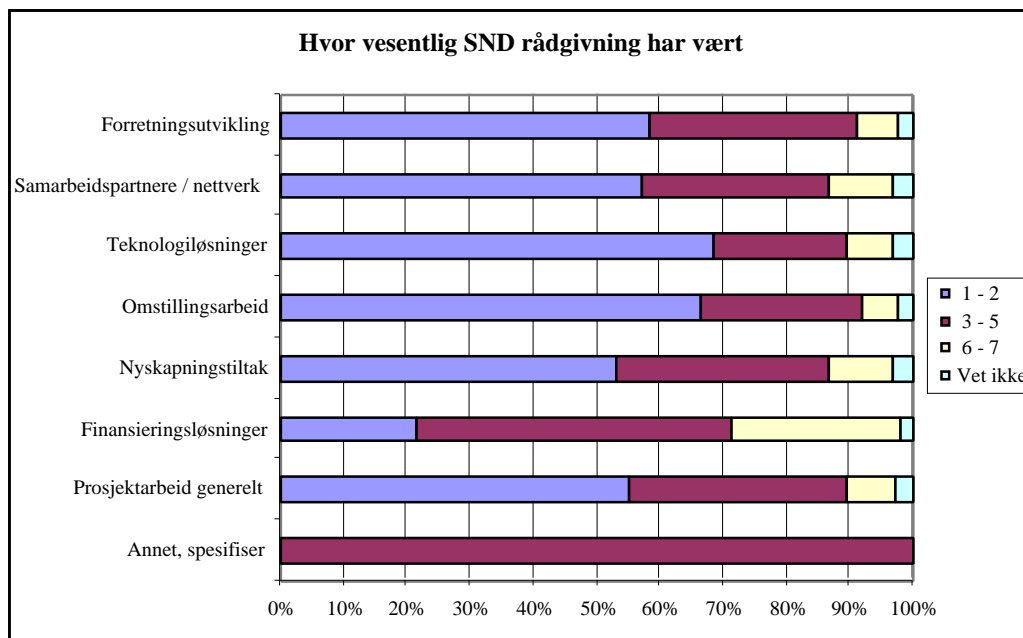
About half the manufacturing companies said they were looking for some degree of advice from SND (score 3 – 7), but only 10% of the total were **strongly** looking for such advice (score 6 – 7). Some 57% in fact received some degree of advice (score 3 – 7), with 15% actually receiving significant advice (score 6 – 7).

**Exhibit 2** confirms that only a small proportion of the firms granted resources in 1998 felt the advice the received from SND was of great importance (score 6 – 7). The area in which SND advice was more significant was in finding ways to finance the project. Companies, then, see SND largely as a kind of bank. They expect to

<sup>4</sup> Note that for some questions in the survey, Bræin et al analyse scores 5 – 7 as the grouped responses indicating 'high', while in others they treat 6 – 7 as 'high'

increase their own capabilities<sup>5</sup>, and this is particularly the case for companies outside the subsidised regions, but the learning comes from the projects rather than from SND.

## Exhibit 2 Importance of SND Advice to Firms with 1998 Projects



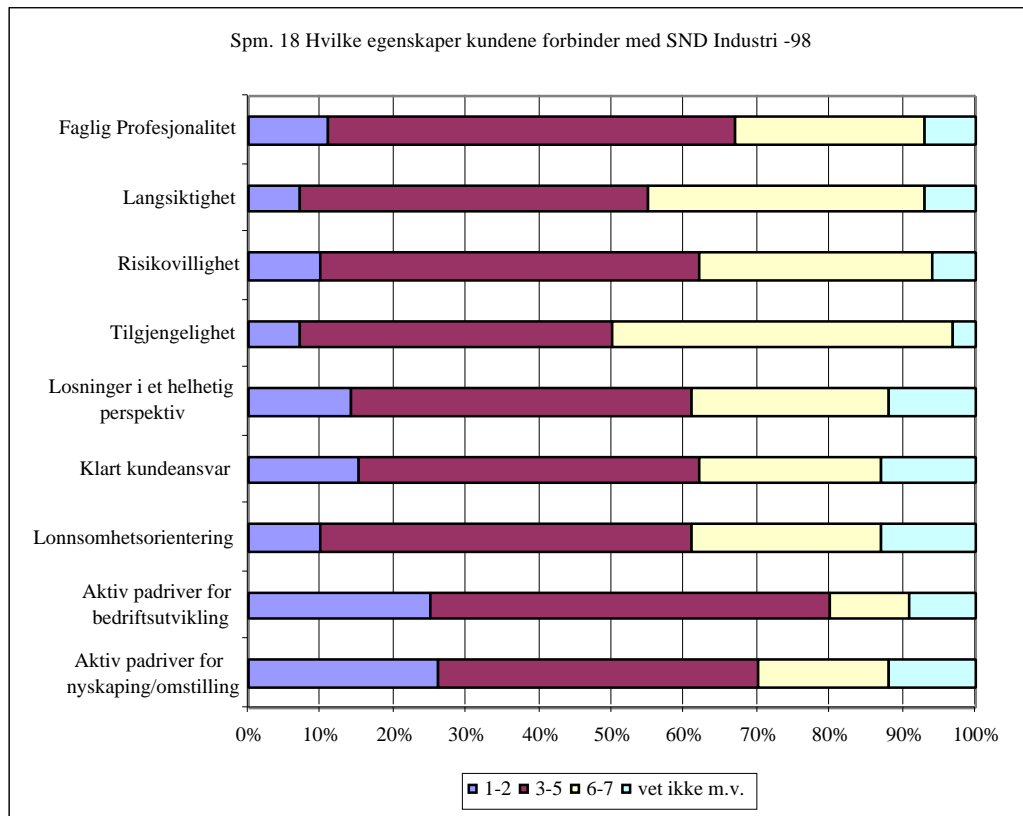
Source: Møreforskning, 1999

The customer survey asks questions about how firms perceived various aspects of SND's service. **Exhibit 3** shows what characteristics 1998 manufacturing customers associated with SND. Accessibility (tilgjengelighet) scores most highly, with 47% of manufacturing customers<sup>6</sup> rating this as high (score 6 – 7) – 10% higher than for the corresponding survey in 1996, suggesting that SND's decentralisation has fed through to customer perceptions.

<sup>5</sup> Møreforsk shows that between 19 and 38% of firms expect considerably to increase their capabilities (score 6 – 7) on dimensions ranging from hiring (19%) and training (19%) personnel through use of more advanced technology (39%) to improved process capabilities (38%). See answers to Question 16 in Bræein et al., 1999

<sup>6</sup> The corresponding proportion for other industry is 42% - also a 10% increase on before

### Exhibit 3 Characteristics of SND Seen by Manufacturing Customers, 1998



Manufacturers rate rather highly SND's ability to take a long term view (38% score 6 – 7) and its willingness to take risks (32% score this 6 – 7). Other industries rate SND even higher on these dimensions: 48% score 6 – 7 for SND's ability to take a long term view, while 42% rated SND 6 – 7 for willingness to take risks. These percentages are in all cases higher than in the 1996 survey. We speculate that SND gets higher ratings from non-manufacturing industry because of its ability to finance without security.

The characteristics customers do **not** strongly associate with SND are the proactive ones. Nor, when asked what characteristics it is most important for SND to have, do they ask for SND to become more proactive. Combining companies' first and second choices suggests the following ranking<sup>7</sup>

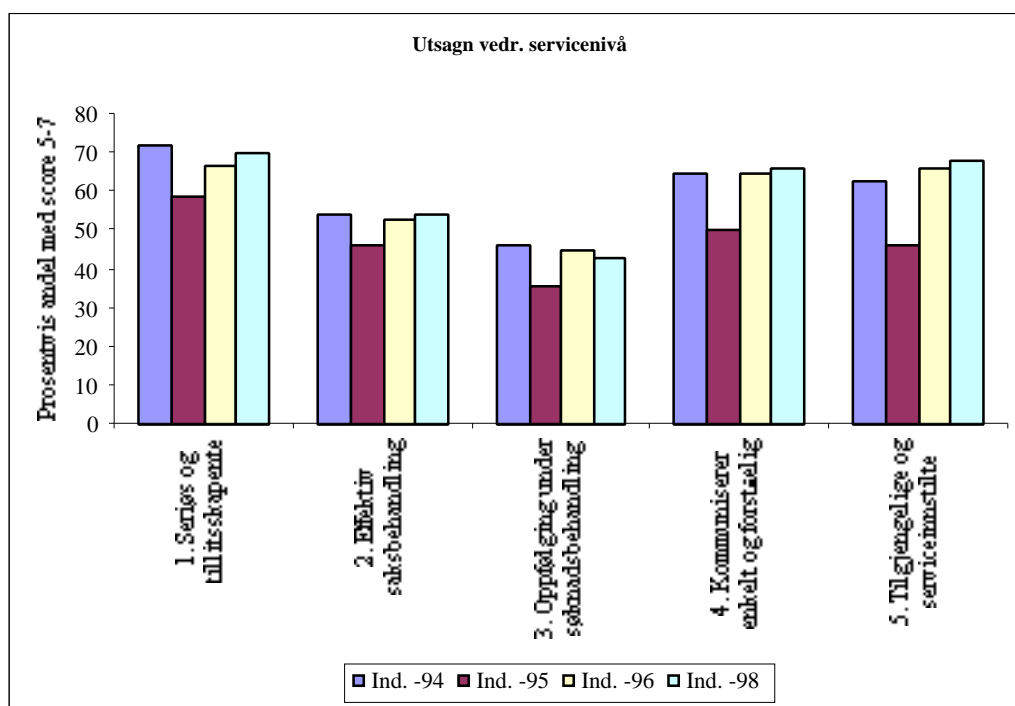
- |   |   |       |
|---|---|-------|
| 1 | Willingness to take risks                       | (33%) |
| 2 | Taking a long term view                         | (16%) |
| 3 | Professionalism                                 | (14%) |
| 4 | Actively fostering innovation and restructuring | (10%) |
| 5 | Actively promoting business development         | (8%)  |
| 6 | Providing holistic solutions                    | (7%)  |
| 7 | Accessibility and orientation to profitability  | (5%)  |
| 8 | Clear allocation of customer responsibility     | (1%)  |

<sup>7</sup> Bræin et al, 1999

The ranking is similar to that in previous years. This confirms our earlier impression that customers see SND as a special kind of bank. Naturally enough, their main desire is for the bank to be more willing to lend or give them money. (Of course, it does not follow that what they want is what they need.)

The customer survey considers customer expectations and how SND performs against these for a long list of factors (Question 19 in the survey). **Exhibit 4** looks at the first five of these, which focus on the customer interface. There is no clear trend here. (It is not obvious whether, in 1995, SND had a bad year or a bad survey.) SND seems to treat its customers quite well. In the full customer survey, it is clear that, overall, the levels of perceived service shown are about the same as those the companies expect of SND. This, while companies might **like** SND's case handling to be as fast as that of a commercial bank, they do not **expect** that it will be. (Nor, in this respect, are their expectations exceeded.)

**Exhibit 4 Manufacturing Customers Views on SND Service, 1998**



Braein et al show that, in relation to the total population of customers surveyed, there are few major gaps between customers' expectations and what they actually experience. Customers overall see the high points as

- Seriousness and helpfulness in customer service
- Simple communication
- Accessible and service-oriented
- Capabilities in credit, financing and project economics
- Willingness to take risks

The low points are

- Monitoring during the case handling process
- Branch-specific knowledge
- Improving projects

The analyses of sub-populations<sup>8</sup> shows that non-manufacturing firms with more than 50 employees rate SND's ability to be flexible in finding good financial solutions, and its ability to improve projects, as poor. This is consistent with SND's own view<sup>9</sup> that it needs to improve its ability to deal with the service sector.

There is also a slight variation between the service perceptions of manufacturing customers who have dealt with FK staff, with SND's district offices and with SND headquarters. Of course, the population of firms working with headquarters is not directly comparable with the others. They are bigger, more capable, often have their headquarters in Oslo or another population centre and will generally perceive the headquarters as being accessible. SND headquarters gets the highest ratings and the FKs the lowest, with the DKs in between. The FKs under-perform the others by a wider margin in terms of their ability to be flexible and find good financial solutions, and in their ability to improve projects. Here is some limited evidence to suggest that a national system for business support and financing improves perceived customer service.

### 2.1.2 STEP's Survey of SND Customers

The major part of this evaluation's survey of SND's customers characterises the companies receiving SND support and explores the effects of the interaction. Here, we are concerned with those parts of the survey which shed direct light on customer service. These suggest that customers are pleased with the overall support received and that having an SND office nearby is important to them. Most of the satisfied customers also valued SND's proximity.

The response to the question "How satisfied are you with the overall support you have had from SND?" is shown in **Exhibit 5**.

To help understand the importance of SND's decentralisation to customers, we asked a question about the importance of being close to an SND office. The results are shown in **Exhibit 6**. Overall, two-thirds of respondents felt the location of the SND was important (viss eller stor betydning) to them. This proportion rises from 63-64% in 1995-6 to 68% in 1997 and 74% in 1998 – so the rise in importance of location to customers coincides with the period when SND was decentralising.

---

<sup>8</sup> We do not know the numbers of respondents for these sub-populations

<sup>9</sup> Source: interviews

**Exhibit 5 Overall Customer Satisfaction with SND**

	Vet ikke	Svært misfornøyd	Ganske misfornøyd	Tilfredsstillende	Ganske fornøyd	Svært fornøyd	Alle
<b>1995</b>	6	3	12	38	50	38	147
<b>1996</b>	4	2	14	43	43	31	137
<b>1997</b>	4	1	5	35	60	42	147
<b>1998</b>	2	0	6	29	32	25	94
<b>Alle</b>	<b>16</b>	<b>6</b>	<b>37</b>	<b>145</b>	<b>185</b>	<b>136</b>	<b>525</b>
<b>1995</b>	4%	2%	8%	26%	34%	26%	100%
<b>1996</b>	3%	1%	10%	31%	31%	23%	100%
<b>1997</b>	3%	1%	3%	24%	41%	29%	100%
<b>1998</b>	2%	0%	6%	31%	34%	27%	100%
<b>All</b>	<b>3%</b>	<b>1%</b>	<b>7%</b>	<b>28%</b>	<b>35%</b>	<b>26%</b>	<b>100%</b>

Source: STEP user survey, all respondents

**Exhibit 6 Importance of SND's Proximity to the Firm or Project**

	Vet ikke	Ingen betydning	Liten betydning	Viss betydning	Stor betydning	Total
<b>1995</b>	13	18	22	50	44	147
<b>1996</b>	10	16	25	44	42	137
<b>1997</b>	8	7	32	46	54	147
<b>1998</b>	4	8	12	29	41	94
<b>All</b>	<b>35</b>	<b>49</b>	<b>91</b>	<b>169</b>	<b>181</b>	<b>525</b>
<b>1995</b>	9%	12%	15%	34%	30%	100%
<b>1996</b>	7%	12%	18%	32%	31%	100%
<b>1997</b>	5%	5%	22%	31%	37%	100%
<b>1998</b>	4%	9%	13%	31%	44%	100%
<b>All</b>	<b>7%</b>	<b>9%</b>	<b>17%</b>	<b>32%</b>	<b>34%</b>	<b>100%</b>

Source: STEP user survey, all respondents

**2.1.3 Evidence from Case Studies**

Findings from our case studies of SND customers are discussed in more detail in the STEP report on company development. It must be remembered that findings from case studies do not have a statistical meaning, although the points made here do reflect the views of multiple companies.

It is in the nature of a face to face discussion that one can learn from the discussion what is interesting, and then explore it. The customers have many good things to say about SND. The problems to which they pointed are largely consistent with the discussions we held with the district offices (DKs). The issues raised related largely to lack of transparency, the reactive way in which SND seemed to work, opportunities for SND to offer more general support to its customers, and to variability in the quality of customer service.



Key points emerging from our case study discussions include

- Almost everyone said that SND were pleasant to deal with. “Hyggelige og positive mennesker. Må gjøre seg viktige - veldig imøtekommende. SND har en fin tilnærming.”
- However, companies experience the interface to SND was not transparent
- The rules of the game were poorly understood by many companies, especially those in the ‘district’ areas
- Service levels at the customer interface are experienced as variable. Continuity of case handling over time was a problem
- Without exception, the companies we talked with regarded SND’s case handling process as very formal. Most regarded it as, in itself, a high-quality process, though a big minority felt it was formal to the point of being bureaucratic
- While the quality of the case-handling process, narrowly defined, was often seen as high, it was generally seen also as narrow and suffering from considerable process variability. Customers and their applications were thought to be treated differently by different case officers
- Views on case officers varied significantly. Clearly, there was a handful of ‘stars,’ who had a good understanding of their customers and who were interesting as discussion partners. Many were criticised for their lack of business experience, and therefore their inability to add ‘nous’ to their judgements and understanding
- Case officers tended to be ‘blind’ to technology questions
- Almost without exception, interviewees complained that SND never came to see them unless a case was being handled (and often not then). Companies did not understand SND’s product portfolio, and wished that SND would devote some marketing effort to them
- SND’s programmatic support was very highly rated by those who had used it. The network programme had established a number of important networks, which brought both soft and hard benefits to their members. FRAM was very highly appreciated. OFU/IFU were valued as mechanisms to support innovation in an intelligent way.
- Because our focus was on talking with individual firms, we did not systematically pick up network activities. It was clear, however, from isolated cases that SND’s network programme and subsequent networks funding had produced some lively and viable networks, whose members continued to see them as adding value
- SND intellectual capital needs better management. The level of industry knowledge in the district offices was variable. Offices’ knowledge was strong in relation to local clusters, but weak with regard to other industries. The implication was that more central knowledge support could be useful
- SND’s financing rules were felt not to fit well with the new economy
- SND was seen as adding value but not as a risk-taker

Many of these issues are taken up in the section of this report, which deals with the district offices.

## 2.2 Fylkeskommuner

Since 1995 if not earlier, SND has clearly been conceived as one pole in a binary process of national and regional development, where the Counties (fylkeskommuner – FK) form the other pole. We have explored how this constellation has been working through a combination of interviews at FK level, reviews of available literature and by taking inputs from other parts of the evaluation work, including the work with the customers.

SND's decentralisation has provided the regions with an improved instrument for implementing regional economic development plans, provided these are consistent with national guidelines, while at the same time maintaining quality control at the level of implementing individual projects. Given a sharper definition and organisation of its premissgiver role, SND could do more to support the regional planning process in future.

### 2.2.1 Background

The FK are crucial customers of SND. Like SND itself, the FKs are of recent date, their role remains contentious and they have a continuing need to justify their existence. Run by popularly elected councils, they have administrative responsibility *inter alia* for implementing national policy on regional development.

Historically, the FKs have developed 5-year strategic business development plans (strategisk næringsplan – SNP) as one component in county-level planning, and these have been rolled forward on an annual basis. From the mid 1990s, the FK were required to present annual regional development plans (regional utviklingsplan – RUP), bringing together into a single document the various aspects of county development. In the RUP, goals and activities have to be defined at County level, but these must also conform to national goals in regional and industrial policy. The RUP, therefore, expresses local initiative to the extent that this conforms to national policy, as decided by the parliament and expressed through the Departments of State. It is essentially an **implementation** plan.

At the operational level, the FKs had very different relations with SND's predecessor organisations. Industribanken, Industrifondet and Småbedriftsfondet were wholly national organisations, even if Industribanken had four offices located in the regions. DU, on the other hand, actively used the FKs' business development officers to spend parts of its regional development budget under delegated authority, taking 90% of funding decisions by the early 1990s. Following major losses in the late 1980s, and in order to encourage responsible local decisions, the LTA (lokalt totalansvar) reform in 1991 had transferred responsibility for losses incurred through the use of these funds (over and above the loss funds planned) to the FKs.

Initially, the creation of SND meant little change at the level of the FKs, except that some additional instruments became available to FK project officers. In 1994/5, the inter-Departmental Steine committee examined how to translate the SND reform from the national to the regional level, and outlined the organisational model, which has

largely been used in SND's subsequent decentralisation. The key elements of the model were<sup>10</sup>

- The FKs shall have strategic responsibility for the use of regional policy measures relating to business development and deriving from KRD's budget, as well as investment subsidies for companies in central areas
- SND shall have operative responsibility at the level of a regional office for the use of these resources, and shall report the way it does so to the FKs
- SND shall administer all applications for company-oriented measures via an office in each FK, providing a 'single door' for company users of the support system
- SND shall support the FKs' planning efforts through the preparation of plans and strategies for the use for resources allocated to it
- Each FK shall establish a business development council to manage co-operation between the FK, the social partners and SND

Some important operational points were made in addition.

- Strategy and planning discussions between national and regional authorities should ensure that individual FKs do not ask SND at regional level to do things that would either: negate the requirement that it shall invest only in projects which are economically viable; or that would develop the regional economy in a way that would be unfortunate from a national perspective
- Where the intended effects of the FK strategy are not being obtained, the FK should advise SND and the Departments, and develop a plan to correct the situation
- Where SND is unable to identify enough projects to meet the strategic needs, which also satisfy its own criteria for quality, it shall advise the FK and propose solutions – including, in the short term, reallocation of budgets to other uses
- The regional business development council handles policy questions, but shall not take project-level decision or be a place where rejected applicants can appeal SND's decisions. This ensures that the SND regional office has a clear, single line of responsibility to SND's Board. Since SND takes ultimate responsibility for individual decisions, it also acquires responsibility for losses incurred

While the six members of the committee working in central government supported these recommendations, the seventh member – the business development director from Troms FK, and the sole member of the committee who worked at regional level – objected. He proposed an alternative model, where both strategy and implementation lay at FK level, with SND becoming involved only in large individual funding decisions. (Essentially, this proposal would have represented a continuation of the previous DU system.)

As might be expected, there was not immediate enthusiasm at FK level for the committee's proposals, and there has been no formal compulsion to sign up to them. Nord Trøndelag was the first to sign up to the new arrangements, creating a precedent

---

<sup>10</sup> *SNDs regionale forvaltningsapparat – Rapport fra arbeidsgruppen*, Oslo: NHD/KAD, 31..3.95

that other FKs in varying degrees felt obliged to follow, with some “holding out” longer than others. A patchwork of agreements between SND and the FKs has since been created, though all follow the Steine principles for division of labour between SND and the FK. There are variations in the period of the agreements and how and whether they are to be evaluated. In some cases, administration of start-up grants (etablererstipend) has been transferred to SND, and in others this has been retained by the FK. The composition of the DK Board varies a little, though it normally includes the key decision-makers in the FK relevant to the county business development plans. In particular, they are consistent with the government’s decision that, “Fylkesplanen og fylkeskommunens strategiske næringsplan skal være retningsgivende for kontorets virksomhet i den grad dette ikke er i strid med SNDs overordnede mål og strategier, som igjen skal bygge på nasjonale mål i nærings- og distriktspolitikken.”<sup>11</sup>

The parts of the system relate together, as shown in **Exhibit 7**. SND receives money, instructions and goals from its owner (NHD) and other Departments of state. The goals are simplified and transmitted to the regional offices. In principle, therefore, what the DKs do should be in line with the national policies articulated in the Departments. Separately, the regional Department (KRD) negotiates regional development plans with the counties FKs, and allocates budgets – some directly and some via SND. KRD acts as ‘lead Department’ in this, channelling funds and instructions from other Departments to the FKs. In principle, therefore, the annual plans of the DKs and the RUPs should also be consistent.

### **2.2.2 The Counties and the Regional Offices in Practice**

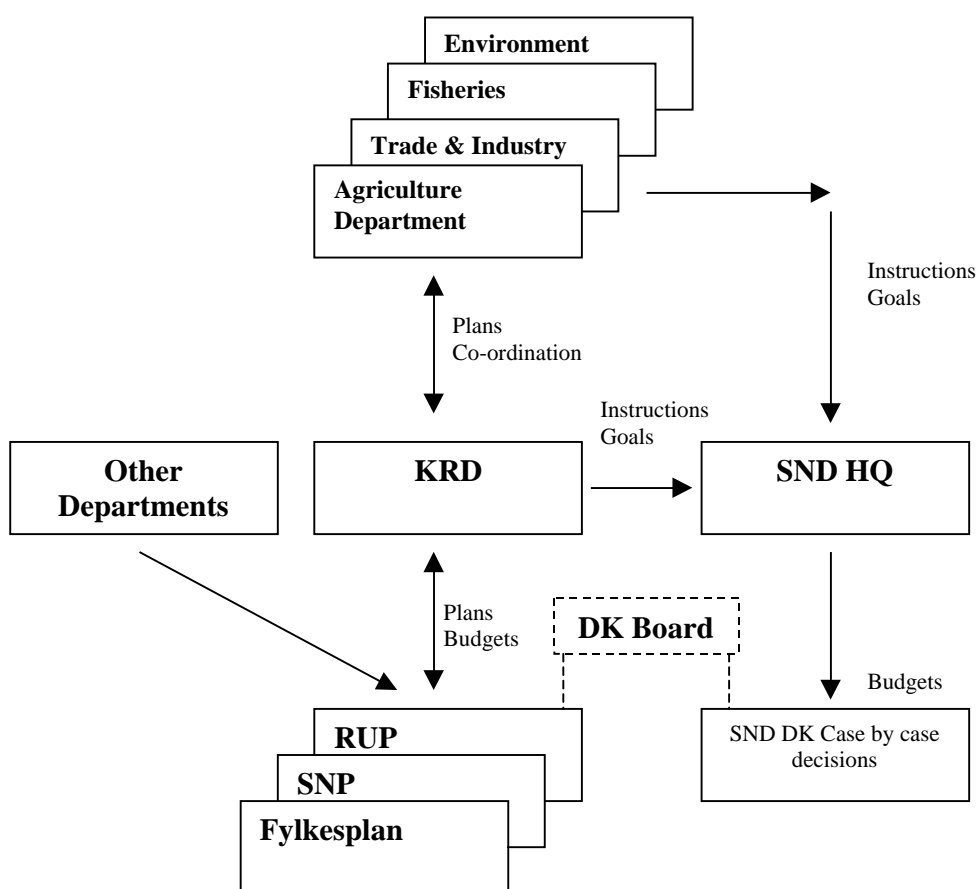
DKs have been set up with local Boards, typically having 7 – 9 members appointed by the FK. SND can usually nominate up to two members of the Board, but not itself appoint them. The role of the Board is to provide a link to the regional planning process.

The DK director makes case by case decisions on applications, within the spending limits delegated by SND headquarters and using the assessment criteria laid down by the centre because it is central to the SND philosophy that “like saker skal behandles likt.” The DK Board **advises** them on these cases. Case officers have generally been transferred from the FK to the DK to handle the caseload. Since SND takes the final decision on funding, it also takes over the responsibility for any losses incurred. Cases, which give rise to matters of principle, are normally referred to the DK Board. More generally, the Board aims to ensure consistency between the SNP/RUP and the way the SND DK actually works.

---

<sup>11</sup> Kgl res av 230296

**Exhibit 7 Governance of Regional Planning and SND, 1999**



In most respects the co-operation between the DKs and their respective counties seems to work quite well. Companies served and others in the support system see the quality of customer service as improved compared with the past. Both our own discussions and the specific evaluations of the DKs in Nord Trøndelag<sup>12</sup> and Troms<sup>13</sup> indicate that this is the case, and that it is rare for disagreements to arise between DK directors and their Boards.

However, the fact that DK Boards have only had an advisory<sup>14</sup> function is a major irritant and source of comment – a fact reflected, for example, in the title of the Troms evaluation. Some members feel they sit on the board “to give the DK an alibi.” Many people at regional level regard SND’s ‘decentralisation’ as a back-door form of recentralisation. (Ironically, many at SND headquarters see the decentralisation as a causing a genuine loss of central power.)

<sup>12</sup> Per Morten Schifloe (red.), *Evaluering av SND Nord-Trøndelag*, NTF Rapport 1997:6  
<sup>13</sup> Arild Buanes og Magnar Andersen Når politikken blir rådgivende: *Evaluering av avtalen mellom Troms fylkeskommune og SND om SNDs distriktskontor i Troms*, NORUT Samfunnsforskning, 1999  
<sup>14</sup> The merger with Landbruksbanken complicates the situation further, in that additional representatives of the agricultural constituency join the meeting for cases relating to agricultural and rural development funds, at which point the Board becomes executive rather than advisory.

This apparently trivial issue becomes an important symbol, because it is the point at which the centre-periphery argument surfaces. (It reflects at the regional level the time-honoured administrative battle between NHD and KRD.) Bjørnland et al warned<sup>15</sup> in 1997 of the possibility that the SND decentralisation could in practice cause politicisation. “Vanskelige avveininger som tidligere ble gjort internt i fylkeskommunen, kan nå utspilles ‘for åpen scene,’ i en strid mellom to institusjoner, fylkeskommunen og SND. I den grad det lokale SND-kontor henviser til sentrale retningslinjer som begrunnelse for å motsette seg fylkeskommunale ønsker mhp. Virkemiddelbruken, vil en slik motsetning komme til uttrykk mellom fylkeskommunene og SND sentralt.” As in our interviews, it becomes clear that the argument is more about principle than practice. For example, Schifloe cites Nord Trøndelag FK administrators as saying the DK Board must have the final say, in order to exercise needed political ‘nous’ in individual cases – despite the fact that the DK is in fact largely staffed by ex-FK personnel.

Buanes and Andersen argued that, “Ved opprettelsen av SND Troms i 1997 ble de bedriftsrettede virkemidlene samlet under SND-systemet. Denne over føringen av midler medfører begrensninger i den regionalpolitiske innflytelsen over virkemiddelbruken .... SND modellen kan derfor innebære en styrking av virkemiddelapparatet på bekostning av den regionalpolitiske innflytelsen.”<sup>16</sup> Yet both Schifloe and Buanes and Andersen stress that the co-operation between the DK and FK works well at the operational level. The arguments appear to a certain degree at the political level, but especially at the level of FK administrative management, and they relate specifically to whether Oslo or the region holds the purse strings and makes decisions at the level of **specific projects**.

SND’s ability to implement FK-level plans depends partly on the specificity of the planning involved. In Nord Trøndelag, it was said<sup>17</sup> that “Fylkesplanen er så rund att det er nesten umulig å komme på kant med den.” The SNP for Troms in 1996-99 set out seven ‘strategies’ for business development, of which the two germane ones according to Buanes and Andersen<sup>18</sup> are

- Bidra til videreutvikling, omstilling og nyskaping i næringslivet, bl.a. gjennom kompetanseheving og sterkere markedsorientering, med sikte på økt verdiskaping
- Næringsutvikling gjennom næringsrettet infrastrukturutvikling

At this level of ‘motherhood and apple pie’ there is unlikely to be inconsistency between national and regional priorities. SND case officers, in effect, need to do nothing in order to implement FK-specific goals, which are consistent with the wide-ranging goals of SND itself.

Once the FKs attempt to be more specific in tying **resource use** to goals or beneficiary groups, disagreements can arise. Troms FK went on to specify more closely in its 1998 RUP how it expected to see a particular category of support used,

---

<sup>15</sup> Hild-Marte Bjørnsen, Åge Mariussen, Jan Mønnesland, Asbjørn Røiseland og Merethe Sollund, Lokalt ansvar i distriktspolitikken: Samlerapport fra en evaluering av lokalt totalansvar for bedriftsrettet distriktstøtte, NIBR og Norlandsforskning, 1997

<sup>16</sup> Buanes and Andersen, 1999, p 114

<sup>17</sup> Schifloe (ed), 1997, p71

<sup>18</sup> 1999, p54

dividing the available budget equally between the fishing fleet, investment subsidies to on-shore activity and on-shore company development. The DK introduced a routine for tracking spend against these categories, but got into difficulty because there was a better supply of good-quality projects in one area than in the others. It therefore deviated, within the budget year, from the guidelines set by the Board, setting in train an argument about whether it should have consulted the Board before doing so.

SND Troms was effectively placed in an impossible situation. On the one hand, it had to work within national assessment criteria and the principle that equivalent projects should receive equivalent treatment, while reactively dealing with an application stream, which it could not control. On the other, it tried to respect the wishes of the region. These were (expressed as being) about means, not ends; that is, about the division of the subsidy cake, rather than about the objectives to be secured by using the subsidy. Clearly, the more DK Boards attempt to exercise this type of control, the more conflict may arise. Correspondingly, while SND has well-developed project appraisal processes, it does not have processes which allow it to implement selective regional strategies or otherwise to 'pick winners' (whether actively or through the kind of funding quotas suggested by the Troms Board).

As indicated in Chapter 11 of our report on goal setting, the amount of detail used by FKs in setting priorities for their local DK varies considerably. But in many cases, it now extends to giving instructions about how different proportions of budgets are to be used. The Møre og Romsdal RUP is a leading example of how practice is becoming specific in this respect.

As our report on goal setting in SND also indicates, standard international practice in government administration has long since moved on from crude resource division to focus on objectives. The Bamrud report<sup>19</sup> has already discussed the level at which goals should be set for SND and results measured - essentially by focusing on the ends which are sought, rather than the means used to achieve them. The same idea was expressed by the Steine committee, which separated FK business development strategy from implementation and emphasised the need for FKs and SND to liaise where there was divergence between plans and the **results** that were being achieved in the fylke. It seems that practice in the RUPs, and therefore in the processes involved with relating the DKs' work to the FKs' plans, lags good practice in this respect.

For the Steine recommendations to work, the FKs must themselves be capable of high-quality planning and co-operation with SND. The transfer of personnel from FKs to DKs, however, means that the resources available to the FKs are reduced (even if their planning departments should not be affected by the reform). The FKs have less on-the-ground contact with companies than before, and some FK officers feel that their loss of direct control over company support money makes it less attractive for local companies to work with them in preparing the SNP and RUP. They are nonetheless not without resources of their own.

---

<sup>19</sup> *Resultatrapportering fra SND: Rapport fra en arbeidsgruppe som har vurdert resultatrapporteringssystemet fra SND*, Oslo: NHD, 1998

### 2.2.3 Conclusions

If SND is properly to support the FK planning process in this new situation, it cannot be just a reactive, application-processing organisation. It requires both the ability to support the FK planning process with analysis<sup>20</sup> and an ability (alone or together with FK personnel) proactively to **create demand** for company support through network initiatives, fostering clusters and otherwise stimulating local initiative. This implies

- Increasing both the DKs' ability (and freedom) to work proactively in the field as well as to process cases
- Making available central SND analysis capabilities to support the regions
- Increasing the visibility of the DKs as implementers of FK plans

A prominent difficulty in making the DK-FK relationship work is **trust**. What seems never to be written down in the discussion is that the use of a national agency to administer regional development projects results partly from a perception that in the past such processes were, at best, lacking in uniform quality control and, at worst, corrupt. There are of course also other, strong arguments for a central dimension to implementation, including the setting of uniform standards, learning, sharing new developments in practice and economies of scale. At regional level, it remains difficult to trust "de der inne i Oslo," or even their colleagues in the fylke.

It is not appropriate for an evaluation such as this to take a position on the extent to which Norwegian regional policy should be centrally or regionally driven. That is essentially a political question for the Norwegian electorate, rather than for (partly foreign) evaluators, to handle. It is certainly possible, however, to share the responsibility in the way outlined in the Steine report, using a strengthened version of the current system.

Norway is by no means the only country to decentralise business support and regional development services. In the other cases we have studied, this decentralisation is accompanied by central quality controls and controls on individual project funding decisions precisely in order to maintain a balance between specific local need and the quality of the overall development system. If, as we suggest, the co-operation between the DKs and FKs should become still closer, international practice suggests that the final decision on project funding needs to be protected from informal influence by those who interact with customers. The Steine structure of a 'solid line' from the DKs to SND and a 'dotted line' to their Boards achieves this. We therefore see current pressures to give the DK Boards authority over the DKs at the level of individual cases as retrograde. An obvious way to limit the negative effects of this would be to return to the LTA principle that the organisations, which take final decisions about project funding, also have finally responsibility for any losses incurred.

We understand SND as an instrument of national policy, with a mandate from the electorate and the national parliament to provide quality-assured business development services according to a common set of national rules. It has an evolving kit of instruments and programmes, many of which are locally delivered and all of

---

<sup>20</sup> Some DKs are already active in this respect



which are capable of adaptation to local circumstances. It has the potential (which we think is under-exploited, today) to provide more and better services to policy makers both at Departmental and at FK level<sup>21</sup> by doing analysis and by helping to co-ordinate between regions. But, as a national instrument, it must be somewhat passive in regional policy. We think of it as a little like the base plate of a guillotine. This has to be solid, dependable, of high quality and have a sharp edge. When the guillotine is used, the base contributes half the cutting force.

Second, it is necessary to create the space (and internal resources) needed for the FKs to be proactive in their strategies. The guillotine can only be put to use in a specific regional development context when it has a specific user. When the blade is used, the guillotine cuts. To the extent that FK plans have specific regional objectives, and a means to work towards them, we see every reason why the combination of regional initiative with a national toolkit should work. For example, if a strategy says, “We will double our production of farmed salmon over the next 5 years,” the SND tool kit has many ways to help. These include acquiring technology through teaching management skills, helping with investments, funding networks and so on. SND should also in its premissgiver role to be able to say something about the demand for salmon, the environmental implications of more production and the kind of actions needed to sell and distribute the product.

Crucially, in allocating resources for the implementation of such a strategy, SND will provide a quality control on each project funded. There is no competition in the subsidy market, so quality control is essential – both to ensuring the health of the projects and to controlling the extent to which subsidies (mis)allocate resources towards under-performing parts of the economy. Quality control is also needed - to put it bluntly - to prevent project approval from degenerating into an exercise where friends and neighbours simply give money to each other.

It is because the combination of a quality-assured, common tool kit with regional initiative is so powerful that we are concerned at proposals to bring SND’s DKs completely under regional control. What this gives the regional user is not a guillotine but a pair of scissors. Both blades are in the same hand. Unless the user has super-human skill, the cuts get wobbly; the shapes cut out become idiosyncratic; the quality suffers.

### **2.3 Departments of State and Policy Makers**

Most of SND’s efforts are devoted to its main operational task of using money provided by Departments of State to implement their business development policies. The evaluation as a whole considers how well SND has done this, and reaches largely positive conclusions.

SND’s tasks also include acting as a ‘premissgiver’ in policy debate and we consider that here. We agree with the findings of the previous evaluation, that SND has been insufficiently active in supporting its policy customers, and that a customer survey would be a good way to start becoming more active. In doing policy analysis work,

---

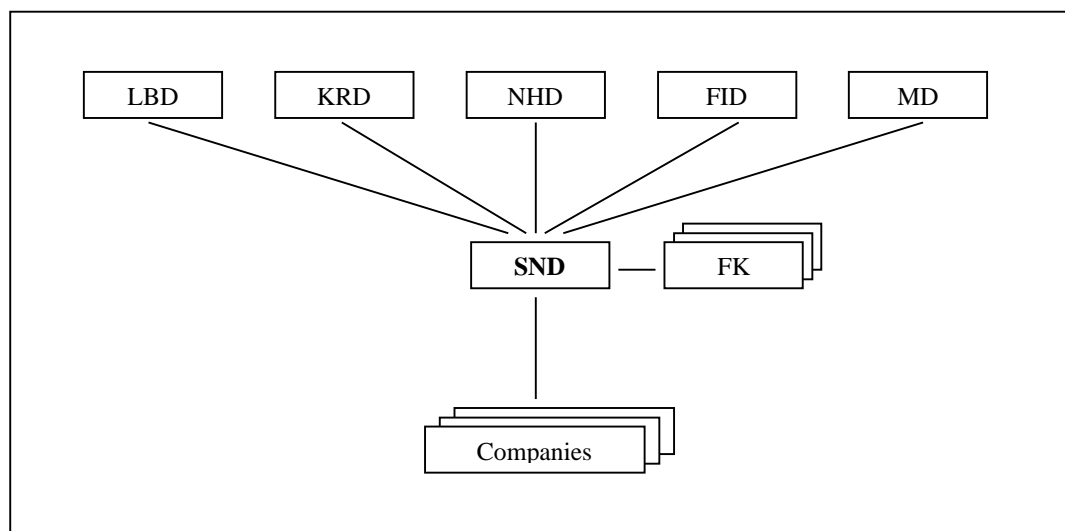
<sup>21</sup> Both Schifloe and Buanes and Andersen say that the FKs in their respective studies were disappointed at how little planning and analysis support SND was able to bring to their planning discussions

SND has historically tended to react to requests. However, we think SND’s policy customers would be better served by a well-organised and argumentative premissgiver. Just as in its work with companies, SND needs to be more **proactive** in setting agendas and making proposals.

The idea that SND should help shape, as well as to execute, policy follows naturally from its position between policy makers and markets. It is uniquely positioned to pull together multiple sectoral perspectives and analyse trade-offs, as well as to provide intelligence based in the daily experience of companies and branches, because it works at a ‘cross-roads’ between the relevant policy actors and industry.

We see a close analogy with the role of Forskningsrådet, which operates at the cross-roads between multiple funding departments, the institutional interests of industry and the research system, and individual researchers who apply for project funding. Forskningsrådet is able to develop both strong strategies at the level of the individual Areas and programmes into which it divides its work, and at the national level. It has most clearly been able to set a policy agenda to raise the share of GDP Norway devotes to R&D up to the average OECD level – a very visible and powerful form of *premissgiving*, which has a direct feedback to its own budgets.

**Exhibit 8      SND as an Information Node**



The premissgiver role has not been more closely defined in the past, not least because the various Departments of State to which SND reports have varied (among themselves and over time) in the extent to which they actually want to receive policy inputs from SND.

The relevant part of NHD during the 1990s appears to have lived under a rather strong neoclassical economic influence, concerning itself with broad questions of market failure. Given an historical background of mixed success in Norway’s industrial policy of trying to rationalise the structure of certain branches of industry, NHD has understandably promoted a principle of ‘branch neutrality’ in policy and the belief that the market is better at finding comparative advantages than are bureaucrats. This

intellectual position has naturally restricted NHD's interest in more specific and branch-related *premisses*.

KRD, more or less by definition, has a stronger intellectual interest in economic geography, and therefore in industrial districts and clusters. It regards itself as an 'early adopter' of newer innovation systems perspectives on economic growth and development. Its mission of tackling specific problems in specific places means it has historically been a much more interested recipient than NHD of the type of inputs which SND can provide in its *premissgiving* role.

The Departments of Agriculture and (especially) Fisheries are in many ways even more active than KRD in defining the micro-specifics of policy. As the evaluation report on SNDs governance indicates, Fisheries specifies its requirements to SND in great detail. In so far as it has an interest in SND as a *premissgiver*, this is at a detailed level of implementation.

The differences in the intellectual frameworks of the Departments and the degree of detail in which they direct SND is striking, but our impression is that intellectual and other differences among the Departments have been more important in the past than they are today. An inter-Departmental co-ordination group has existed for a number of years, but is said by members historically to have been ineffectual. In contrast, there are now clear signs of active co-operation among the Departments in handling SND. For example, the concerns raised in the evaluation report on governance were taken up early in the evaluation process. The Departments are already working actively to reduce the goal complexity, which they collectively impose on SND. The Departments – individually and collectively – appear also to be more interested in SND as a *premissgiver* and sparring-partner in devising policy than they may have been in the past.

Different countries make different choices about where the boundary should lie between Ministries or Departments of State, on the one hand, and agencies (such as SND) on the other. The Swedish tradition is to have very small Departments which give rather general instructions to agencies, which then do a lot of research, planning and programme design in order to implement their orders. A *regleringsbrev*, which tells an agency what to do across a year, can be as short as a single page. In the UK, Departments are bigger and work at a much more detailed level. The Departments – for example, the Department of Trade and Industry in the area of business support – often design programmes, for subsequent delivery by various public and private implementation agencies.

The Norwegian Departments of State, which use SND as an implementation agency, have different practices, and follow different models. While their reasons for doing so are relatively clear, this makes SND hard to manage. It limits the extent to which SND can propose policies and perspectives, which go beyond those of individual Departments and consider actions which obtain synergies across the very significant amount of tax resources that the Departments collectively channel through SND.

Prior to the decentralisation of SND, it has not been apparent that it could play a significant role in support of FKs' strategy and planning efforts. In practice, therefore, there has been rather weak demand for SND to perform as a *premissgiver*,

and this has been matched by a rather weak and unfocused supply of premisses from SND. In today's circumstances, however, not only does demand appear to be stronger but the need for this role to be fulfilled – especially in supporting regional development planning – is increasingly clear. SND should investigate demand.

Internally, in SND, interpretations of the premissgiver role vary. Some managers see it as concerned with the use of internal knowledge and experience to influence decisions by Departments and by companies at a rather detailed level. Others argue that the role should involve a more proactive use of analysis and communication to influence policy at Department and government level.

During SND's first five years, top management's priorities appear to have been to unify SND, organise its operations and to 'produce' cases. It undertook analyses and strategic planning work, but largely at the request of central government. Its role was clearly seen as to implement policy, rather than to set it.

The visible results of SND as premissgiver include

- Focused development plans for branches such as fishing, travel and food – generally produced at the request of a Department of State
- A series of reports and working papers on topics ranging from the prospects for renting cottages to German tourists to overviews of various branches
- Responses to invitations to communicate with various government investigations and to respond to policy proposals – usually in the form of a well-considered analysis of the topic from SND's own perspective

SNF took up the premissgiver question in its evaluation of SND. Like ourselves, SNF sees SND as a natural champion of economic and regional development policies, which is well positioned to provide useful inputs to policy debate, but which is – despite the volume of its written output - not very visible in doing so. An internal working group<sup>22</sup> in 1998 shared this view, saying that the reason SND's role as premissgiver had not lived up to expectations appeared to be that resources and responsibility for this had not been allocated with sufficient clarity inside the organisation. We agree, and return to the question of how to tackle this problem in our discussion of *Næringsdivisjonen* in **Chapter 4**.

SNF suggested in 1997 that it was past time for SND to conduct a survey among its policy customers, in order to test the amount and type of potential demand. Had SND done so at the time, we suspect it would have found less enthusiasm for such a role than exists today. We understand that SND intends to do such a survey during the Autumn of 2000, and suggest that this task should be given considerable internal priority. The survey should cover not only the central state but also the needs of the FKs.

---

<sup>22</sup> Rapport fra en arbeidsgrupps, *Organisering av premissgiving, strategi- og policyutforming og utredningsarbeid i SND*, Oktober 1998, page 4

### 3 SND's Performance over Time

This Chapter explores the process of merger, which created SND, aspects of SND's organisational history and organisational development, as well as the efficiency with which it has operated over time.

SND represents an important simplification of parts of the business support system, making its quality more uniform and improving the customer interface. It has successively reorganised itself to meet customer needs and has improved its efficiency across a period in which it has been required to perform a growing number of tasks. Its current and future proactive roles in the innovation infrastructure require increasingly high levels of skill, and this will be reflected in a need to maintain an adequate administration budget.

#### 3.1 Organisational history

SND was created in 1993 by merging four organisations, and has continued to serve as an agency into which additional organisations and functions have been added in an effort to simplify and rationalise the provision of business development aids. STEP's evaluation of SND's effects on companies contains an extensive account of the relevant legislation, Norwegian industrial policy and the role of SND in this larger history, which we do not propose to repeat here. Key elements of this policy history at the point when SND was established include

- Reduced policy focus on trying to manage the structure of industry<sup>23</sup> and build scale in selected branches, compared with past practice
- Increased emphasis on innovation and self-organisation by companies as motors for economic development
- A corresponding need for the business and innovation support infrastructure to be simple, transparent and service-oriented, so that companies could easily understand and access it
- A recognition that the petroleum age would end, and that a diversified, robust and capable industry structure would be needed
- Growing concern, therefore, to ensure that industry has strong endogenous capabilities
- A continuity with the previous policy focus on maintaining the existing pattern of population in Norway
- The rather special circumstances of acute capital shortage in the early 1990s, which had followed a collapse in the commercial banking sector in the 1980s and rationing of capital by the state

The SND merger was an important step towards simplifying the support system. It brought together national and regional aspects of business development support into a single system, simplifying the 'offer' made to the business community. Initially focusing on the creation of a common, quality-controlled process for making

---

<sup>23</sup> Note that 'industry' in this context covers all branches, including the primary and tertiary sectors. In Norwegian 'industri' normally means only manufacturing industry

decisions about support at the project level, the organisation then successively reorganised itself to create a 'front office' function as close as possible to the customers.

### 3.1.1 SND's Ancestors

The SND merger followed a series of smaller rationalisations among state funds, but was a much bigger step. Earlier mergers had involved bringing pairs of organisations under a common roof, while the SND merger involved four<sup>24</sup> organisations at once. Perhaps more important was that the SND merger created an organisation that should straddle national and regional development policy.

**Distriktenes Utbyggingsfond (DU)** was established in 1961, as an extension to the activities of the Nord-Norge Fond. DU's primary target was SMEs in the districts, aiming to create profitable, sustainable employment. While DU's focus was initially on manufacturing, in line with the broad direction of Norwegian economic development policy for much of the 20<sup>th</sup> century, in its latter years it was also able to tackle other branches<sup>25</sup> of the economy.

From the early 1980s, DU introduced measures to help increase company capabilities, in addition to providing finance. Project funding decisions were increasingly decentralised to the regions through DU's lifetime, so that in its last years about 90% of decisions were made by the fylkeskommuner, with only the larger cases being handled in Oslo. Staff numbers in Oslo were correspondingly reduced. This shift in responsibility was accompanied in 1991 by a reform which made the fylkeskommuner responsible for project monitoring and for losses on the DU loans they approved, over and above budgeted write-offs<sup>26</sup>. In principle, such additional losses would be recovered from the fylkeskommune budgets, having implications for spending on health, education and so on. DU's work was concentrated in seven areas, of which the first three had greatest priority

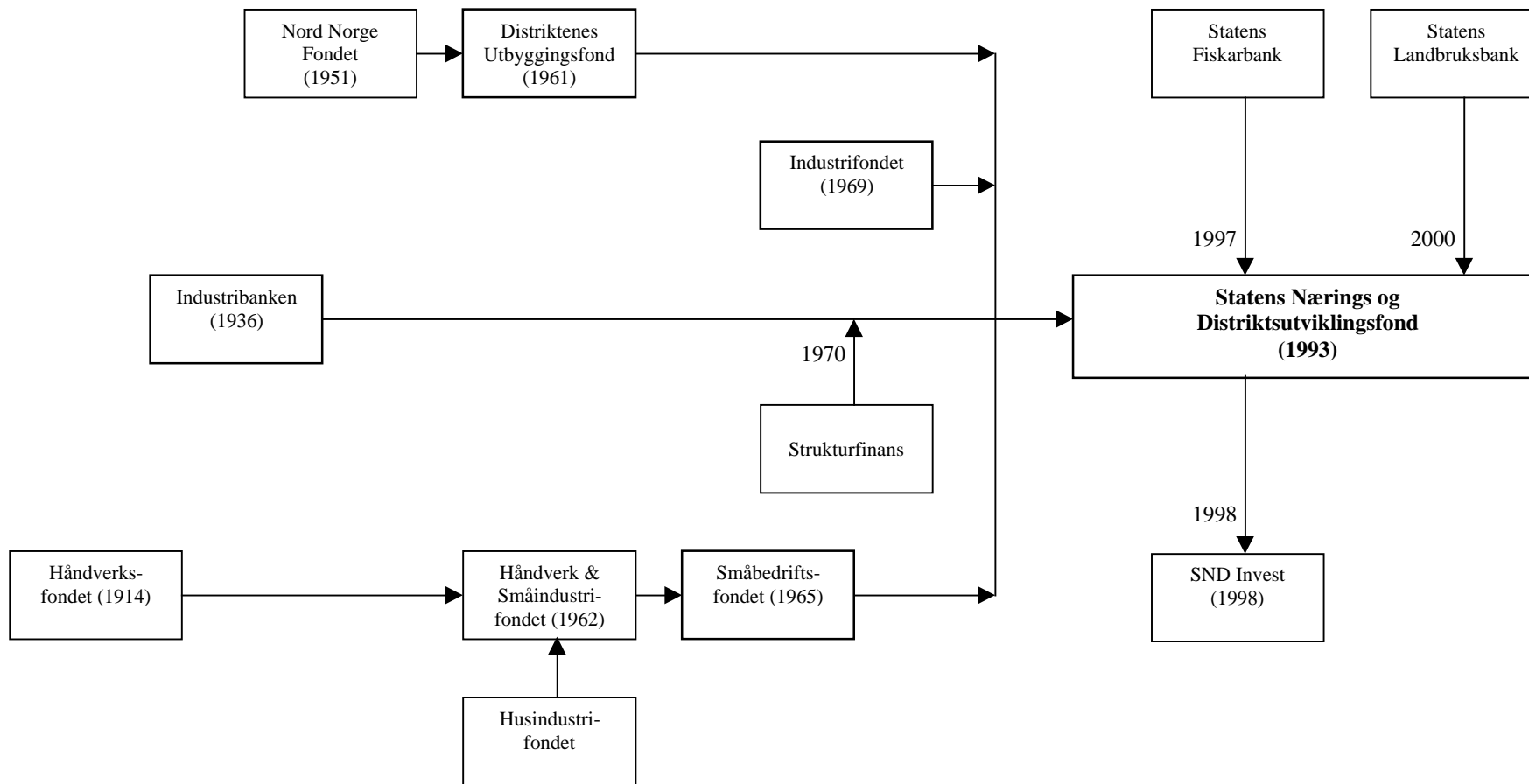
---

<sup>24</sup> Strictly, there were three tangible organisations plus Småbedriftsfondet, which was organised as a department within Industribanken

<sup>25</sup> Except those operating under monopoly conditions, where another state agency would typically be the monopolist, and thus subsidised by the state

<sup>26</sup> *tapsfond* Lokalt Total Ansvar – LTA. The reform aimed to clarify the division both of labour and of responsibilities between DU and the fylkeskommuner

### Exhibit 9 Mergers Among Business Support Organisations



- Omstilling i kommuner med ensidig næringsstruktur
- Kontaktskapende virksomhet og bedriftsallianse
- Kompetanseutvikling i næringslivet
- Bransjeutvikling
- Stimulanser for nyetableringer
- Serviceoppgaver overfor lokale myndigheter
- Analysevirksomhet, premissgiving og samfunnskontakt<sup>27</sup>

All of these functions were passed on to SND, though the responsibility for branch development was played down, in the context of the 'branch-neutral' policy followed by NHD, SND's owner.

**Industrifondet** was the agency of NHD whose role corresponded most closely with that of DU. Its overall objective was to strengthen Norway's international competitiveness by stimulating market-oriented innovation and restructuring. Its primary instrument was risk capital, offered as loans or as venture-style investments in shareholdings in cases where this was expected to stimulate additional capital investment by others. In the later years of the fund's life, it too became increasingly involved in measures to increase company capabilities, the rate of innovation and of company start-up.

**Industribanken** was originally set up as part of the state's efforts to promote industrialisation. Owing to political disagreements about setting up a state-owned bank, private shareholders were found to take 49% of its shares. In 1992, Industribanken had 57 Norwegian financial institutions as shareholders, in addition to the state. Negotiations about the share price to be paid in what was effectively a nationalisation of the minority shareholding in order to incorporate Industribanken into SND dragged on in 1992, and this led to its final incorporation into SND only in March 1993.

According to Industribanken's final Annual Report

Industribankens oppgave har hele tiden vært å medvirke til vekst og økt konkurransevne i norsk industri ved å gi lån til lønnsomme investeringer. ... Banken har vært drevet etter bedriftsøkonomiske prinsipper og har hatt ansvar for sin egen økonomi. Hele virksomheten har vært finansiert gjennom innlån i obligasjonsmarkedet.

The bank's activities were correspondingly limited to loans (both general and branch-specific), the management of funds for environmental and energy-saving investments on behalf of the state and the Venture funds.

Industribanken has been the only one of SND's predecessors to possess a significant regional organisation. In addition to the Oslo headquarters, it had offices in Bergen, Bodø and Ålesund and – later on – Trondheim and Kristiansand. These offices were set up to increase competition in the respective regional loans markets. To a considerable extent, therefore, Industribanken's mission was to compete in

---

<sup>27</sup> Distriktenes Utbyggingsfond, *Årsmelding og Statistikk 1992*



existing banking markets in order to reduce the imperfections in the regional capital markets.

The other activity of Industribanken was to house **Småbedriftsfondet**, the successor to a fund set up in 1914 with a mission to help craftspeople and very small manufacturers make the transition to factory-based production. Småbedriftsfondet provided loans for small firms (up to 50 employees) and start-ups, based on a “fundamentalt prinsipp om at de prosjekter som støttes, skal ha et forsvarlig bedriftsøkonomisk fundament.” Its role was to counter the disinclination of the mainstream banks to give any priority to the needs of small enterprises<sup>28</sup>.

As **Exhibit 10** suggests, the activities and traditions brought forward by the four organisations into SND had important differences. An obvious one is between the banking focus of Industribanken and Småbedriftsfondet on the one hand, and the wider set of instruments used by the two other organisations, which both embraced company capability development as an important part of their roles.

#### **Exhibit 10 Measures Carried Forward to SND From Predecessor Organisations**

<b>Ordning</b>	<b>DU</b>	<b>Industri-fondet</b>	<b>Industri-banken</b>	<b>Småbedriftsfondet</b>
<b>Lån</b>	X	X	X	X
<b>Garanti</b>	X	X		X
<b>Investeringsstilskudd</b>	X			
<b>Bedriftsutviklingstilskudd</b>	X			
<b>Etablererstipend</b>	X			
<b>Omstillingsområder</b>	X			
<b>NT-Programmet</b>	X			
<b>Nettverksprogrammet</b>	X	X		
<b>SmåBUNT/FRAM</b>	X	X		
<b>OFU/IFU</b>		X		
<b>Etablering me Ny Teknologi</b>		X		
<b>Reiselivsprosjekter</b>	X	X		
<b>Venture Capital</b>		X		
<b>Miljøvernfinansiering</b>			X	
<b>Venture-fondet</b>			X	

Source: Annual Reports, 1992 for the organisations analysed

The other difference is far less obvious from the **Exhibit**. The fact that the new SND organisation was an agency of NHD was seen by many as a ‘victory’ in a long-running battle for that Department over KAD (now KRD), the regional development Department. It meant that KAD’s major operating agency – DU – was taken out of its hands.

As we indicated in the previous Chapter, behind this battle appears to lie a fundamental intellectual disagreement. This is about whether economic development is best conducted through correcting important market failures but otherwise keeping

<sup>28</sup> Småbedriftsfondet, Årsberetning 1992

a ‘hands off’ role for the state, or whether effective development requires a more activist approach, with specific strategies tied to specific geographies. The former is a macro approach, which equates economic welfare (ie wealth) with social welfare, and which therefore regards geography as a side-issue (except in the economics of agglomeration, which in practice normally dictate that a ‘hands off’ approach will lead to spatial centralisation). The latter is a micro approach, where the geography is included in what is understood by socio-economic value, and where it is therefore worthwhile to devote some social resources to manipulating the spatial distribution of industry and population. In the absence of a unifying intellectual framework, the possibilities for the two sides to ‘talk past each other’ are endless.

These deep philosophical differences are also reflected in the fact that while parts of DU’s role were explicitly to develop branch strategies and to be a *premissgiver* in economic policy formulation, the other organisations were mostly bound by a principle of neutrality between branches of industry.

### 3.1.2 The Evolving Structure of SND

An attempt was made to ‘square the circle’ and unify the aims of the different parts of the support system by giving SND a double objective

Statens nærings- og distriktsutviklingsfond har til formål å fremme en bedrifts- og samfunnsøkonomisk lønnsom næringsutvikling både i distriktene og i landet for øvrig ved å: medvirke til utbygging, modernisering og omstilling av, samt produkt utvikling og nyetablering i norsk næringsliv i hele landet og fremme tiltak som vil gi varig og lønnsom sysselsetting i distrikter med særlige sysselsettingsvansker eller svakt utbygd næringsgrunnlag<sup>29</sup>

The branch-neutrality principle was carried forward into SND. In the early 1990s, it was still a relatively new way of thinking about industrial development in Norway compared with the practice up to and including the 1980s of directing capital towards particular sectors. It was therefore clearly important as a way to open the gates to development across the whole of the economy, not just in the (manufacturing, energy and tourism) sectors that had traditionally been in focus.<sup>30</sup>

SND bør preges av størst mulig grad av næringsnøytralitet. Det innebærer at man i stedet for å foreta positive avgrensinger m. h. t. næringsmessige virkeområde ... lar fondet med visse unntak omfatte all næringsvirksomhet. Tilsvarende legges det ikke opp til formelle regler for hvilke bedriftsstørrelser som kan få finansiering gjennom fondet. På denne måten vil det være det enkelte prosjektets utviklingsfremmende karakter som vil være avgjørende for eventuell støtte, ikke hvilken næring eller bedriftskategori prosjektet tilfeldigvis kan henføres til.<sup>31</sup>

This idea of the quality of the individual **project** was to become the dominant operational philosophy in SND. It was used as a way to bring the national and

---

<sup>29</sup> Lov om Statens nærings- og distriktsutviklingsfond, av 3 juli 1992 nr 97

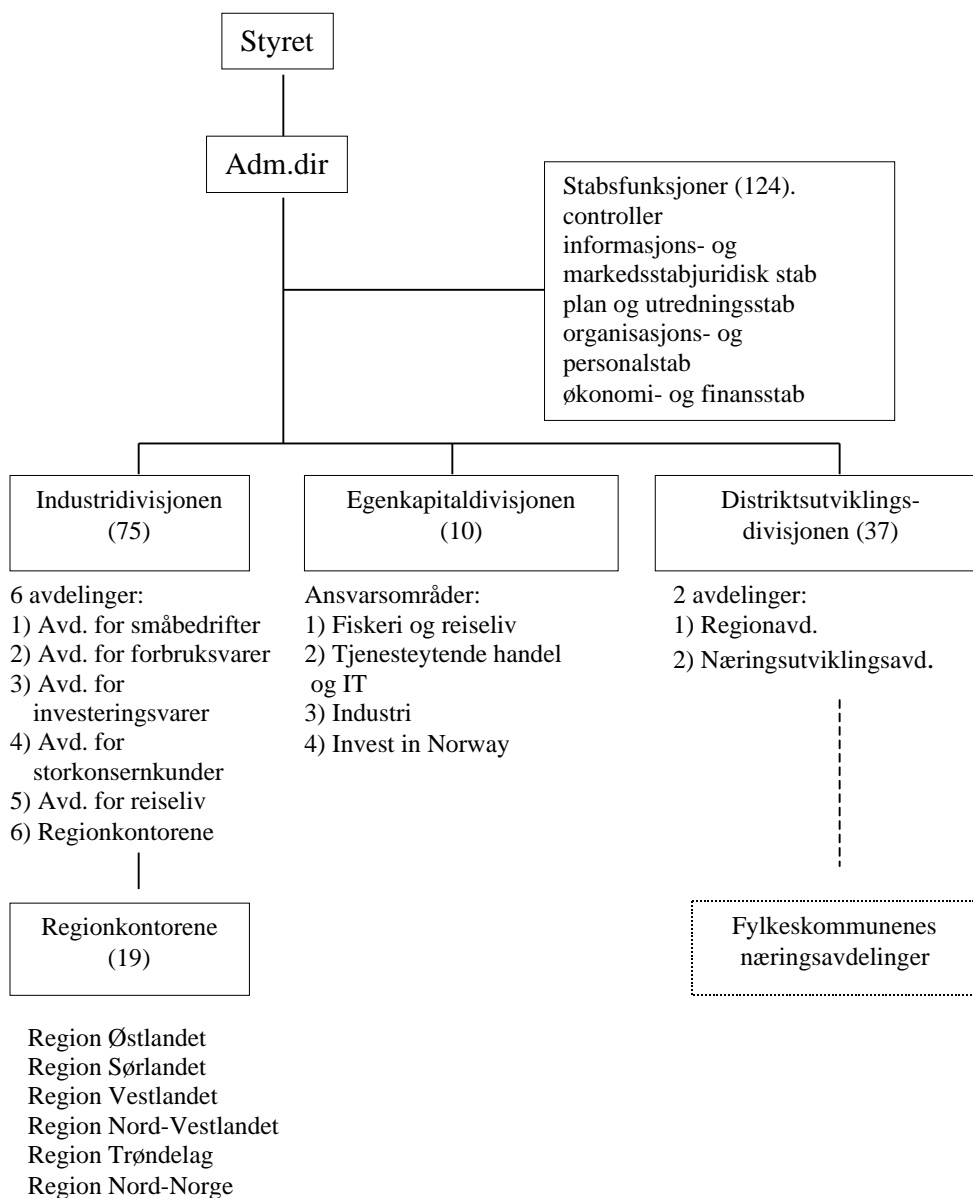
<sup>30</sup> It is said that generals make mistakes most often because they try to fight new wars with tactics from the last ones. Just at the time when the idea of branch-neutrality was being enacted into SND’s operating principles, much of the rest of the industry policy world was embracing the idea of ‘clusters’ (development blocks, in the Swedish terminology) as a useful way to structure policy interventions. This is something which the branch-neutrality principle makes a rather alien idea within SND, even if it is one that has increasingly been accepted within the organisation over the past two years or so

<sup>31</sup> Om lov om Statens nærings- og distriktsutviklingsfond, Ot. Prp. Nr. 57

regional perspectives together simply by allocating different pots of money within which the principle operated.

The first organigram proposed for SND used it as the way to resolve the conflict between the philosophies represented by NHD and KAD. In this organigram, DU was more or less preserved in its previous form, while Industribanken, Industrifondet and Småbedriftsfondet were merged into Industridivisjonen.

**Exhibit 11 SND Original Organisation, 1993**



This was a simple and obvious way to start building a new organisation, which exploited the continuities with previous structures so that SND could immediately carry on working where its predecessors left off. It meant that DU's practice of delegating the bulk of its project decisions to the fylkeskommuner could continue, with large cases only being handled in Oslo. The industry division clustered its expertise around branches, small and large companies. This had the advantage that case officers developed areas of industrial expertise and brought a relevant background to considering individual cases. The corresponding disadvantage was the distance from customers and the greater difficulty of maintaining continuity of customer contact over time and distance.

The fusion was achieved by appointing an outsider as head, in part as a way to ensure that none of the predecessor organisations 'won' the battle of integration. Senior managers were allocated positions in the organisation which did not always correspond with their previous jobs, and a leavening of other outsiders was brought in among senior management in order to cement the idea of a new culture. In fact, none of the directors of the old organisations remains within the SND headquarters.

To make the transition to a single organisation, and in an attempt to escape what was seen as over-frequent local-political lobbying about individual funding decisions, there was strong initial focus on the single goal of "bedrifts og næringsøkonomisk lønnsom næringsutvikling." The key idea was that the same uniform set of funding rules would apply nation-wide. The difference between the districts and the central areas was defined in terms of the availability of funds and the wider categories of support available in the districts. But, in principle, if a project was not fundable in Akershus, it was not fundable in Finnmark<sup>32</sup>. Preparing a uniform case handling approach, expressed in a single manual for the whole organisation, was therefore a priority<sup>33</sup>. The uniform view among the customers we interviewed to the effect that SND's case handling approach is thorough and organised to the point of being bureaucratic is testimony to the effective way in which this task was done and its role in defining SND's culture.

The original organisation of SND was intended to last for an initial 2 years. It was reviewed after this time, but little of substance was done to change it.

Invest in Norway was integrated into SND in 1995, initially as a free standing division of 4 people. Its job is – as its name suggests – acting as an inward investment agency. From 1998, it was integrated into the Industry division.

The inward investment function (Invest in Norway) is rather difficult to place 'correctly' in the Norwegian system. SND has the links needed with local and regional authorities, as well as the understanding of local infrastructures and

---

<sup>32</sup> This was intended as an important discontinuity with the past, in an effort to break a pattern of state bail-outs of non-viable businesses which probably persisted longer in Norway than in most European countries (even if the UK government has recently tried to revive the practice with the Rover Group). The first test was SND's decision to let Rema Kartong fail, a decision which the Minister of Industry refused to overrule

<sup>33</sup> In practice, it took until SND's decentralisation fully to apply uniform project profitability criteria in the Distriktsutvikling division, since the majority of decisions were taken in the fylkeskommuner rather than within SND

suppliers, needed to assist organisations considering an inward investment. The Export Council has the network of international contacts needed to find potential investors, and regards Invest in Norway as a natural part of its portfolio. Just as SND needs to be customer-facing, through its network of district offices, so it is appropriate for Invest in Norway to work close to its customers. We suggest that it should be transferred to the Export Council, and that its needs for access to SND's central and regional 'intelligence' should be satisfied through an extension to the existing agreement between the Export Council and SND. In effect, it can buy research from SND (and others) on a case by case basis, to satisfy the needs of individual clients.

The Russia and Eastern Europe Division (RØED) was added in 1997. This division is similarly free standing, and resides within SND because it needs a bigger institutional home for its 4 people, in order to provide infrastructure. The SND regional network plays a small role in harvesting inquiries to the Fund, while RØED itself makes a minor but positive contribution to SND's 'product range'.

In 1998, Egenkapitaldivisjonen was externalised into SND Invest, which now runs rather separately from the other parts of SND. We discuss this in a separate Chapter on SND Invest.

Regional governments had been lobbying for decentralisation of SND more or less since its inception. An initial experiment to set up a district office in Nord Trøndelag in 1996 was evaluated after two years, and was found to be successful. Previously, companies in the the 'districts' within Nord Trøndelag, which received regional subsidies, were handled by the FK, while companies in other parts of the fylke were handled by SND. The experiment brought them together in a single office. It also established the principle that the SND director should take responsibility for individual project decisions, and that a local representative Board should have **advisory** status only, in individual cases.

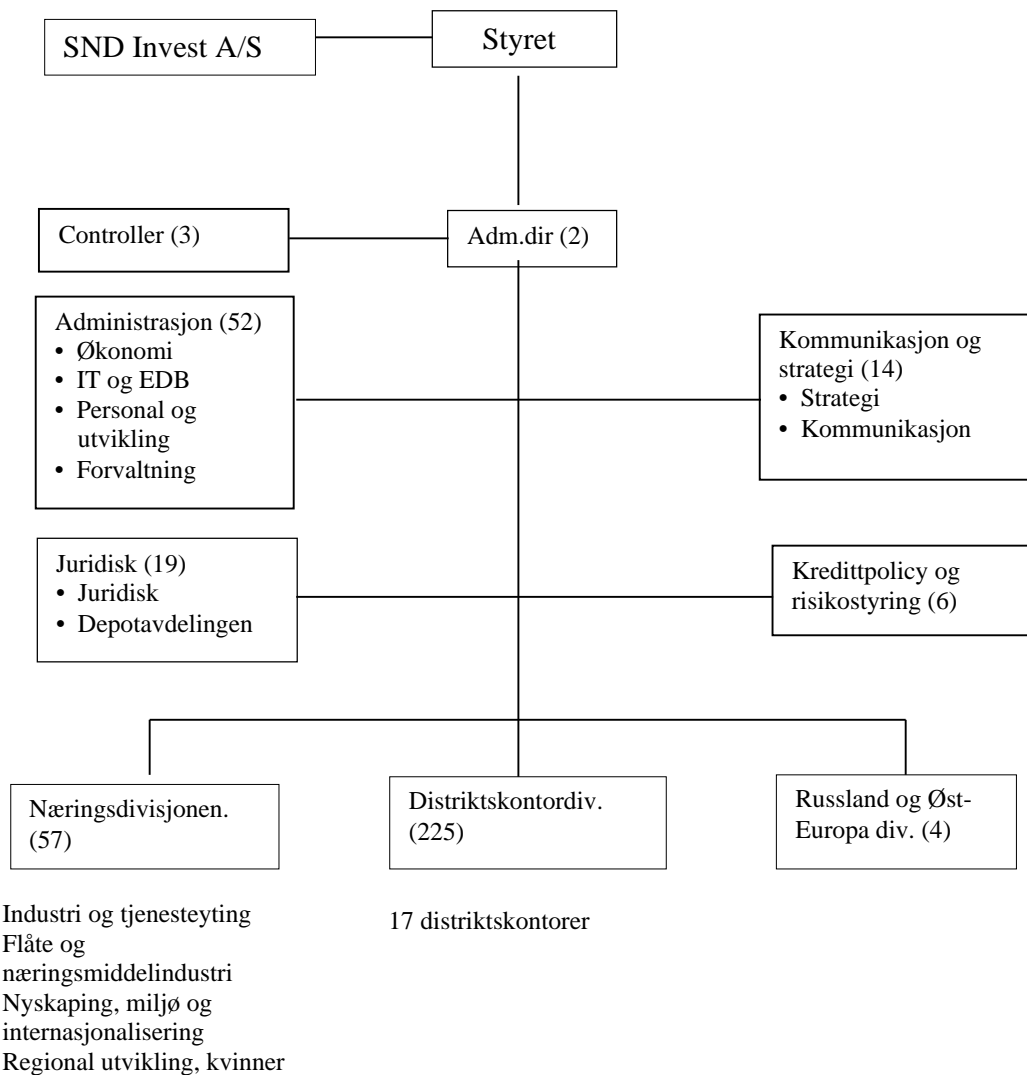
Additional district offices began to be added in other fylkeskommuner from 1997, but the evaluation led the way to the adoption of the Nord Trøndelag model across all fylker.

In addition to being a 'textbook' response to the need to offer high service levels to a geographically dispersed customer base, SND's decentralisation was clearly appreciated by the customers themselves. The new district offices were attached to the Industry Division, which already managed the regional offices inherited from Industribanken. But as the decentralisation of SND became more complete, it was necessary also to reorganise the Head Office.

### **3.1.3 The Decentralised Organisation**

Conceptually, the required reorganisation was radical. The previous regional offices had functioned more or less as the 'extended arm' of SND Oslo. The point of the decentralisation was to put the 'front office' close to the customers and to empower the front office as far as possible to take decisions. Correspondingly, the headquarters had to take on the 'back office' roles of process support, quality control, R&D and strategic management. The organisation chosen is shown in **Exhibit 12**.

## Exhibit 12 SND Organisation 1999



We describe the new organisation in broad terms here. In the next section, we review how well it appears to be working, focusing on the operative activities.

### 3.1.3.1 Distriktskontordivisjonen (DKD)

A new *Distriktskontordivisjon* was set up in April 1998, comprising 5 people in Oslo plus all the district offices. This looks after most of the front office functions.

Each district office has to

- Liaise with its *fylkeskommune* in the development and rolling forward of regional development plans, and assist with implementation within the rules nationally laid down for the use of SND instruments and resources
- Proactively maintain contact with its target customers in its region, informing them of opportunities offered by the business support system (defined as SND and its partners: Forskningsrådet, the Design and Export Councils)

- Provide SND's unique<sup>34</sup> customer interface to these firms
- Refer customers to partner business support organisations, where appropriate
- Process applications for support from companies, taking financing decisions, monitoring and maintaining 'live' projects through their life cycle
- Comprehensively report its activities to headquarters

#### 3.1.3.2 Næringsdivisjonen (NÆR)

The Industri and Distriktsutviklings divisions were merged to form the Næringsdivisjon, which is now the main headquarters division. It comprised a director with four associated staff and four departments. Two of the departments comprise branch experts. (A third has been added in 2000, to handle agriculture-related activity.) Two work with SND's programmes: actions, which work outside SND's mainstream loan and grant mechanisms.

- TIND, avdeling for industri og tjenesteyting
- FINO, avdeling for fiskeflåte, næringsmidler, fiskeoppdrett og plast/kjemi
- REKK, avdeling for utvikling, kvinner og kompetanse
- NYMI, avdeling for nyskaping, miljø og internasjonalisering

The division is the focus for important debates within and outside SND about the extent of further decentralisation that is desirable within the SND system.

#### 3.1.3.3 Russia and Eastern Europe Division (RØED)

This small division manages two investment funds: the Northwest Russia fund; and the Eastern Europe fund. It works to

- Understand conditions in NW Russia and Eastern Europe so as to be able to support potential Norwegian investors in these areas
- Support these investors by injecting capital through the purchase of shares in companies investing in the target countries
- Maintain and increase the value of the two funds through the eventual sale of shares in customer companies and by managing unused portions of the fund

RØED is self-financing, using profits from the funds to cover administration costs.

#### 3.1.3.4 Staff

The staff is made up of five groups.

- The controller, who in addition to normal financial controlling is responsible for managing and maintaining the process handbooks used in SND
- The administration department, which in turn consists of finance and accounting, IT, personnel and estates and assets administration

---

<sup>34</sup> A minor exception is that the FRAM programme is implemented via a network of consultants, certified by SND as competent to deliver the programme. These consultants in practice also form a sales network for FRAM

- A Legal department, consisting of legal services and the deposits and securities group
- Communications and strategy group,
- Credit and risk management group

### 3.1.3.5 Development over time

**Exhibit 13** shows how the numbers of people in SND's divisions and departments have changed over time.

**Exhibit 13 SND Mean Full-Time Equivalent Staff by Department, 1993 - 1999**

Enhet	1993	1994	1995	1996	1997	1998	1999
<b>Divisjoner:</b>	<b>134</b>	<b>149</b>	<b>145</b>	<b>147</b>	<b>227</b>	<b>267</b>	<b>286</b>
Industri-div./Bedriftsfinansieringsdivisjonen	75	77	74	58	55	45	
Distriktsutvikl.div./Utvikl.divisjonen	40	42	39	40	38	36	
Invest in Norway			4	5	6	6	
Russland-/Østeuropadivisjonen					3	5	4
Distriktskontordivisjonen/regionkontorer	19	30	28	44	125	175	225
Næringsdivisjonen							57
<b>Staber:</b>	<b>125</b>	<b>122</b>	<b>110</b>	<b>105</b>	<b>106</b>	<b>100</b>	<b>96</b>
Administrasjonsstab	78	75	66	64	66	65	52
Kredittpolicy og risikostyring							6
Juridisk Stab	23	23	21	20	20	19	19
Kommunikasjon og strategi	19	18	17	15	15	12	14
Controller	3	4	4	4	3	2	3
Adm. direktør m.v.	2	2	2	2	2	2	2
<b>Total SND</b>	<b>259</b>	<b>271</b>	<b>255</b>	<b>252</b>	<b>333</b>	<b>367</b>	<b>382</b>
<b>Egenkapitaldivisjonen/SND Invest:</b>	10	20	19	25	28	28	27
<b>SND KONSERN</b>	<b>269</b>	<b>291</b>	<b>274</b>	<b>277</b>	<b>361</b>	<b>395</b>	<b>409</b>

**Source:** SND. Note that the Industri- and Distrikt- personnel were reorganised under the new Næringsdivisjon during 1999

From the numbers, we can see how Industridivisjonen (corresponding to Industrifondet, Industribanken and Småbedriftsfondet) has successively been downsized, eventually disappearing, with Distriktsutviklingsdivisjonen (corresponding to the old DU) into the new Næringsdivisjon. There has therefore been a substantial reduction in central case handling capacity, which has been taken up within the much bigger Distriktskontordivisjon. The bulk of the district office personnel have been transferred in from the fylkeskommuner, so while they represent growth for the SND organisation they do not add to the number of people working with the administration of SND funds.

Within the staff, the administrative departments have succeeded in reducing numbers of people. Little of the administrative work has been transferred to the regional offices, so the savings here mostly represent the extraction of synergies, in part delayed by the 'no redundancies' policy adopted. In contrast, the small reduction in the legal department has been possible because deposit administration work is now shared with some of the larger offices. We would have expected the strategy and



communications staff to increase in parallel with the decentralisation, to strengthen the distributed organisation's ability to operate as a single entity, but the trend has been in the opposite direction. A central credit and risk management team has been put in place, both to standardise practice among the offices and to manage the overall portfolio risk.

The Egenkapital division has grown and been semi-externalised as SND Invest, filling a new role in the support system compared with those played by SND's predecessors.

## **3.2 Productivity**

It seems reasonable to expect that mergers like that which created SND will result in cost savings. In the case of administrative organisations where almost all the costs are personnel costs or otherwise driven by personnel numbers, cost savings can mainly be achieved through reductions in the number of personnel employed. SND has been given a huge and growing number of tasks, many of which relate obliquely to its core grant, lending and company development businesses and few of which have been accompanied by explicit contracts with Departments about administrative cost implications. We do not pretend, therefore, to be exhaustive in our analysis. Our ambition in this section is simply to test whether SND's productivity has been moving in the right direction.

SND has succeeded from the outset in reducing total administrative costs, against a background of a constantly changing set of tasks and budgets. The biggest cost reductions appear to have been made in 2000, with the integration of Landbruksbanken. Personnel numbers (which are the main driver of administrative costs) have not fallen as fast as SND's total budget because the organisation has been required to refocus its work on a larger number of small tasks. The average value of a case has fallen by half during SND's lifetime. Pressures for SND to focus on qualitatively more difficult work will increase the share of the overall budget that needs to be spent on 'administration.' It must be recognised that 'administration' in this context is not simple, clerical paper-pushing but highly skilled professional tasks: proactive work with companies; focus on SMEs and female entrepreneurship; more emphasis on developing company capabilities; explicit support to policy making at national and regional levels.

### **3.2.1 The Initial Merger**

When SND was first established, the management was not put under any pressure to generate administrative savings compared with the previous organisations. On the contrary, there were to be no redundancies as a direct result of the merger and the principle of 'no redundancies' has been followed in all subsequent mergers. It was recognised that the costs of transition could be quite high and priority was given to creating a functioning organisation as soon as possible.

The first point at which SND was given explicit goals for the amount of synergistic savings to be found in a merger was with the integration of Landbruksbanken<sup>35</sup> (LBB) in 2000, when a target of 15 MNOK in administrative cost savings was set. SND

---

<sup>35</sup> The LBB integration is formally beyond the scope of this evaluation, which considers the period up to the end of 1999

management believes that the lack of targeting and redundancies means that cost synergies were obtained more slowly than was possible. It also meant that the staffing of individual departments was not wholly under management control, both with respect to numbers and the capabilities of the individuals employed.

When SND was set up, the total number of employees initially remained rather stable, compared with the number employed in its predecessor organisations. Total employment among the predecessors was 262 (254 full-time equivalent posts<sup>36</sup>): 121 at DU; 59 at Industrifonden; and 82 at Industribanken, of whom 11 operated the Småbedriftsfond.

Average full-time equivalent employment in SND was 269 during 1993, but this under-represents the staff complement because Industribanken was integrated only in March of that year. The number of FTEs in post rose to a peak of 283 in the summer of 1994, before falling back again. Ten of these posts in 1993, and a further 10 in 1994, were in the new Egenkapitaldivisjon (EKD), a function that was not present at any scale among the predecessors. Nonetheless, total administrative costs reported were reduced slightly from 154.2 MNOK across the predecessors to 150.8 MNOK<sup>37</sup> at SND, despite the levelling up of wages that was undertaken among the staff in order to equalise pay. This level of administrative cost corresponds to 2.9% of the available budget<sup>38</sup>. An important success of the merger, then, was to achieve a level of administrative costs at the lower end of the range achieved by the predecessors.

#### Exhibit 14 Administration Costs of SND's Predecessor Organisations

Organisation	Spend (MNOK)	Administration (MNOK)	Administration as a % of Spend
DU	1892.2	55.3	3.2%
Industrifondet	810.0	25.4	3.3%
Småbedriftsfondet	178.0	9.1	5.5%
Industribanken	834.0	56.4	6.9%

Source: Annual Reports

Because the predecessor organisations had a range of different functions, administration costs as a percentage of spend is an imperfect indicator of comparative efficiency. Unfortunately, alternative indicators are also imperfect when it comes to 'comparing apples with oranges'. The **Exhibit** should not therefore be read as saying that Industribanken was less efficient than DU. It **does** indicate that SND's administrative efficiency was from the start greater than that of its predecessors acting collectively but separately. Some synergy was clearly extracted from the first day of operation.

### 3.2.2 Productivity Over Time

SND has been struggling with unpredictable budget changes – mostly reductions – since it was set up. It has succeeded in operating more economically than its predecessors, and has to some extent been able to reduce its personnel in line with

<sup>36</sup> årsverk

<sup>37</sup> Of these. EKD's administrative costs were 4.0 MNOK

<sup>38</sup> Note that this ratio of administrative cost to **available** budget is not strictly comparable with the ratios for the predecessor organisations, where available data relate to **actual** spend rather than available budget. The comparison risks, therefore, being slightly generous to SND

successive cuts. This has sometimes been difficult, given that SND was designed at the outset (and redesigned in 1997) for a given scale, but has then immediately been told to operate with fewer resources. While we believe the decentralisation strategy was the right thing to do in order to improve SND's ability to deliver its mission, this inevitably involves increased management, co-ordination and administration cost per krone of support delivered to the customer.

The heterogeneity of SND's tasks means it is very hard to calculate overall productivity in a meaningful way. Frequently, additional (temporary and permanent) tasks are imposed upon the organisation, with little apparent consideration of the costs involved. Internally, records are kept of individual cases but (with the exception of the regional restructuring group) the use of individuals' time is not systematically recorded. We have therefore chosen to rely on some very broad and simple indicators of productivity, using already existing data, and to relate these to changes in organisation and aspects of workload. This provides broad confirmation of SND management's belief that productivity has improved and that synergies have been extracted from successive mergers.

SND's own analysis (**Exhibit 15**) of its increasing productivity includes the recent merger with Landbruksbanken (which is formally out of scope for this evaluation) and suggests that it has been possible to reduce overall manpower by over 100 full-time posts since SND was set up in 1993.

**Exhibit 15 SND' Estimate of Personnel Savings, 1993 - 2000**

Kilde	SND Gruppe	SND
Årsverk over adm. Budsjettet, Høsten 1993	275,6	
Herav EKD	16	259,6
Overtatt fra fylkeskommunene		145
Overtatt fra Fiskarbanken		36
RØED		4
Miljøfondet		1
Kvinnesatsing		1
Overtatt fra FMLA		58
Overtatt fra SLB		93
<b>Sum</b>		<b>597,6</b>
Årsverk i SND pr. 01.09.		487
<b>Effektiviseringsgevinst</b>		<b>110,6</b>

Source SND

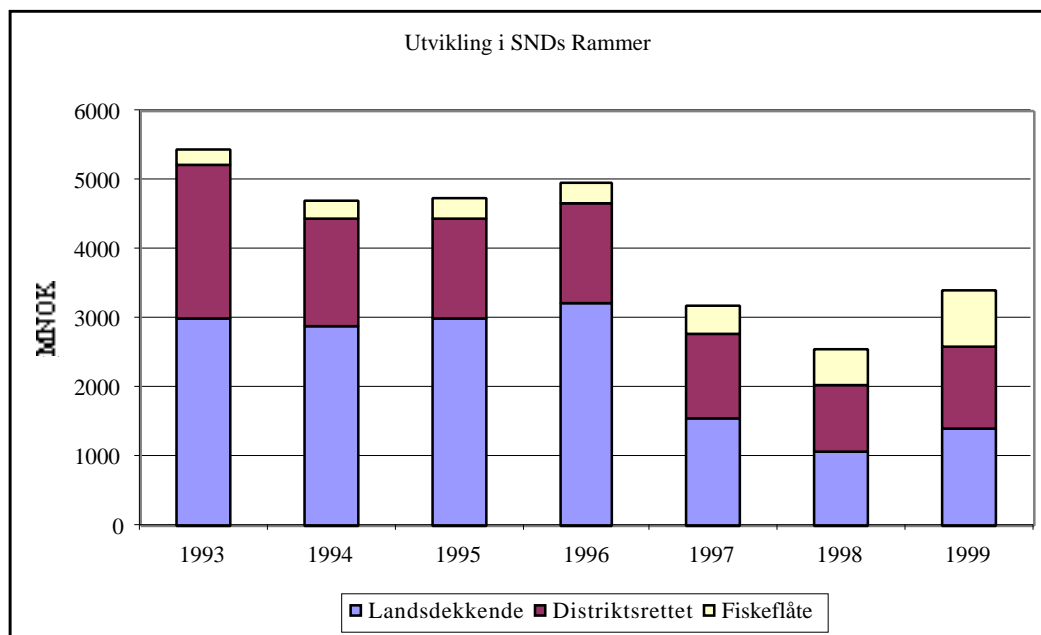
As **Exhibit 16** shows, the resources placed at SND's disposal since the merger have declined in nominal terms. The largest reduction was in the amount of money allocated to the national budget for low-risk loans and base financing – the areas where SND comes closest to competing with commercial banks. This was cut from 2105 MNOK in 1996 to 700 MNOK in 1997.

This change marked a discontinuity in the way SND works in two respects. It involved a shift away from routine banking, with the centre of gravity moving towards riskier investments and other work to enhance company capabilities. It also had administrative implications. The low-risk loans are less complex to administer than the others, because they are given against security in physical assets. For riskier instruments, SND has to invest more time in understanding the business and the

project involved. Thus, while the reduction in case numbers was considerable, the cases displaced only represented a small part of the total workload.

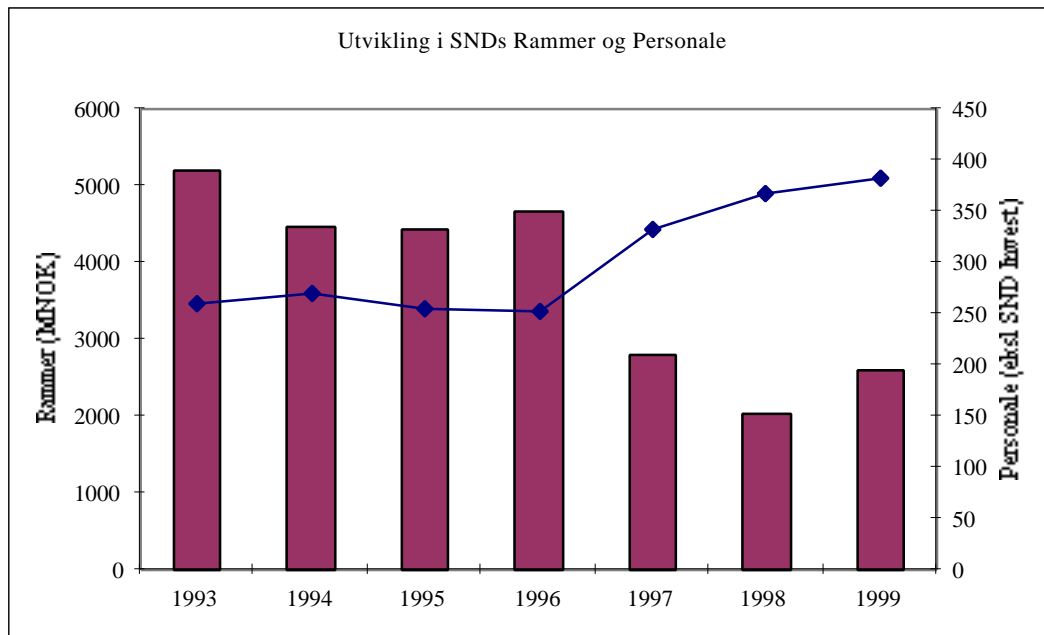
There has not in the past been a stringent limit on the value of the low-risk loans SND can grant in a year. Relatively frequently, therefore, such loans were approved by SND but not drawn down by the applicant. (We came across several such cases in our industry discussions.) The riskier instruments are more tightly budgeted, because SND has to plan and limit the extent of its losses. It is therefore more important that those funds approved are actually drawn down. Otherwise, not only the administrative effort but also the allocated funding is wasted. Funds for these riskier instruments which are not drawn down revert to the Finance Department, and cannot be rolled forward by SND for reuse. This in turn means SND devotes extra administrative effort to making sure that it only offers such loans to companies which will use them.

**Exhibit 16 SND's Budgets over Time (current kroner)**



These factors partly explain why development in the budget has not been matched by changes in SND's personnel numbers, whose trend is upward (**Exhibit 17**). It is in any case not reasonable to expect rapid changes in administrative structures by state organisations in response to short-term changes of the kind made in 1997.

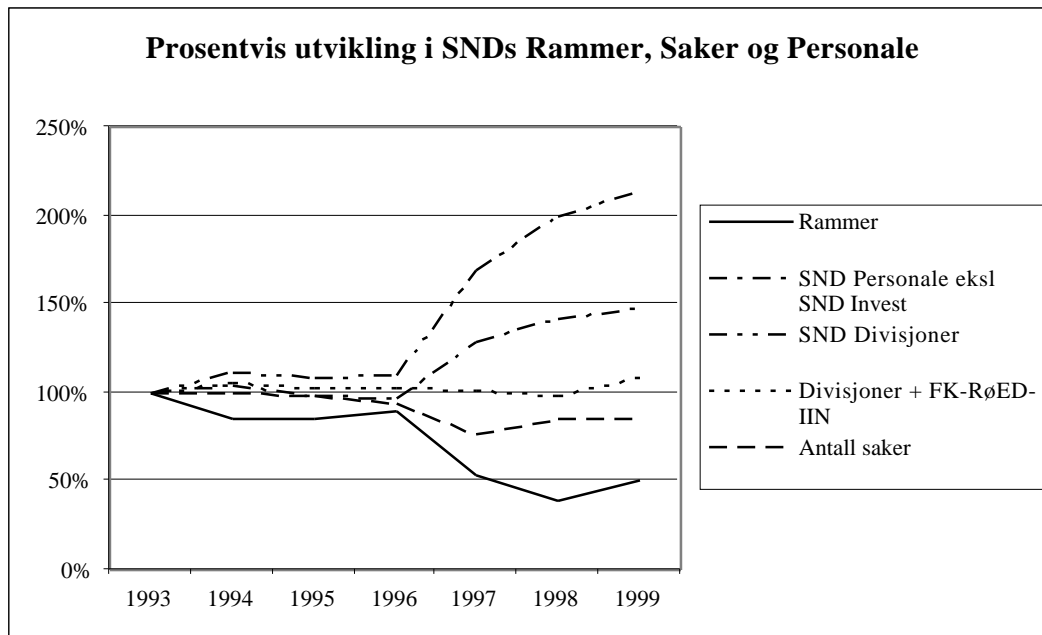
### Exhibit 17 Development of SND Budgets and Personnel Numbers



If we regard the available budget as a crude proxy for the overall workload on SND, **Exhibit 17** looks somewhat alarming. However, the personnel numbers shown do not reflect the fact that a large part of the caseload was actually administered by fylkeskommune personnel in the period up to 1996, when 127 full-time equivalent personnel began successively to be transferred into the SND system. Most of the apparent personnel growth is caused by the fact that these people start to appear in SND's statistics only when they appear on SND's payroll. As **Exhibit 13** shows, these people started moving into SND in large numbers exactly as the budget available for distribution was cut significantly.

**Exhibit 18** shows the results of some simple calculations we did to show how SND's overall productivity has moved over time. The bottom line is an index of how the available budget has changed over the years (in current money). The line above it is an index of the number of cases handled per year by SND (on its own and though the FKs). If we compare this with the upper two indices – respectively for the personnel in SND's divisions (as opposed to those in staff positions) and for SND personnel as a whole, we see the same kind of divergence as in **Exhibit 17**.

## Exhibit 18 Divergence Between Budget and Personnel Development



**Source:** SND data. Technopolis analysis. Note that cases data are only available back to 1994. In this **Exhibit**, we have assumed there was the same number of cases in 1993 as in 1994

To calculate the middle curve, we have added back into SND's divisional personnel numbers an estimate of the number of people who would have been doing part of the work within the fylkeskommuner<sup>39</sup> (127 people). We have also removed from the total the people who work in the Russia and Eastern Europe Division and in the Invest in Norway programme. Both these were added to SND in the late 1990s. Neither of them relates to the core business or the budgets charted here. This curve tracks the budget curve better than the SND overall or divisional ones – but it still looks as if the big reduction in national funding in 1997 was never fed through to staffing levels. This budget cut happened at the same time as the decentralisation of SND, and there were diseconomies of scale involved in decentralisation, which made it difficult to cut staff numbers.

An alternative way to look at developments in personnel numbers is to compare with the number of cases handled. The overall value of cases has fallen faster than the volume, as **Exhibit 19** shows. One driver for this is the reduction in the large grunnfinansieringslån budget in 1997. However, while the value per case handled in the fylkeskommuner remained relatively stable between 1994 and 1998, the average value of equivalent cases handled centrally in SND fell from 1914 KNOK in 1994 to 1407 KNOK in 1998.

<sup>39</sup> This is based on transfers of people from the FKs to SND. The Steine report shows that 289.5 full-time equivalent people were involved in administering **all** the business support arrangements across the FKs nationally in 1995. See *SNDs regionale forvaltningsapparat – Rapport fra arbeidsgruppen*, Oslo: NHD/KAD, 31..3.95

### Exhibit 19 Development of Cases Handled by SND and Fylkeskommuner

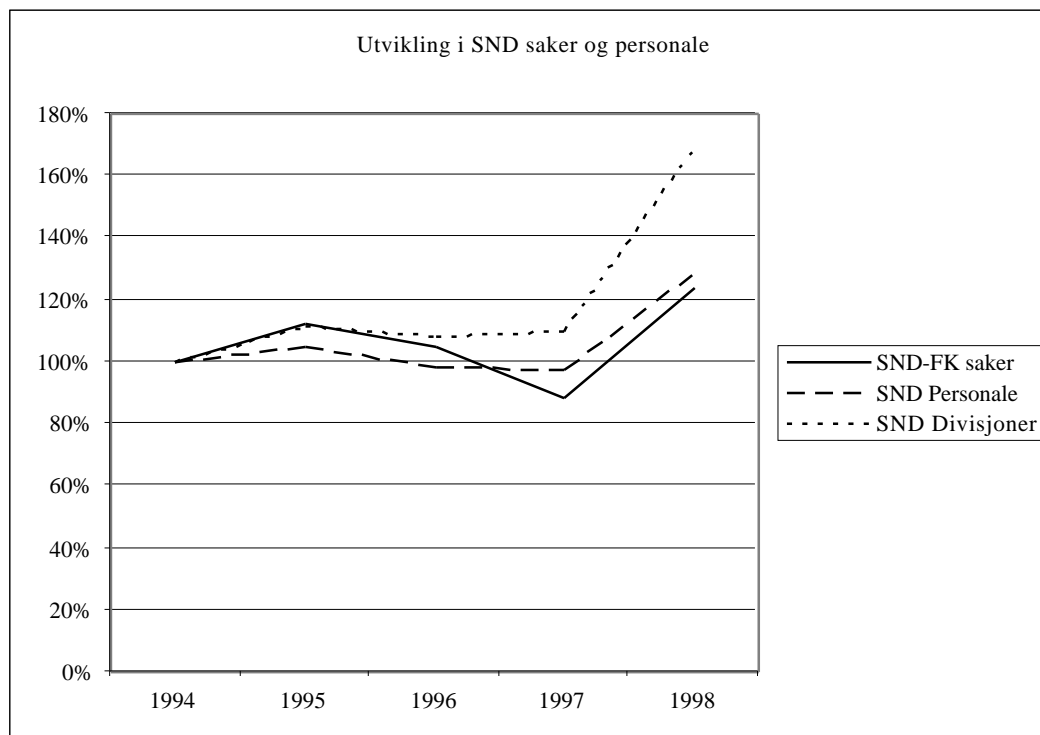
	1994	1995	1996	1997	1998
Value (MNOK)					
All Cases	4404	4331	4477	2814	2213
FK Cases*	761	713	628	589	530
SND Cases*	622	610	653	623	443
Numbers					
All Cases	4727	4655	4434	3612	4000
FK Cases*	2776	2469	2382	1883	1590
SND Cases*	325	254	445	376	315
Value per Case (KNOK)					
All Cases	932	930	1010	779	553
FK Cases*	274	289	264	313	333
SND Cases*	1914	2400	1468	1658	1407

Source: SND Statistics, various years. Technopolis analysis

\*Risikolån, Garanti, Investeringstilskudd + Bedriftsutviklingstilskudd only

If we track the development in the number of SND-financed cases actually **handled** by SND as opposed to the FKs ('SND-FK Cases' in **Exhibit 20**), we can see that personnel numbers track the case load quite well, at least for the shorter period for which we have data.

### Exhibit 20 Development of Cases Handled by SND and SND Personnel

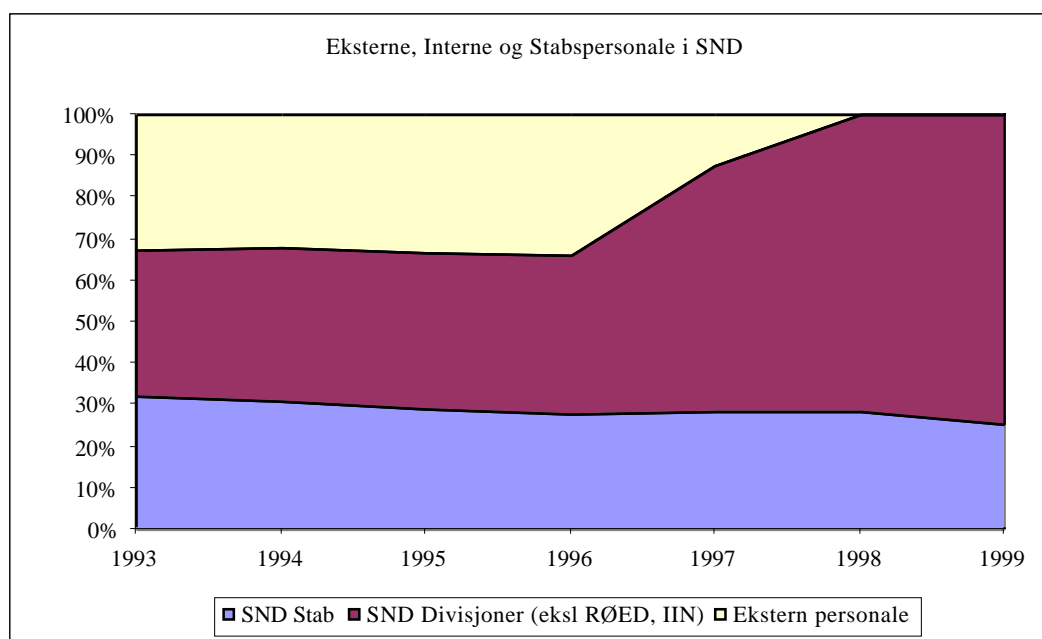


Source: SND data. Technopolis analysis

It seems relatively clear from these analyses that decentralisation was one of the factors inhibiting a faster rate of reduction in staff and administration costs. Decentralisation cannot simply involve spreading out a national workload across multiple locations. Creating a new set of tasks, which relate each district office to its fylkeskommune, raise the service level to local customers and establish a new layer of management, is costly. If we look at the composition of the decentralised offices today, some 22-23% of the posts are administrative (reception, secretarial, loan administration and so on). In absolute terms, the regional management and administration would have accounted for about 50 jobs in 1999 – most of whom would be redundant in a centralised organisation.

The other effect we would normally expect to see in this kind of decentralisation is an ‘administrative overhang’ at the centre, where new posts are created in the regions but where old administrative work persists at the headquarters, at least in a transitional period. **Exhibit 13** shows that the central staff – especially the administration – has fallen in absolute numbers. **Exhibit 21** confirms that – if we look at all the people inside and outside SND involved in administering the overall budgets we are examining here – the share of SND headquarters staff has declined slowly over the period. The **composition** of that staff has changed somewhat in the past three years, with general administration has declined slightly.

**Exhibit 21 Proportions of External and Internal Personnel, 1993 - 1999**



Source: SND. Technopolis analysis

The other rigidity that has made it difficult in recent years to align personnel numbers with the overall budget is within the Næringsdivisjon<sup>40</sup>, which has responsibility for

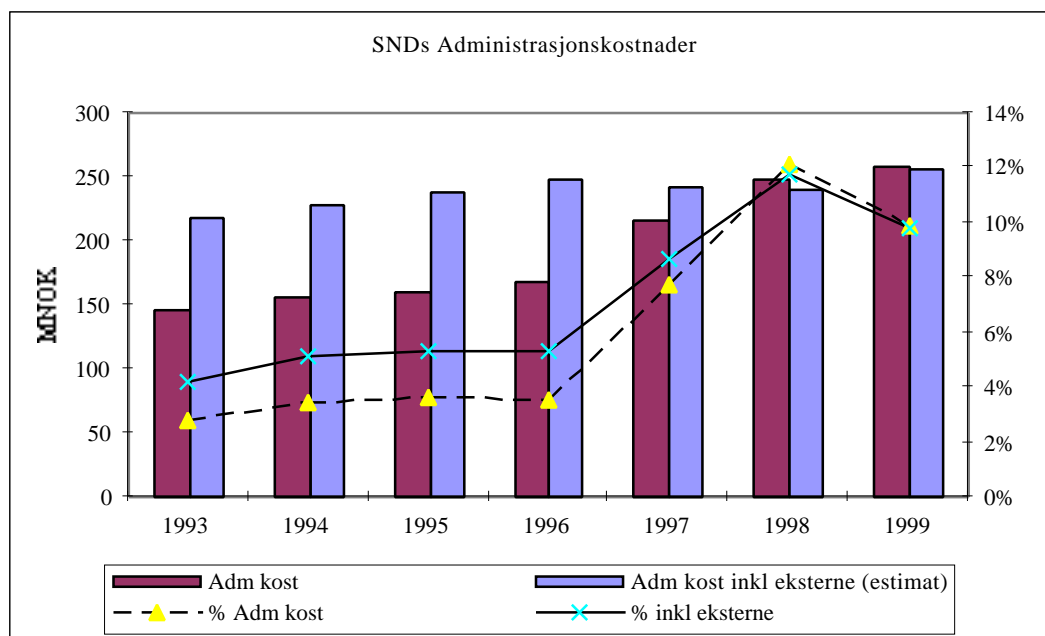
<sup>40</sup> This is the successor to Industridivisjonen and Bedriftsfinansieringsdivisjonen. It had responsibility for multi-site customers in 1999, but will no longer handle case work from September 2000



national programmes and is the knowledge-bearer for much of SND's branch-specific expertise. Increasingly, this division's function is being refined so that it could operate as a research and development department for SND as a whole. In the meantime, it contains mostly rather 'lumpy' tasks, which are difficult or inappropriate to decentralise.

The results of SND's structural inability to change its administrative costs in line with quickly-changing budgets, combined with the inherently greater costs of doing business in a decentralised way, are shown in **Exhibit 22**. The left-hand of each pair of bars and the curve joining the triangular points correspond to data provided to us by SND. We have estimated the other columns and curve by adding in our estimate of the extra personnel in the fylkeskommuner and Fiskarbank who were working on questions which would in 1999 have been SND cases, and uprating SND's actual administrative costs by an equivalent factor. Either way, the message is clear: decentralisation and cutting budgets lead to a higher proportion of administrative costs.

**Exhibit 22 Administration Costs as a Share of SND Budget Over Time**



Source: SND data. Technopolis estimates and analysis

An imponderable in these considerations about productivity is the effect of the special projects that are assigned to SND from time to time. An early example, was the design and implementation of a 900 MNOK programme of financing for the food industry, in the expectation that Norway would join the European Union and that structural adjustments would therefore have to be made.

A key indicator of efficiency, which is vital for the customer, is how long it takes to handle an application. **Exhibit 23** shows how this has changed over time. We assume the increased handling times in 1998 are caused by the ongoing regionalisation. As regards the routine loan cases, it is perhaps worth noting that a commercial bank in Norway would expect to handle cases equivalent to SND low-risk loans in under a

week. (SND itself would expect to resolve such cases in well below the average times indicated in the **Exhibit**.) The more labour-intensive, high-risk loans and grants do not have exact equivalents within the commercial banking sector. Nonetheless, we do not see the degree of complexity as being so much greater as to justify the average processing times shown. We return to this question in our discussion of the district offices, below.

**Exhibit 23    Average Number of Days Taken to Handle Cases, 1994-1999**

	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
<b>Approved</b>	71	59	56	59	64	46
<b>Rejected</b>	75	64	56	58	67	?
<b>Maintenance</b>	40	39	23	22	24	?

Source: *SND Statistikk, 1998*

## 4 How well does the decentralised organisation work?

SND has made good progress towards being a modern, decentralised and customer-oriented organisation, though more work is needed in order fully to realise this intention. Key reasons why things have not improved as fast as SND management would prefer include the instability of the framework conditions under which SND operates and the continuous need to reorganise over the past few years.

In this section we report on our findings and recommendations following visits to six regional offices and multiple interactions with people at SND headquarters in Oslo. We also use evidence from the evaluation's interactions with users, national and regional officials, and senior members of partner organisations. The six selected regional offices were chosen in order to provide a balance of large and small, longer and more recently established 'nodes' of the network. During each visit the Regional Director was interviewed along with several members of their staff who were responsible for managing the client interface and the resulting grant and loan applications. Our objective in doing so was twofold: to capture operational issues as they affect SND at a broad level; and to consider at working level the organisation's principal activity, that of processing, authorising and monitoring loans and grants to businesses. Our discussions at SND headquarters covered both the management of the regional structure and the operation of central functions and support services.

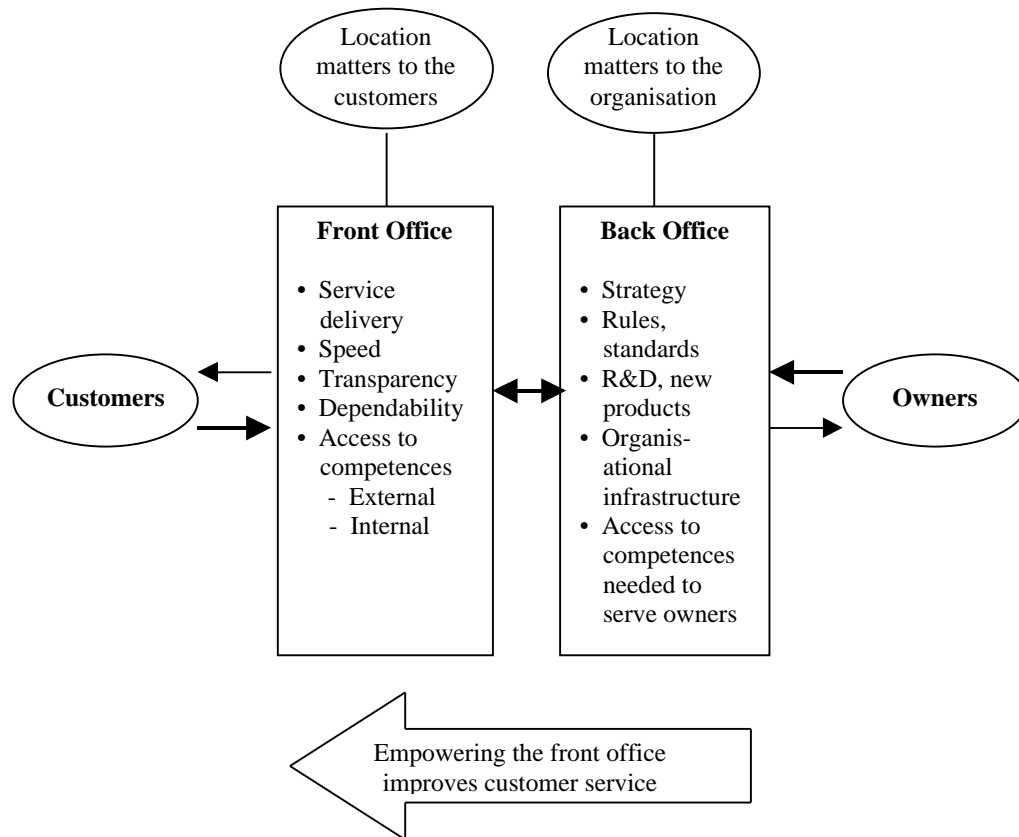
In its decentralised organisation, SND is working to implement current business thinking about service-based organisations. We can summarise this, in SND's context, as in **Exhibit 24**.

The best way to deliver many services is to be as physically close to the customer as possible. To some extent it is now possible to replace physical presence with virtual presence (for example, through the Internet – a subject to which we will return), but for complex services like those of SND there is a high value in personal interaction. Communications between the case officer and the applicant involve a lot of information and negotiation, both explicit and tacit. Especially in dealing with smaller firms, it is also very useful if the case officer is close enough to be able to visit the site. They can then see and understand things that the applicant cannot – or may not want to – tell them, but which are important in reaching funding decisions. As with any investment, not only should the numbers add up but the situation should also 'smell' right. Close contact allows case officers to exercise judgement and to be proactive about improvement opportunities over and above those that the client already understands.

From the customer perspective, proximity means ease of access to the service, but this needs to be backed up by high service quality in terms of timeliness and dependability and the services need to be understandable. In the case of complex services like SND's, the customer needs to be able to access competences in the service organisation, which go beyond mere case processing. In most service organisations, the front office is reactive to customer demands. Ideally, it provides the interface to a 'pull system' where a customer order initiates a rapid delivery process. SND's strategy is – rightly – to be **proactive** in relation to its customers. In so far as this

involves building links with individual customers, this is also naturally done via the single customer interface.

### Exhibit 24 Service-Based Organisation



Provided these conditions are met, it is not normally important to the customer how the service organisation is structured. Traditionally, many service organisations have used a structure of 'front' and 'back' offices in order at the same time to serve the customer as directly as possible and to reap economies. Banks are the archetypal example. Early (off-line) computerisation focused on back office rationalisation and the centralisation of back office functions. More recently, service competition has tended to focus on using computing and other supports to increase the level of service provided in the front office. Equipping insurance companies' front offices with the means to give instant quotations and to enter into contracts without referring to the centre, for example, has been a key element in improving service in what used to be a very sluggish industry. Online account information and credit checks allow retail bankers to sell money almost as easily as bakers sell bread. The more that can be done to **empower** the front office to take decisions, the better the customer service level and, eventually, the greater the rationalisation opportunities in the back office. This type of empowerment typically involves transferring decisions from the back room to the customer-facing functions.

From the customer perspective, it does not matter where the back office is. This becomes an issue of organisational efficiency and convenience, and modern communications permit many combinations of central and decentralised work. (Knowledge organisations, which deal with changing and uncertain situations, have greater difficulty with decentralised models than transaction-based organisations.) A customer-focused organisation needs to supply the front office with strategy, rules and standards and a range of products, which is based on a current understanding of needs and opportunities. It needs to ensure the availability of organisational infrastructure, such as human resource development and IT systems. In the special case of SND where the owner functions also as a special category of customer, the back office needs to provide a unique customer interface to NHD and the other Departments, and the competences needed to address their service needs.

## **4.1 The district offices**

In undertaking the review of regional operations we focused on six key operational aspects

- *Structure* - How are staff structured in the regional offices? How are they managed? What are the decision-making processes and procedures involved? How do the operating structures relate to central management and decision-making functions?
- *Staff* - How do staff fit into the structure employed? How do they relate to local and national chains of command? How are they utilised? What are their views on regional and national management structures?
- *Operating Functions* - Based on actual case activities, how do the application, progress and decision-making activities work in practice? What procedures are in place for other operational issues such as budgeting and recruitment and how do they work in practice?
- *Relationships* - How do working relationships function in practice - specifically with other staff in their respective office, other offices and with headquarters?
- *Corporate Culture* - Views on the overall corporate culture within SND, how it has developed to the current situation and the general future direction as perceived by regional staff
- *Areas for Potential Change and Improvement* - Suggestions on any aspects which could be considered for change or improvement in future in order to improve the operational efficiency of the organisation

The preliminary findings from these visits and interviews were then discussed at a presentation to regional directors. They were then considered alongside findings from other aspects of the review in order to arrive at overall findings, conclusions and recommendations.

### **4.1.1 The Process of Decentralisation**

The decision to decentralise the representation of SND and the delivery of its services involved a restructuring process, which brought about the biggest changes ever experienced in the operation and control of the organisation. Restructuring on the scale experienced by SND incurs considerable expenditure in direct costs, such as

management time and logistics, along with less tangible but nonetheless important aspects such as staff discontent and insecurity.

Before considering the findings from this part of our study, it is important to consider the overall purpose of decentralisation and expected outcomes and benefits from central and regional points of view. Although in general organisations decentralise in order to bring closer proximity to customers and markets, there is a considerable cost and management overhead in doing so. Some organisations prefer to strengthen their central operations, either through changes in their own structure or through the acquisition of competitors so as to achieve greater overall efficiency through economies of scale.

In the case of business support organisations, the trend in most European economies has been to decentralise, driven in many EU member states by the availability of business improvement funding at regional, rather than national, level. The European Regional Development Fund (ERDF) for example categorises regions according to their economic health and provides varying levels of funding accordingly. Although the EU is not a controlling factor in Norway, the trend in surrounding countries will tend to influence national policy in this respect.

A second and more valid reason for decentralisation in the case of Norway is to provide services at closer proximity to the client base and to give greater focus on regional needs and the corresponding needs of businesses in the regions. These factors were the principal drivers in decentralising SND's operations and in general the change was seen as very positive by all of the parties concerned. It is difficult to quantify the additional cost burden of regionalisation in a meaningful way. However, these costs should be recognised as necessary in order to achieve improvements in customer service, near market presence and the ability better to serve regional needs.

#### 4.1.1.1 Decentralisation - Headquarters Functions

As with any active organisation, both the central and regional operating functions continue to develop their interface to suit changing needs. This is particularly the case with SND as the core of the decentralisation is comparatively recent and operating systems are still therefore subject to improvement.

The benefits of decentralisation have already been briefly discussed. Although the organisation as a whole should benefit from improvements in customer perceptions and local efficiencies, in general the main concerns of the headquarters in a decentralised network revolve around maintaining controls and standards. If the means of achieving these goals remain from the former central operation without adaptation to the new situation they can at best appear cumbersome, ineffective and at worst oppressive.

The main areas of concern at the headquarters function of a largely decentralised network are discussed below

- The headquarters needs to *maintain a good overview of the business activities*. This is usually achieved by using a comprehensive computer based management information system which has been developed following input from both regional

and central users. All users should be trained on a common basis, both in the system's use and interpretation so as to avoid ambiguities in input and output. A freely accessible management information system will then be supported by regular reporting to key individuals across the network and regular meetings both as teams and on a 'one to one' basis. Headquarters must dedicate senior management with specific responsibilities for developing, maintaining and utilising the management information system and for handling central/regional liaison and communications

- *Broad involvement in, and acceptance of strategy* is very important if the decentralised organisation is to function as a whole. Headquarters should not dictate strategy but instead should genuinely take counsel from the regions on the course and direction of strategic issues. If there is an imbalance of strategic decision-making towards the centre, the regions will feel ignored and irrelevant and will not be truly supportive of the resulting plans. Conversely, imbalance towards the regions will result in uncoordinated strategic thinking and perhaps the omission of important central issues, resulting in disjointed thinking which will be too parochial in perspective
- *Clear controls* on aspects such as personnel, finance, quality, corporate representation and performance are necessary so that everyone involved is aware of the limits of their authority and liability. These controls are normally set out in corporate operations manuals and in the job descriptions of individuals. Without these controls there will be duplication and confusion - for example where two individuals think that the other has taken action but neither has, or where both take action on the same issue without the other knowing it. Good communication routes are clearly an essential feature of effective business control
- *Common standards and monitoring* are essential in order to maintain consistency of approach and to avoid the potential embarrassments of dual standards. Customers will always measure an organisation against its lowest, rather than its highest, achievement of delivery standards. For example the length of time a customer is kept waiting on a telephone is often used as a measure of the organisation even before they have experienced use of the goods and services provided. For these reasons it is important that the organisation as a whole agrees common achievable standards and 'buys into' the goal of corporate achievement to those standards. The process of continuous improvement is then necessary to monitor performance against the agreed standards, both at individual region and at overall levels. In time performance targets must be raised as performance improves to avoid complacency
- As a central function, the headquarters organisation is best placed to measure *cost effectiveness* at regional and national levels. Processes which aid this function include benchmarking, standards monitoring and cost analyses. Measuring cost effectiveness should be seen as a tool for overall efficiency improvement rather than be perceived as a threat by those in regional operations. In this respect, the benchmarking process should be used to identify variations to a norm rather than 'best' and 'worst' exemplars. Measuring the cost effectiveness of central operations is best done through independent analysis and through the use of benchmarking with other similar organisations
- It is important that *clear decision making* follows on from specific questions and more general discussions. If decisions and the reasons for them are not made

clear, staff may not 'buy in' to them, or take a different interpretation from that intended. This in turn may lead to dual standards and ambiguities

- A decentralised operation must at all costs avoid a 'them and us' situation and should stimulate and encourage *co-operation and collaboration* across the structure. By co-operating and collaborating staff will feel that they are an integral part of the organisation and that they are working as a team. From the organisation's point of view this not only develops staff loyalty and involvement but leads to a more efficient use of resources
- In a situation where control has been devolved to regional level, it is vital that the centre does not then unduly interfere with the devolved management and decision-making process. *Involvement as and when necessary* is therefore an important aspect which is all too easy to transgress. Although systems and procedures will largely take care of this issue, it is important that senior staff at the centre who were involved in the previously centralised model adapt to the changed situation, rather than pay lip service to the change but carry on largely in the same way. Although regions will ostensibly show respect for staff who continue in this way, there will be an underlying resentment of their approach

#### 4.1.1.2 Decentralisation - Regional Operations

When an organisation is initially established it is comparatively easy to build in the appropriate levels of central control and regional autonomy; these levels may then be adjusted as the organisation grows. The process is however much more difficult where an organisation has been decentralised, as in the case of SND, because all of the working experience and tacit knowledge of staff in the organisation tends to default back to central controls. Autonomy in the regions is often therefore hard won and will only develop where the central organisation is prepared to take a more balanced view and allow regional operations to prove themselves capable of handling their new-found autonomy.

Given that the broad logic of decentralisation focuses on increased presence and customer service, regional offices should be able to build on this in the following aspects

- Regional presence should lead to an improved ability to *react to local needs and issues*. This will not happen simply because an office has been established in a region; considerable effort will be necessary to build and develop relationships with businesses, regional authorities and intermediary organisations such as trade associations and banks. An on-going programme of publicity, presentations and liaison visits is therefore necessary to ensure that the organisation rapidly establishes itself as a key regional player
- Decentralisation should lead to *faster decision-making, based on greater local understanding*. This is of course a key reason for the organisational changes which have been made at SND. In general terms the principle will however only apply if the headquarters function will allow sufficient autonomy at regional level. If controls imposed by headquarters restrict autonomy they will automatically inhibit the decision-making process
- Similarly, decentralisation should also enable *local staff responsibility and authority to develop staff, products and services*. Again a direct function of the degree of regional autonomy granted by the centre, the local ability to adapt staff



provision and the development/marketing of products and services are essential within overall agreed national margins, if the broad ambitions of local relevance and involvement are to be achieved. The balance between national controls and local adaptation is therefore both delicate and important in order to achieve an acceptable variation within overall agreed targets and objectives

- *Higher involvement and engagement of staff with local organisations* should in turn lead to *greater productivity*. This should be measurable both in terms of the time taken to process and manage applications - closer communication with businesses and intermediaries should result in fewer procedural problems - and in terms of the product/service provision 'hitting the target' in the sense of more closely satisfying local needs. Gains in these aspects must of course be offset against the higher costs of providing a local presence
- Decentralisation should provide *a greater opportunity for innovation and less acceptance of the status quo*. Following on logically from the earlier points covering the matching of local needs, the regional function can be more innovative at a local level rather than having to follow a strategy which has been compromised in order to suit the nation as a whole. Again this may easily be inhibited, intentionally or unintentionally, by headquarters restricting autonomy at the regional level
- An important effect which should result from decentralisation is a *reduction in bureaucracy*. Given that local communications with applicants will improve and both user and provider may more easily attune to each others' needs, a more informal relationship should develop. Any programme which processes public funds will require a certain level of bureaucracy for accountability and audit purposes, but this may be minimised if headquarters review their needs against the new structure and reduces the bureaucratic burden wherever possible
- All of these aspects should eventually result in *easier operational control and less of a central need*. Rather than cumbersome central operational controls which have developed over time to satisfy a range of needs in several regions, the regional offices should be able to reduce these to satisfy their own needs and a reduced number of central requirements. As regional autonomy grows, the need to refer to, and satisfy, central functions diminishes and headquarters in effect becomes mainly a function for the regions to use

Fundamental to the issues raised in this section is the overall ambition for the organisation. If the intention is simply to *represent* SND at regional level, whilst maintaining central control then the scope for autonomy will be minimal. Alternatively, if the intention is to pass *full control* to regional offices, then the central role must change accordingly to allow greater autonomy. It was not clear from our interviews which direction is being pursued by SND. A clear resolution of this issue will be fundamental to interpreting and implementing our findings.

The regional and central issues covered in this section were used as a means of gauging activities during our interviews. Hence our comments and recommendations deal with performance on many of these dimensions.

#### **4.1.2 The Introduction and Expansion of the Regional Office Network**

During our interviews with staff in the selected offices we asked about the process of establishing regional offices as viewed from their perspective. Although the current

network appears to be working reasonably well a number of issues were raised which, had they been better addressed at the start of the process, would have led to a more efficient operation and would have countered some of the current perceived operational problems. It is clear that account needs to be taken of local agreements, political and socio-economic situations. Nonetheless, headquarters appears to have been more generous in allocating **goals** to the DKs than in providing substantive help with how **processes** should be done and supported.

Overall, there was a feeling that headquarters has learned from ‘regional experimentation’ in its operations, rather than directing and leading the process. Initially there was little assistance from headquarters, but as experience grew more support was provided. As a result, the first of the regional offices to be established felt that they had developed in a more haphazard way in comparison to the more recently opened offices.

The decision to decentralise was not subsequently implemented using any external advice from specialist consultants or experts in logistics. Consequently, the process was not carried out in a fully structured way and very few staff in the organisation at that time had any experience in regional operations. Longer established offices reported very little assistance through formal training, little guidance or sharing of best practice and little guidance on the integration of new staff when other organisations were subsumed into the SND network.

The regional offices present a mixed picture of support when viewed as a whole. Some were largely left to their own devices as they often had more expertise in regionalisation than central SND staff. More recently opened offices have had much more support as expertise has been acquired at the centre through experience. Along the way expertise has developed in the regions, on aspects such as optimised staff structures and building relationships with county boards and customers for example, which should have been captured and utilised for others starting out on these processes. Only comparatively recently has best practice become more of an issue, presumably as regional differences have become more apparent. In considering best practice, the centre should not be overly critical of those offices who are perceived as falling short of the norm, it may be argued that any shortcomings are the result of poorly contrived and managed policies at the centre which in time have resulted in varying quality. A better designed, planned and managed ‘roll out’ of regionalisation would have resulted in fewer variances to accepted best practice.

Corporate operating manuals should be amended to incorporate best practice in establishing, opening and operating regional offices along with other issues such as staff integration and the development of external relationships. Such input should only be developed after capturing best practice from those who have managed the process in the regions.

#### **4.1.3 Operational Control of SND**

We now consider the degree of control, which resides with the regional offices in comparison with headquarters. The reader should note that this reflects the perspective of the regional offices.

#### 4.1.3.1 Headquarters

Controls in place at headquarters fall into two categories: operations; and finance.

##### **Operations**

SND headquarters retain overall control of virtually all of the key operational aspects, including

- Staff recruitment, appointment, pay and conditions. Salary increases are felt to be largely controlled at this level, with a small amount of local adjustment permitted
- Responsibility for identifying, negotiating and leasing office accommodation along with the purchase of furnishings and office equipment
- Defining, developing and upgrading IT equipment and the subsequent repair or purchase of equipment located in the regions. The initial development of the current IT system involved a committee which included regional representation
- Strategic and business planning - the formulation and implementation of strategic development plans, taking account regional input but generally a 'top down' approach is used
- Maintaining a central core of expertise that is used both to manage non-regional projects and to provide technical back-up to regional staff on loan and grant applications
- Central management team which handles corporate issues such as policy development, relationships with central government and regional operations
- Contact with larger businesses which have multiple sites across Norway and internationally. This aspect is directly at odds with the perception of a decentralised operation and remains as an anomaly from the earlier central operating model. (From December 2000, all cases are being handled at regional office level.)
- A recently introduced (1999) case review procedure, which aims to assess application processing in regional offices in order to feed back any issues concerning quality failures or imbalance against industry branch and budgetary targets

##### **Finance**

Key financial aspects, which are controlled at headquarters include

- Approval of larger grants and loans above the permitted regional authorisation thresholds. This requires submissions and presentations to be made by regional staff in Oslo and usually involves more work on the actual submission to justify in greater detail the reasons given for approval
- Budgets for SND activities are controlled at headquarters level following negotiations with the various funding Departments involved
- Headquarters staff are responsible for auditing financial operations in the regions

#### 4.1.3.2 Regional Offices

Using the same division between operations and finance, the regional offices have the following responsibilities.

##### **Operations**

Regional offices have day to day control of staff in terms of their attendance and workload. This does not however extend to full control of recruitment and remuneration, although there is a small amount of local influence on the performance-related element of pay. Records of leave and sickness are still held at central level and regional personnel have to notify the centre of any absence.

Staff in regional offices are responsible for implementing corporate marketing strategies, and they are expected to liaise with local groups to stimulate business. Regional staff also get involved in focal groups which are formed across the network of regional offices to deal with specific issues of technical or industry branch interest, such as corporate IT needs or particular industry branches such as fishing. Most of the staff interviewed contact and visit the headquarters in Oslo regularly, usually in connection with the processing of larger cases or for technical support on applications which require expertise beyond their own sphere of knowledge. Staff are generally happy with the degree and informality of contact, although it was noticeable that regional staff who had spent some time in the headquarters had more frequent and informal contact with their colleagues.

As the bulk of operational aspects relate to the processing and monitoring of loans and grants this aspect is dealt with separately in 4.1.4.4.

##### **Finance**

Regional offices may authorise grants of up to 1 MNOK, extending to 1.5 MNOK with county Board approval. 'Risk loans' of up to 4 MNOK and 'low risk loans' of up to 6 MNOK may also be approved at regional level. Beyond these figures the cases are referred to Oslo. The Regional Director has the power to overrule Board recommendations, but we did not come across any instances of this happening.

Budgets for comparatively minor items such as travel expenses and office supplies are handled at regional level, the remainder are controlled through headquarters.

The business planning process at SND engages with the regional offices, but the feeling from staff was that regional views were only incorporated on comparatively minor issues; the important decisions were taken in Oslo and communicated to the regions after the fact.

#### 4.1.3.3 Comparison of Central and Regional Operational Responsibilities

From asking the simple question 'Where does the control of SND really lie?' it is very evident from the previous sections that the regional offices continue to perceive most major control functions and decision-making as resting with headquarters. If, therefore, the intention driving the decentralisation process was to give greater regional autonomy then the present control arrangements fall short of this goal. The strength of central control is reflected in the senior management team of SND where

only one of the six principals has a regional background. The remaining members are from central operations.

**Exhibit 25** compares current operations against the decentralisation aspects and goals outlined in section 2. It may be seen that ‘soft’ issues such as the ability to develop local relationships and local staff development have been achieved, but ‘hard’ issues such as reductions in bureaucracy and cost effectiveness have not been successfully achieved because of the retention of strong central control.

**Exhibit 25 Decentralisation Needs and Achievements**

<b>Regional Needs Achieved?</b>	<b>Yes</b>	<b>No</b>	<b>Comment</b>
Able to react to local needs and issues			Within national confines
Faster decision making			Up to local spending limits
Local staff development			Within central confines
Greater productivity			Local needs addressed
Opportunity to innovate			Limited to local level only
Ability to adapt products & services			Limited by national controls
Reduction in bureaucracy			Still seen as a heavy burden from headquarters
Easier operational control			Local presence helps
Lower central need			Local decision making reduces needs
<b>Headquarters Needs Achieved?</b>			
Maintain a good operational overview			Reliance on IT and informal/formal contact
Broad involvement in strategy creation			Seen by regions as 'top down' creation
Clear controls			Generally true, but need greater clarity
Common standards			Some established, but not universally followed. Variations in case handling practice
Monitoring			Recently introduced case monitoring, but this is not well embedded. Other aspects of monitoring are weak
Cost effectiveness			Bureaucratic burden prevents optimisation

The bulk of those we interviewed in the regions felt that there remains scope for further devolution of control to the regions - on the understanding that support systems such as the application management database will first need improvement to support consistent management, performance and quality attainment. Greater local autonomy would also ensure that products and services meet real local needs and aspirations.

If a decision is made to permit greater control at local level, action should be considered in four areas. Some of these involve further work to implement changes that have already been initiated, but which are not yet fully understood at the operational level

- Increased responsibility for the control of ‘hard’ operational aspects, such as personnel recruitment, salaries and the approval of applications to higher limits. (We understand this is currently being studied.)

- Greater input to the strategic thinking of the organisation, such that regional needs and issues are truly reflected and given sufficient prominence. This will require more structured interaction with central strategy and research functions
- The current perception of the regional offices as servicing central needs should be reversed such that the centre provides core services to support the regions as their ‘customers’
- Core services should be strengthened, in order better to serve the regional offices. Examples here include a more user friendly and comprehensive IT system tailored to regional needs and incorporating a comprehensive database for accessing internal and external skills

#### **4.1.4 Regional Office Operations**

Our discussions on regional office operations focused on the staff, their management of loans and grants and the strategic and budgetary aspects of the work. The management of loan and grant applications is of course the main work of SND in the regions. Correspondingly we have focused in greater detail on this part of the study.

##### **4.1.4.1 Staff Structure**

The lack of a common operational model and shared best practice alluded to in section 3 has resulted in each office developing slightly different versions of an operating structure to fit with the procedural requirements of headquarters. There are, in effect, many sub-sets of the national model rather than one which optimises performance by taking regional differences and local decision making into account.

Some regions have chosen to scrutinise their own operations and to develop different structures to make more and better use of human resources. Most notable among these is the restructuring being introduced in the Bergen office. Headquarters has encouraged this development and has stimulated open discussion between Bergen and other offices. Further steps must be taken to capitalise on this initiative. Rather than leave the offices to further develop their own operating structures in a random way, the centre should take a firm lead in establishing a core operational structure which could then be individually ‘tuned’ by regional offices to suit any local needs. If this is not done, each office could re-organise in a different way, all competing to defend their differences as the optimum model, but in fact resulting in confusion and differing standards of performance and customer care.

Open and detailed discussion on the optimum model for all offices, so that regional directors ‘buy in’ to the logic, is far more preferable to individual, competing baronies in the regions. This issue again points towards the need for headquarters to decide what its role must be in order best to service its customer base through the network of regional offices.

Regarding the staff command structure in the regions, experience has shown that, when a system has to deal with a rapid escalation in demand for professional time, the best solution is to use experienced individuals as ‘team leaders.’ They may both train less experienced colleagues and act as a referral point for the more complex and difficult issues. This model reduces the pressure on more senior line managers as their decisions are only needed on really crucial issues, the bulk being taken at the lower level. The use of team leaders also permits greater exchange of ideas and experience

within the leader group, which in turn allows a more seamless throughput of the workload as fewer applications become problem cases to deal with. For these reasons, the initiative taken by the Bergen office is seen as a good move towards a more efficient operation and should be seriously considered as the base model for regional office operations across the network.

#### 4.1.4.2 Staff Utilisation

Our study did not entail a full review of staff resources and utilisation but there were noticeable differences in the case loading between the offices we visited and among staff within those offices. As each office caters for the needs of its respective region, it follows that the volumes and types of case will also vary between offices. Normally in operations of this type staff would be recruited as required within agreed staffing budgets and use would be made of additional part time support at busy times. Personnel recruitment has not however followed this logic within SND, as some staff have been inherited from other organisations which were subsumed into their operations and recruitment and part time working have been inhibited by rather inflexible central policies which have limited regional freedoms in these respects.

One of the reasons for the changes to the staff structure in Bergen was the imbalance of case (application) loading between members of staff. Across the offices in general, case loading may vary from 6 to as many as 30 per individual. Plainly this will affect workflow, morale and general efficiency. Although some cases require specialist knowledge, it was felt that more could be done to train staff in cross-disciplines and to share some of the standard procedural work so that specialists could concentrate more on the aspects which actually require their expertise. There was no evidence to suggest that the organisation had ever analysed skill requirements across their office network against their operational needs so that recruitment and training could in the longer term address any imbalances found. Instead, many of the 'inherited' staff from other organisations have developed additional expertise as required of them.

In programmes which experience similar seasonal loading problems, there are a number of established mechanisms to counter the overload. They begin with better internal utilisation and sharing of work, then progress to the use of part-time help, the use of staff from a central 'pool' as 'fire fighters' and finally to the redistribution of straightforward aspects of the work to other offices in the network. In the case of SND regional offices, the restructuring of internal capacity is only now about to be done, there was no evidence of part-time help being used but there was evidence of staff being seconded into offices from headquarters and from TI Norway to help at peak times.

#### **Staff Relations - Within Regional Offices**

We found that there was generally a good working atmosphere in the regional offices and a good team spirit. In any such situation there are inevitably petty jealousies and some think that they could manage things better. The following aspects were considered worth noting

- *Imbalance of Workloads* - As already mentioned earlier in this section, the imbalance of workloads warranted numerous comments. This was not only from the point of view of unfairness on individuals but also from the point of view of

general efficiency. Restructuring and team allocations was seen as a good route to reducing the problem: an endorsement of the need to optimise the 'Bergen model' across the network

- *Recruitment Difficulties* - Comments were made about the corporate problem of restrictions on recruitment. Staff see the issue from a local rather than national perspective - if they are handling a large share of the cases, why can't they recruit accordingly rather than be prevented because another office is (in their opinion) overstaffed with very little to do? Although this problem to a large degree stems from public policy, it could be re-visited over time and the logic (where it exists) could be better explained to the staff in the overload situation. Greater staff mobility between regional offices and between the regions and the centre could be used to alleviate the problem, as could the use of part-time support
- *Varying Skills/Experience/Pay* - Work overload naturally leads to criticisms of unfairness. Those who are overloaded are critical of those who are not and logic leads them to the view that they should be paid more for their wider usefulness and the higher levels of work they perform. Other than a small amount of local flexibility in annual pay increases there are no incentives for regional staff to increase the speed and throughput of cases. Without some form of cash or benefits incentive allied to better management of case loading, this situation is unlikely to change.
- *Local Management* - Staff were generally happy with the local management of their respective offices. Meetings were held regularly and all felt that their respective director was easily accessible and was willing to deal with any particular problems arising. Frustrations tended to be directed at the management problems which were seen to be caused at headquarters level on such issues as recruitment, pay scales and budgetary restrictions

### **Staff Relations - Office to Office**

From our discussions with regional staff it would appear that a good informal network between the regional offices continues to develop. This is particularly true between branch specialists who regularly contact each other and have irregular meetings to deal with particular branch issues.

In addition to the meetings between branch experts, a number of working groups have been established over time to consider issues such as the corporate management information system. Such working groups are an excellent idea and essential if a more harmonious operation is to develop. It was not however clear from our discussions how such groups are formed, what the mechanism is for suggesting the formation of a group, how representatives are selected, how the objectives are set and measured and how finally the group is disbanded. A more structured approach is called for.

A common mechanism under Total Quality Management principles is to establish 'Corporate Improvement Teams' and 'Corporate Action Teams' ('CITs and CATs'). CITs are given the task of considering a business process, identifying weaknesses and outlining the necessary actions to be taken to improve them. CITs will generally be drawn from a wider cross-section of staff than those involved in the process, in order to take a broader view. A CAT will then be appointed from the personnel involved more directly in the process in question in order to implement the necessary actions and report back. Once improvements have been made to the satisfaction of the CIT,



the CAT is disbanded. An example of the potential use of CITs and CATs in SND's case would be to review the grant/loan application and processing procedures, which could involve staff representatives from a regional office, headquarters on a CIT and a greater presence of regional and case officers on a CAT.

#### **Staff Relations - With Headquarters**

Regional office staff have contact with headquarters at two levels; indirectly, through their own local management and directly, with specialist branch or application processing staff. In both cases the staff interviewed felt that they had good personal relationships and could call upon informal central support without inhibition.

Despite these positive feelings, there was however a general feeling that the overall management of SND was very much 'top down', in that the centre tended to dictate to the regions rather than manage through consensus and shared responsibilities. This 'one way system' was seen as serving central rather than regional needs and, as we have seen from comments reported elsewhere, there is increasing frustration at working level in the perception that regional needs and views are not being taken into account. This may partly be due to a hang-over of attitudes from the previously more centralised organisation, but the problem nonetheless needs to be addressed because it is demoralising.

SND already makes wide use of working groups. At the time of writing, there were 5 permanent and 15 ad hoc groups, in addition to 18 branch-specific knowledge networks. The use of working groups should be continued to cover a wider range of issues, but they should be given greater structure and focus as suggested above. In addition, informal and social meetings are expensive on time but often worthwhile in building closer links and better operational efficiency. SND should also consider introducing more events aimed at developing these aspects.

#### **4.1.4.3 Strategy and Budgets**

A major issue in the timing of both strategic and budgetary thinking and planning is the coincidence of SND's financial year and the public accounting year (both follow the calendar year). As the organisation's strategy is largely dictated by the budget available from public funds, this factor alone causes considerable problems to the organisation.

Budgets for SND's administration and spend on cases are discussed in the Autumn and some aspects are discussed with regional directors at the time, although this tends to be on the more minor issues such as travel and expense budgets. Financial allocations are discussed with ministries after this and decisions are made by parliament in the last few weeks of December - two to three weeks before SND need to begin spending the funds. This situation leads to considerable uncertainty and insecurity as the organisation does not really know the final budget figures until several weeks after the start of their budget year. Any real strategic planning and budgeting in this situation is impossible and as a consequence the organisation is completely at the mercy of the funding Departments, with dramatic consequences if the budget receives significant cuts for reasons of public economy.

For these reasons, many of the staff regard SND senior management's influence on funding Departments as weak and their communications on budgets and strategy as

too late and of little relevance. In practice, SND's ability to act as a *premissgiver* is seen as weak. These views were intensified by decisions made around the time of our interviews to reduce SND's annual budget for 2000 in mid-year, which had a significant and negative effect on staff morale. Most of the staff interviewed felt that regional involvement in the strategic planning and budgeting process was minimal and had little effect on the eventual outcome.

The system of budget allocation used by Departments of State - which provides the whole of the annual budget at the commencement of the year - causes further operational problems. In effect there is a 'chicken race' to spend the allocation among the regional offices and the projects located at the centre, causing a 'feast and famine' situation where cases are rushed through when budget is available, then delayed until the next year's funding as allocations are exhausted. We understand that it is not unusual to allocate the central element of some budgets by May. Regional elements may not be exhausted until around November. One good reason for this rush to spend from SND's point of view is to restrict the opportunity for budget cuts by parliament later in the year. If funds are exhausted then the budget can not be pruned.

The rush to earmark budget causes an overload in cases to handle, with resulting delays to applicants and higher stress levels for staff. There may also be a tendency to allow less deserving cases through early in the year in order to maintain the regional office's 'quota' of funding. In other words, if the regional office does not approve a high enough number of case when budget is available it may find itself short of work to occupy its staff for the later in the year.

We suggest that SND considers four actions in respect of strategic planning and budgeting

- The organisation's budget year should be moved to start three months after the start of the government's financial year. This should permit parliament to allocate and approve budgets in advance of the organisation's need for spend
- Taking this pressure off the budget should allow more time for discussion with the regional offices on strategy and development plans. This will allow greater inclusion and should lead to more innovative ideas and a stronger feeling of 'ownership' of the resulting strategy by regional staff and management
- The budgetary allocation should be drawn down in quarterly or monthly allocations so that cases may be approved throughout the year instead of for the first few months only. This should spread the workload and spending pattern more evenly and should reduce a customer's wait for funding from the current maximum of 7 months to a few weeks. SND should also consider ways of balancing spend between offices so that the more deserving cases are funded and better regional balance results. This balancing process should include the participation of regional representatives.
- The senior management of SND should develop closer dialogue with funding ministries and these links should be made more apparent to regional staff. This action will improve awareness of user needs and where possible minimise last minute shifts in budgetary policy. Ministry officials should also be made more

aware of the beneficial outcomes of SND's work and the potential consequences of any proposed budgetary reductions

#### 4.1.4.4 Application and Processing Procedures

This section considers the various aspects of the management of applications and associated procedures as described by staff in the regional offices. A 'case' in this context refers to a grant or loan application and the staff involved are deemed to be 'case managers' regardless of their actual staff grade.

##### **Initial Contact with Customers**

Customers contact SND regional offices using a variety of sources, previous contact, general publicity, referrals by regional authority, etc. Applicants usually contact by telephone in the first instance. Staff dealing with calls, usually case managers, have an initial discussion with the applicant to perform an early check to establish whether they are likely to be eligible and to inform them about the purpose and availability of funds. Successful applicants at this stage are then usually invited to write in to the office to describe their need for funding and to provide the necessary supporting details.

A more usual approach at this stage would be to send an application form complete with examples of how SND would like the required details to be presented, in such a way that the applications may be processed swiftly and uniformly. Instead, each case manager is allowed the flexibility to ask for the information which he or she considers to be the most pertinent. This is both a time consuming and potentially problematic situation, as case managers will tend to concentrate on areas best known to them. For example, marketing or production information may be more familiar to them and they may miss more important aspects outside of their expertise, such as export regulations or patenting. From the applicant's point of view, the arrangement could be exasperating as they are partially providing information to suit an individual who may or may not be very good at explaining requirements as the need develops. A more satisfactory arrangement would be to provide detailed needs in advance so that the applicant may work towards them, using them as a guide.

SND has a leaflet setting out the broad information requirements for applicants, but this was seen by most of the case managers as too complex and not suited to the needs of smaller businesses. It would not be beyond reason to establish a suite of such documents, geared to the needs of smaller and larger businesses or for particular branches, which may require more detailed interpretation.

##### **Clearance Procedures**

Upon receipt of the application letter, the applicant may receive one or more telephone call requiring further information, or receive a visit by their case manager to discuss the details of their application further. Some applicants visit the regional office for one or more meetings. The decision to visit is made by the individual case manager, in conjunction with their immediate superior. During our interviews it was not made clear why some applicants are visited and others are not; some appear to be dependent on the case manager's available time, others because of the need to verify details of an application. We suggest that a visit is desirable in all cases because it allows the case manager to consider the wider issues associated with the grant or loan

as they affect the company and it allows the case manager to develop a better relationship with the client.

Case managers are drawn from a variety of industrial backgrounds and SND have attempted to capitalise on the wider combined knowledge of these staff through special interest groups and a basic logging of industry branch knowledge. An equally important aspect, which does not appear to have been addressed, is the *skills base* of case managers. A case manager who specialises in the fishing industry may visit a fish processor and may have detailed knowledge of this part of the food chain. But the company may wish to use a loan to purchase air conditioning equipment, for example, which may be a technology outside the expertise of the allocated case manager. It is not clear how the current management system caters for these varying skill requirements. Consequently, there is a danger that case managers may be required to process loans and grants which are valid cases in themselves but which could be wasteful when seen from a specialist technical point of view.

In this respect it would be useful to establish whether similar applications have been handled in the past, but there is no requirements for case managers to do this and the current IT system was considered to be both slow and difficult to use for such verification.

Following completion of the details, the application is then processed according to the limits of funding authorisation described earlier. Lower level loans and grants are approved by the Regional Director, with regional board approval where required for the higher regional limits. Higher level applications are sent to the Oslo headquarters for full approval. Some staff admitted to a tendency for applications to be split into phases of funding and/or for applications to be held below the ceiling set by Oslo for further approval. This has the effect of reducing the grants/loans given and avoiding the involvement of headquarters staff in regional applications. In isolated cases, our interviews with customers confirmed that this practice was followed.

**Exhibit 26 Mean Times to Process New Cases, 1999**

	No of Cases	Percentage	Mean Elapsed Time (Days)
<b>Total cases</b>	4010	100%	
<b>No data available of handling time</b>	285	7%	
<b>Mean for all cases</b>	3725	93%	46
<b>Handled within DKs</b>	3040	76%	46
<b>DK cases passed to HQ for decision</b>	272	7%	67
<b>HQ customers' cases</b>	410	10%	32
- Handled at divisional level	344	9%	25
- Passed to higher level for decision	66	2%	66

Source: SND

Although regional approval now reduces the amount of time taken to authorise grants and loans, referral to regional boards where the DK manager finds this is appropriate obviously adds to the processing time. If there is a need to refer to Oslo – usually because the amount in question exceeds the DK’s approval limits – cases take on average a further 21 days to resolve – though it should be noted that such cases tend

to be inherently more complex than those resolved by project officers in the DKs. Both the regional Board and the headquarters are able to take fast decisions outside the normal committee cycle in cases they see as urgent. However, it appears that the process is more generally geared to the speed at which SND finds it convenient to perform rather than to addressing users' needs. Although there is little evidence that applicants object to the longer processing time, SND should benchmark with major commercial banks to compare procedures and identify where they may be improved. In addition, SND should consider ways of reducing delays through board approval. For example, documents could be circulated electronically to board members for approval and meetings could then be used to discuss only the exceptions rather than all of the applications.

At the end of the approval process the applicant is sent an offer letter outlining the terms and conditions of the offer. The staff interviewed were not aware of any controls which are in place to ensure that such offers are, and remain, consistent in their legal definitions and obligations. The assumption was that this is done through the legal controls at headquarters.

### **IT System**

The IT system used by the regional offices was the subject of much criticism during our interviews. Although some of the issues arising from the initial system have now been addressed, it is still regarded as slow and 'user unfriendly'; more importantly, there are inconsistencies in input which could dramatically affect the validity of the data.

The purposes of a typical IT based project management system for the use made by SND are clear-cut. Such a system needs to provide

- Information on the applicant business, industry branch, number of employees, length of time in business and annual turnover, along with contact details and details of the principal members of staff involved in both the applicant business and the provider
- Records of key milestones in the life of an application and any subsequent actions are recorded, along with notes relevant to the record
- Details of the purpose of the grant and/or loan is recorded along with amounts issued against payment dates
- Notes to keep track of any subsequent contact, letter, visit, etc.
- Information on any quality checks and the outcome of the case, normally kept to close the record as final date/payment entries are made
- A unique record number for each business, with a suffix number for each grant/loan provided

It is essential that all of the data fields may be cross referred and interrogated, for example to compile statistics on the principal uses of loans granted, the population of users in a particular geographic area, or the total amount provided in loans/grants over a certain period and projections of their likely draw down.

Such a system, which handles the main business processes of a major spending organisation, must have rigorous procedures for data input and security - supported by

electronic safety checks which for example monitor and minimise data which falls outside of pre-set parameters.

An instance of the failure of the SND system in these respects was discovered at the input of applicant details. In one office, applicant letters are input as soon as they are received in the mail, in another they are input when the case manager decides that the letter is a valid application - in the instance in question this was some 30 days after receiving the letter. This discrepancy alone will obviously give false data, the office which enters information soonest will show a longer processing time than the other; the former will also show a higher 'drop out' rate of potential applications than the latter. This instance is symptomatic of a system, which has grown organically, rather than one which has been developed in a planned way - with corresponding failures in the rigour of data input.

Complaints about the system - and the shortcomings, which were discussed - were often symptomatic of a process, which was developed for financial control rather than case control. As a consequence the system is probably more reliable on strict financial data, but needs a considerable re-think to make it into a reliable case and customer management tool. As part of this re-think, further thought should be given to indexing the skills and branch expertise within the staff as a whole so that greater use may be made across the organisation. Currently regional office users express difficulty in accessing central core skills; they should be consulted on their requirements of any revised system.

Although SND has a considerable range of skills internally there are occasional needs to refer to external expertise. No formal arrangements appear to exist for either accessing or engaging external consultants to fulfil these requirements. It is important that controls are introduced for this operational aspect, both to speed up access and, more importantly, to ensure that they are of an appropriate quality and subject to clear terms of confidentiality and legal liability.

### **Monitoring of Cases**

The monitoring of cases usually takes place as applicants finally comply with the grant or loan conditions and the final payments are settled. Although this is the core business of SND and it could be argued that their primary interest lies in the successful dispensation of a grant or the settlement of a loan, we feel that there is a case to be made for greater progress monitoring than currently takes place. Applicants may need assistance during the progress of the project for which a loan or grant has been provided and could welcome contact with SND staff who are often better able to deal with problems and issues along the way. Contact would at least prove to be a valuable public relations move for SND even if nothing came of it.

Although some regional staff do keep in contact with applicants as their project progresses, the practice is not widespread and could be expanded to greater effect.

Several of the staff interviewed were not clear on customer care objectives or the 'target times' for processing applications, although both are published in SND literature and, in the case of customer care objectives, are displayed in the regional offices.

A system of case auditing has been introduced whereby staff from headquarters visit a regional office and check on the application and approval procedures to ensure that they have followed overall guidelines and that funding is being used in a balanced way. Such auditing is good practice, especially when administration is through a network of regional offices where the ability to vary from a corporate norm is more prevalent. It was not clear from our interviews why the system was introduced, or who developed the rationale employed. Such processes should be developed with the full engagement of the staff who will be audited to ensure that they 'buy in' to the process in the interests of best practice and so that they know the process will be fair. If the feeling is that the information gathered in regional visits will in some way be used to persecute case managers or regional directors they will not co-operate in the process. Most staff questioned were in favour of the action and some had participated in audits - an experience which they found useful.

The main focus of SND activities is on providing grants and loans to businesses, there is however very little attention paid to the results that this financial assistance has on applicant businesses. If more attention was paid to the outcome of projects funded through the grants and loans provided, case studies could be developed to promote the value of SND to the Norwegian economy and to individual businesses. Such publicity could also be valuable in budget justification to funding ministries and to parliament. Follow-up on completed projects is also an essential factor in job satisfaction for employees who work hard to obtain funding for businesses in the first instance.

We suggest that a process of monitoring and quality feedback should be introduced to ascertain the benefits of funding provided through SND on applicant businesses. This feedback should extend to case studies for promotional purposes where possible.

It may be seen from the comments in this section that the application processing and monitoring procedures generally follow the *inspection* route (identifying problems after the event), rather than the *quality* route (making sure that if something does go wrong it will not happen again). More *quality-based* procedures involving greater regional participation and buy-in should result in a more efficient and user friendly process for dealing with applications. Examples of possible actions include common review meetings for case decisions, the use of CITs and CATs we discussed earlier in relation to SND's core processes; systematic follow-up with customers; a 'cost of poor quality' exercise, reviewing the effects of under-performance in case handling on customers.

#### **4.1.5 Perceptions of Corporate Culture at SND**

During our interviews we asked for opinions on the corporate culture prevalent in SND. A simple test of the positive and negative aspects of corporate culture may be measured by asking the following questions

- *Are there positive reasons for staff turnover?* The feeling from staff was that reasons for leaving were generally not positive but were associated with insecurity and a lack of career progression
- *Is there a fast-moving, high achievement atmosphere?*- Again the feeling from staff was negative, general comments pointed towards the reducing government funding and the effect that this may have on SND as a whole

- *Are important decisions made at the top, or by middle (regional) managers?* - as may be seen earlier, SND is perceived by staff as a ‘top-down’ organisation in relation to key decision-making, although of course many grant and loan decisions are made at local level
- *Is SND bureaucratic, or is there a high degree of freedom?* - Again, staff supported earlier comments which pointed towards the bureaucracy demanded by headquarters which is seen as an imposition on regional office staff
- *What is the market strategy, to be a leader or a follower?* - The organisation is generally thought by staff to follow the funding made available by ministries rather than leading through the suggestion of innovative additional programmes for funding
- *Does it have a relaxed, easy management style?* - Most staff agree that this is a very positive aspect of SND’s operations
- *Does it have a traditional hierarchical structure?* - Although a hierarchical structure does still exist, the introduction of regional operations and decision-making are seen as a very positive move to level out the hierarchy
- *Is it customer oriented and quality conscious?* - The organisation purports to be user driven and quality conscious, but as we have seen earlier in this section regional staff perceptions do not widely support this view

#### 4.1.5.1 Issues for Change

As a very simple exercise in gauging staff views on the overall issues affecting the organisation, during our interviews we asked staff what would be their priority issues if they were put in charge of SND. From 45 responses, 24 focused on internal issues and 21 focused externally - an indication in itself that SND has more internal than external issues to resolve.

##### **Internal issues**

The top three suggested internal issues suggested by regional office staff as needing urgent resolution were

- 1 Better focus and prioritisation of corporate strategy
- 2 Improve communications, co-ordination and co-operation between regional offices and between regions and headquarters
- 3 Reduce the bureaucracy demanded by headquarters and focus more on regional office needs

##### **External Issues**

The top three suggested external issues suggested by regional office staff as needing urgent resolution were

1. Improve customer focus and interface between SND and its customers
2. Improve strategic contact with other organisations - and in particular with Departments of State and politicians
3. Reduce diversity and focus on fewer things to a greater degree - for example focus more on innovation



It may be seen that many of the observations from staff interviews made in earlier sections are reflected in their own summary of actual problem areas. For example the need to focus more on customers and to cater more to regional office needs through improved communications and reduced bureaucratic requirements. Given the general support for the management of SND there is a good chance that a concerted focus on these areas would produce results.

Overall, regional staff are generally happy but they have concerns about the future and the organisation's ability to develop and implement strategic solutions. Frustrations surround a broad general need to improve communications, which on occasion are almost seen as causing isolation - between regional offices and other offices, regional offices and headquarters, SND and users, SND and government and SND and other organisations internationally. The regional office perspective suggests a number of improvement opportunities for SND. Some of these are, in fact, being addressed centrally, but these efforts had yet to filter through to the DKs at the time when we visited them

- *Improve the strategic focus of SND* - This is generally seen as weak and as following, rather than commanding the market
- *Consider greater focus on fewer areas* - The organisation currently handles such a wide range of projects, initiatives and special funds that it is difficult to see which direction it is taking. There would be a greater chance of success and recognition by staff and users if the organisation were to concentrate focus on fewer areas, for example on innovation
- *Improve the public image projected by SND* - Given the range of subjects and initiatives covered, SND presents a mixed and confusing image to the public. A more focused image should be projected, supported where possible by successful case studies
- *Work more closely with government and its ministries* – Unexpected budget reductions and changes undermine the credibility of SND as a partner for business
- *SND should become more user focused* - Many of the procedures involved in the organisation's operations are geared to its own needs rather than those of its customers. This situation will clearly have to change if the organisation is to achieve its ambitions for greater customer care
- *SND should benchmark itself against other organisations* - In pursuit of quality excellence the organisation should benchmark its user-related processes and procedures against comparable operations such as large commercial banks. Any differences which are recognised as a result should be studied and corresponding changes in SND operations should be introduced where possible
- *Clarify the true role of regional offices* - Are they there as regional representatives of the centre, or is the intention to give them fuller autonomy?
- *The headquarters should see regional offices as 'customers'* - As the role of the regional offices grows the focus of control will shift from the centre. Headquarters will increasingly be used as a central service provider with the regional offices as its customers
- *Improve communications with management and staff* - It was apparent from our discussions that regional office staff felt that communications flow was largely on command from the centre

- *Strengthen systems and quality control* - During our discussions it was evident that there are inconsistencies in the interpretation of guidelines on issues such as data input and target processing times and even on the real criteria for funding decisions. SND systems manuals should be revised and strengthened to reflect all aspects of regional operations, then applied more rigorously to working practices
- *Improve the IT system* - Although improvements have been made, the IT system currently in use falls short of true needs. The system should be improved to reflect regional user needs in a more user-friendly way. It should also become a full project control system, rather than remain as a financial monitoring package. The IT system should also be extended to incorporate a comprehensive skills database covering both internal and external expertise

## **4.2 Headquarters**

This section covers the parts of SND organised centrally, in Oslo, with the exception of the division responsible for the district offices.

### **4.2.1 Næringsdivisjonen**

This division was set up as recently as the end of March 1999, and its role – conceived as a “national development and resource centre” - is still in the process of being fully clarified. We understand the division to have five major functions, most of them to do with the management of intellectual capital

- It is SND’s R&D department. In principle, it monitors needs, keeps a watch on other business support organisations at home and abroad in order bring a flow of new ideas about products and services to SND, and where needed develops programmes to respond to needs and opportunities
- It manages, quality-assures and incrementally improves the operating national programmes, setting uniform national standards and capturing learning
- It manages and develops SND’s intellectual capital in relation to individual branches of industry, ensuring that this expertise is connected to the needs of the district office network
- It provides the analytic capabilities required for SND to work in its premissgiver role: both ‘upwards’ towards the Departments of state and the policy system and ‘downwards’ to support the district offices and the fylkeskommuner in setting strategy
- It provides case officers to handle key ‘national account’ customers. During 1999, this involved a population of some 300 companies with multiple locations in Norway. From September 2000, responsibility many of these companies has been allocated to the DKs nearest to the companies’ headquarters. The division retains responsibility for 100 or so multi-site companies with headquarters in Oslo

The division is the focus for important debates within and outside SND about the extent of further decentralisation that is desirable within the SND system.

An important omission in SND’s work so far has been to monitor foreign activities and to make active use of European programmes. These are important sources of

ideas and opportunities, which should more explicitly be incorporated into the work of NÆR.

#### 4.2.1.1 TIND, avdeling for industri og tjenesteyting, and FINO, avdeling for fiskeflåte, næringsmidler, fiskeoppdrett og plast/kjemi

The TIND and FINO departments comprise 24 people<sup>41</sup> today, mostly branch specialists. Their role is primarily to serve as a resource to the DKs, bringing branch-specific knowledge to bear on cases that officers find hard to resolve. This support is often informal, and appears neither to be recorded nor to be rewarded, making it hard to quantify the contribution they make to SND as a whole. They handle special branch-specific assignments given to SND by Departments of state (recently, for example, in the forestry industry), normally in collaboration with DK personnel, and produce analyses of individual branches in order to underpin SND policy. They also handle cases for the small number of ‘national account’ customers with headquarters in Oslo. The main importance of this case-handling work appears to be to ‘keep their feet on the ground’ and to maintain their credibility with the case officers working in the district offices. (From September 2000, these cases will be passed to regional offices.)

The TIND and FINO specialists are natural candidates to be members of ‘customer teams.’ These are in principle put together at the request of individual case officers in order to resolve difficult cases, though we encountered a degree of skepticism about their usefulness. “Kundeteam er ett påfunn fra de der inne i Oslo.” Most of the specialists are involved in the ‘competence networks’ recently established to link branch specialists across DKs and the central office. These networks aim to maintain a current understanding of their respective branches and to provide mutual support in case handling.

Both DK personnel and customers interviewed referred to the importance of these ‘knowledge bearers’ centrally in SND, and to their contribution in individual cases. It is only by maintaining an overall view of conditions and requirements in the economy that SND can meaningfully suggest policy priorities and inform its own decisions at the case level. For example, a recent study of the travel and tourism business has enabled an assessment of capacity in certain segments, showing that further investment may be counter-productive and enabling SND to consider whether to propose a wider action to increase the extent of the market.

We regard the specialised analytic capabilities which could be provided by these parts of NÆR as crucial to SND’s ability both to pursue a coherent grants and loans policy and to act as premissgiver in policy processes. SND should be proactive in launching analyses of economic and industrial needs, some of which should be forward-looking in order to set parameters for future policy. A result should be that SND increasingly sets agendas: suggesting policy measures to the Departments, rather than primarily responding to requests.

From a national perspective, it is vital that the fylkeskommunal regional development plans (RUP and the longer-term Strategisk Nærings Plan) collectively make sense. In

---

<sup>41</sup> For consistency with earlier analyses, personnel numbers given in this section are mean FTEs in 1999

principle, KRD should be quality-controlling this. SND should ensure that the fylkeskommuner are supplied with data and analyses, which give them a rational basis for planning. This extends the *premissgiver* role beyond its historical definition.

We understand the desire for NÆR staff to play an active role in handling cases, though it is not obvious that they need to have the ‘plum job’ of dealing with multi-site companies headquartered in Oslo. To play a coherent role as corporate knowledge managers and in order to have critical mass as an analytic team, these parts of NÆR need to be co-located. Practical branch knowledge is best located close to the customers, where it can find daily application. A limited number of people can contribute in a more analytical role from the central level, and while they will inevitably build up knowledge of individual branches, this is of a different type to that needed in field operations. NÆR would therefore do well to evolve its branch specialists into a central analysis team and to re-deploy people with ‘hands on’ branch competence to the DKs.

#### 4.2.1.2 REKK, avdeling for utvikling, kvinner og kompetanse.

REKK comprises three rather separate groups: regional development; women in focus; and capability development. The department lacks coherence, and appears to exist mostly for span-of-control reasons. The regional development group works very much in isolation. The delineation between REKK and NYMI is not obvious, given that both work with national programmes.

##### **Regional development (omstillingsområder)**

The work of this group is discussed separately in a report on SND’s role in omstillingsområder. The personnel here are almost entirely drawn from industry, and the group prides itself on having a ‘hands-on’, non-bureaucratic culture. Performing a limited number of large and discrete projects, it is able to maintain time records, unlike most of SND.

The work of the group is to orchestrate and quality control local activities in *omstillingsområder*: namely, places designated by the KRD as being in need of assistance in industrial restructuring. Historically, such places have tended to be comparatively isolated communities dependent on a single industry, but the criteria used to justify *omstilling* status have recently become more liberal. Together with the status comes special KRD funding. SND’s regional development group is then assigned responsibility for the project. It in turn assigns a staff member to monitor and mentor the project. A person local to the *omstillingsområde* is given responsibility for executing the project. Often, this will be someone from a regional development company.

This group works outside the mainstream of SND’s activities. Its links with the DKs appear weaker than we would expect, given that the restructuring projects are intended to be temporary while the DKs will be the longer-term development partner for the region.

As our cases studies (in STEP's evaluation of SND's role in regional policy<sup>42</sup>) show, the group approaches its work very much by the textbook. It encounters significant implementation problems because the work it tackles is genuinely difficult. Its *modus operandi* is persuasion and consensus, and its success is highly person-dependent. Surprisingly, there appears to be little effort devoted to training to help the group's members in the interpersonal aspects of the work. Off-the-job training in negotiation, coaching and moderation would probably be a good investment.

It has no doubt been useful to develop the group's capabilities centrally, but given that the work is regionally based, we were surprised to find this group still based in Oslo. It is obviously important that the group meets and works together frequently, but the group's work would be better embedded locally if its members were based in a handful of the larger district offices<sup>43</sup> and complemented by a strong anchor-person centrally, responsible for co-ordination and methods development. As SND's work becomes increasingly proactive and capabilities-related, the type of skills developed by the *Regional Omstilling* group will increasingly be needed throughout the DK apparatus. This is an additional reason to embed the experienced practitioners within the DKs as far as is practical.

### **Women in Focus**

While women's entrepreneurship has, in principle, been a concern for SND for a long time, it is only in the past 3 years that this has been very actively on the agenda, following Departmental instructions to give the issue priority. A paper was written on the subject in 1997 and a group leader recruited the following year. The group now has 4 members.

The new group leader was not assigned a budget, but invited to devise a strategy and to share it with the Board, which has been supportive of the principles involved. She set up a network of women case officers, represented in every DK. However, she has neither authority nor the ability to offer incentives to the DKs to focus on women's entrepreneurship. There is no overall clarity about which aspects of this SND wishes to prioritise and what amount of social change would be regarded as a success. In practice, the work consists of a series of projects and programmes, in which DKs and individual case officers can optionally become involved

- Training 150 women to equip them with the skills needed to be board members in companies. The goal is that 30% of these shall have found a seat on a company board within 2 years
- Establishing mentors for women consultants in the FRAM programme and encouraging women to set up consultancies
- Establishing a small scale women's bank (*Nettverkskreditt*) to be run as a mutual society, using a model which is now well-established in foreign aid programmes, and offering micro-loans. The KRD 10 MNOK to run this programme has been matched by NHD, whose funds are to be channelled through the DKs

---

<sup>42</sup> Lillian Hatling, Sverre Herstad og Arne Isaksen, SND og distriktsutvikling – rolle, virkemidler og resultater, Oslo: STEP Gruppen, September 2000

<sup>43</sup> A key constraint may be the willingness of the personnel to live outside the capital. These are unusual people, and their preferences must necessarily have a strong influence on their location

- The Lighthouse project, which brings 20 female-led companies together in an information campaign to demonstrate that women's entrepreneurship can be successful and encourage further women to become involved
- An intervention in the *omstillingsområde* work to help involve women in the community is also being considered

While these efforts are in themselves admirable, we are concerned at their comparative isolation from the mainstream of SND's operations in the DKs. Larger numbers of the case officers need to develop an understanding of the special problems and opportunities in women's entrepreneurship in order to be useful – especially if they are to be proactive. This requires training, and the development of training materials to analyse and communicate needs. Goals and measurement need to become explicit at the DK level. It may be useful also to recognise efforts in this area within the personnel appraisal system, as (unconscious) attitudes normally operate to hinder women's success in business.

### **Capability development**

This group develops and operates some of the national capability-development programmes for industry, specifically

- Bransjeorienterte IT prosjekter for effektiv forretningsdrift (BIT)
- The FRAM management development programme
- Pilot projects in e-learning, international capital and knowledge management

Other responsibilities of the group include strategic alliances and networks and international company to company co-operation. Currently, these two issues are handled by one person in 20% of his time. Another person is responsible for prospective work on capability development.

The main objective of the BIT Program is to increase the competitiveness and profitability of SMEs through developing, implementing and distributing general IT solutions for specific trades - an objective made possible through close collaboration between companies, suppliers and trade organisations. Usually SMEs have very limited choice in terms of software solutions and tend to get a 'take it or leave it' attitude from suppliers as they are not a significant enough market to warrant the special development of software. This programme is novel in that it brings together SMEs with common software interests so that they form a large enough group to be attractive to software suppliers, who then are more amenable towards producing specially adapted software for their branch. Because of the nature of the project, the staff concerned tend to work more directly with trade bodies rather than regional offices.

The programme appears to be achieving its objectives and is able to demonstrate a number of instances where SMEs have had their common interests translated into new software products - which in themselves have then been marketed more widely to SMEs. One project in the furniture branch, which involved some 800 companies and 30 IT suppliers, was expected to make savings of NOK60m, but a figure of NOK260m was eventually recorded. The program is currently being evaluated and a report is expected in September/October 2000.

FRAM is a well-developed, modular, packaged consultancy and training programme aimed at improving the competitiveness of SMEs. In order to achieve this, a cadre of business consultants has been trained and a programme of accreditation, retraining and quality checks ensure a consistent approach to users. Approximately 500 businesses have been assisted to date, involving 115 consultants. The programme has operated for a number of years and earlier evaluations have highlighted the value of the programme both to users and to the Norwegian economy as a whole. FRAM is organised through seven different areas of Norway, each with its own regional manager who is responsible for consultant training and monitoring along with user company contact. Approximately one third of user contacts for FRAM are referred by consultants in the field.

We were struck by the level of sophisticated organisation demonstrated by the programme manager who, as the programme has matured, has developed comprehensive controls covering client identification, business development, monitoring and quality control. Relationships with regional offices have been developed to a point where staff there will automatically refer relevant businesses to the programme through its own regional contacts. Other project managers within the organisation could usefully learn from the good practices, which have been established over time in the FRAM programme.

While the FRAM and BIT programmes appear successful in the field, there is little incentive for the DKs to 'sell' them. The group as a whole lacks mechanisms to connect them with the DKs. There is no clear strategy or R&D budget for programme development. If SND is to take a serious role in company capability development, which goes beyond giving grants and loans, these questions need to be clarified.

#### 4.2.1.3 NYMI, avdeling for nyskaping, miljø og internasjonalisering

This group handles a long list of tasks, covering the maintenance of agreements with Forskningsrådet, SIVA, the Export Council and other partners, the FORNY, OFU/IFU and ENT programmes and certain counter-trade agreements. It also administers the Environment Fund on behalf of the Department of the Environment. 'Invest in Norway' was formerly part of this group's responsibilities, but this programme has been shelved. The group's core competence is in handling technology-based start-up firms.

Internationalisation is seen as a theme of increasing importance in SND, and this group provides the organisation's main international links. The IFU supply-chain innovation programme is being extended to cover cases with a foreign buyer being supplied by Norwegian interests. SND has joined the EU's Joint European Venture activity, but there is otherwise little practical sign of an increasing engagement with the opportunities the EU offers.

**Miljøfondet** was set up in 1998, to provide loans for industrial environment projects, which will directly or indirectly reduce Norwegian carbon dioxide emissions and increase eco-efficiency. It offers low-interest loans for projects whose economic viability is insufficient to allow funding from private sources. Projects are comparatively large – of the order of 10 MNOK, with the Fund providing about 40% of the investment. 190 MNOK of the 250 MNOK fund has been allocated. One

person in NYMI manages the programme centrally, acquiring contacts with potential customers largely through the DKs. The Department of the Environment provides the fund, while SND's contribution is essentially distribution and fund management.

The OFU/IFU programme was transferred to SND from NHO in 1994/5. Originally a programme to use state demand to stimulate the development and production of innovative products<sup>44</sup>, (OFU), it had been extended to using industrial buyers as 'motors' for innovation in 1994. Unlike many of SND's other measures, which deal with 'new to the firm' innovations, OFU/IFU focuses on innovations which are 'new to the world.' The programme is national, but aims to spend at least 35% of its budget in the 'districts.' As a national programme, it runs out of funds during the financial year. Historically, it has been possible for central programme management to control this tendency, but now a funding gap of two months or so is opening up.

The programme's budget is a direct allocation from NHD, and peaked at 160 MNOK in 1997, since when it has decreased. SND has since been 'topping up' the budget using its interest revenues, since the programme appears popular and successful. At that point, 8 people were working centrally on OFU/IFU. Decentralisation in SND has reduced this to 2.2 people, with DKs making funding decisions on projects costing up to 1.5 MNOK. One result of this is felt to have been that projects have become smaller and less innovative. The average project size was 2 MNOK in 1994, compared with a little over 1 MNOK today. Decentralisation of decisions had made it impossible to manage OFU/IFU as a programme, and there was concern that this would reduce both its ability to be effective and SND's ability to innovate further in programme development.

Aimed at helping start up businesses in building innovation and general competence, the ENT scheme has been in operation for approximately 9 years. Formerly managed by TI, this programme is now handled through the SND regional offices. Staff in the regions report back to the programme manager as central co-ordinator SND headquarters in Oslo, himself a secondee from TI. Budgets for the programme are skewed towards the districts but 80% of applicants are from central areas. There is therefore a mismatch of funding with sources of demand.

It was felt that the main aims of the programme - those of developing innovation and general competence - were somewhat lost in the desire to provide funding on less focused issues for businesses in the districts, as staff in the regional offices were under pressure to do. Lack of technical capability in the DKs meant that projects were turned down or funded as normal start-up projects, without the benefit of the specialised technology help that the programme is supposed to offer. The programme was last evaluated in 1993 and appears to have been considered worthy of continuation. No project 'audits' are done to establish the outcome of the funding. It was therefore difficult to identify any particular success stories. Overall programme management appears difficult in the absence of a better-defined relationship with the DKs, relevant skills in the DKs, clear project monitoring procedures and better central systems accessible across the organisation. (For example, management and qualification of technical experts used appeared primitive.)

---

<sup>44</sup> This is part of a longer-established tradition of *teknikupphandling* in Nordic countries. Compare NUTEK and Statens Energiverk programmes in Sweden during the 1980s



#### 4.2.1.4 Conclusions on Næringsdivisjonen

This division has three elements

- Programme design management and monitoring (including quality control), operating too much in isolation from the DK division
- A collection of branch specialists whose role is inadequately defined between the practical knowledge needed to work well at the client interface and the more analytic skills needed to underpin SND's wider *premissgiver* role
- A number of people who manage relationships with external partners or who run programmes like the Environment Fund, which are difficult to distribute solely through the DK system. (The work of the Russia and Eastern Europe Division also falls into this category.)

Programmes need to be put into a single group, to exploit a common set of skills and information needs, otherwise the erosion of their usefulness and scale that has already begun will continue into the future. This group should continue to handle national work which has to be implemented across all the DKs: relations with external partners; national projects such as the environment fund; extending the use SND makes of EU initiatives.

If SND is to take seriously its *premissleverandør* role, both towards the Departments and regional planners, it could usefully consider how to decentralise the more operationally specific aspects of its branch team to relevant DKs and create a central analysis group qualified to address this directly. Such a central team will itself require strong branch understanding in addition to its analytic capabilities. We have not investigated the required size of such a team, which needs to have a relation with SND's own ambitions in the *premissgiver* role. An important operational principle, however, should be that this team is sufficiently small that it is obliged to draw on the resources of regional branch specialists, rather than operating in isolation.

#### 4.2.2 Russia and Eastern Europe Division (RØED)

The Division was established in 1997, to handle investment funds for encouraging business co-operation between Norway and North-West Russia (150 MNOK) and Eastern Europe (primarily the Baltic states and Poland – 70 MNOK, plus 30 MNOK for feasibility studies). The funds finance joint venture partnerships and provide access to a comprehensive network of expertise in entering these markets and making investments. They are expected to pay a dividend in 2006.

Through the funding available SND can act as co-owner and is therefore able to give longer term investment facilities. When the time is right SND is then expected to sell its shareholding and leave the original investor in control. A variety of projects have been funded to date, including fishery and port development, wooden pallet manufacture, metal construction, a sawmill and a business school.

The Division has committed most of its allocation in the Central and Eastern European Fund. In 2000, an additional 50 MNOK has been made available to extend the fund. This was not however the case with the Russian Fund. Investors are not yet attracted to this area because of the political and economic difficulties experienced there. The Division is able to illustrate several investments, which it anticipates will show a good return. The mechanism appears to be a useful route for Norwegian

companies who are keen to expand their investment portfolios in this direction; they are able to receive financial support and advice on expansion into this major new business area.

The potential to locate RØED in a DK has been discussed, but it is not clear that this would bring any benefits. Customers are scattered throughout Norway. The funds managed are so small that any fragmentation would reduce efficiency. They need to be accessed nationally.

While this group works with venture capital rather than the other kinds of instruments used within SND, it is not clear to us why this small unit has the status of a division. If RØED has a natural place within SND at all, it would appear to be as a somewhat unique part of *Næringsdivisjonen*, along with other national initiatives managed centrally, such as *Miljøfondet*. However, the synergies between RØED and SND are low. Most customers contact RØED directly, and referrals from DKs could as easily be to an external as to an internal grouping. RØED's skills are different from those of the wider organisation, as are its mandate, financing and tools. It appears that the main reason why it is located in SND is that it therefore benefits from having a 'home' in a larger organisation, rather than incurring the costs of having a fully independent management and administration. RØED's management sees it as being better positioned as a subsidiary of SND or as a member of a future state venture and seedcorn capital grouping.

#### **4.2.3 Staff Departments**

In addition to a controller function, which reports directly to the managing director, there are four staff groups

- Legal
- Credit policy and risk management
- Administration (accounting, human resources and IT)
- Communications and strategy

We devoted considerably less effort to analysing these than to the line departments. Their roles have been extensively investigated in various internal analyses of headquarters functions in recent years. Opportunities to decentralise further seem limited. The Human resource department needs to be more actively deployed in supporting the definition of skill and training requirements in the new DKs. It appears from the state of development of systems to support case officers and customers that the IT function is under-resourced.

##### **4.2.3.1 Legal**

The legal department handles both legal affairs and the management of security, loan draw downs and repayments. Its 18.5 full-time equivalent staff at the end of 1999 represents a small decline compared with an average of 23 (and a peak of 27) in 1993.

Of the legal staff of 10.7, two work exclusively for SND Invest. The others give legal advice to the SND system in exceptional cases and handle the legal aspects of loan

defaults, bankruptcies and so on. Each DK has one specific member of the legal staff to whom it normally turns for help, and who travels to the region when needed.

The recession in progress when SND was created meant that the workload associated with defaulters and bankruptcies was high. In 1993, the department handled 190 bankruptcies, compared with 60-90 per year in the following years. As economic conditions improved, so it was possible to absorb the extra work caused by implementing the European Economic Space agreement in mid-decade, followed by the integration of Fiskarbanken, which brought with it a backlog of cases where SND had to seize assets.

Securities and loan administration is a customer-facing function. It is largely decentralised, with a group of 6.8 in Oslo co-ordinating and managing the activity across the DK network.

The legal group appears to be effective, and has become more so over time. The possibility of relocating some members of the legal staff to larger DKs has been considered on several occasions and rejected. It is argued that critical mass, shared resources (such as a legal library), mutual professional support and advice and common quality standards are easier to obtain in a shared location. The need for legal support at the case officer level is comparatively infrequent, and is not felt to be sufficient to outweigh the disadvantages of a partial decentralisation.

#### 4.2.3.2 Credit Policy and Risk Management

This group of 6 was started in 1999, to create an overview and manage the riskiness of SND's portfolio. Its work extends and intensifies SND's previous efforts in managing this central aspect of SND's operations. It services the main credit committee, which handles cases above the spending authority of the individual DKs. Cases, which involve new principles, go on to the Board.

The group has developed a risk classification system based on the degree to which loans are secured against realisable asset and the extent to which there is operational risk in the projects they support. It has created a quality assurance manual for project risk assessment and maintains an overview both of the riskiness of the portfolio as a whole and losses incurred. It is therefore helping to steer SND towards adequate utilisation of the 'loss funds,' through which the owner seeks to define the amount of risk that SND should take. A central view is clearly required in order to manage this. The group's other functions are to pursue defaulters and to maintain legal agreements with borrowers whose loans have variable interest rates.

#### 4.2.3.3 Administration

The central administration consists of four groups: finance; IT; personnel; and estates and facilities management. Staff numbers fell from 90 in 1993 to 52 in 1999 as synergies were successively taken out and processes rationalised.

The **finance** group (19.7 people) handles normal accounting functions and runs the banking systems. To the extent that these are not customer-facing functions, it is natural to keep them at the centre and to continue to pursue further rationalisation.

The **Information Technology** group (7.9) designs and operates computer systems in SND, and runs a help desk function. It is assisted in the latter by the appointment of 'super users' in each DK, who have developed particular proficiency with the systems, and who are able to provide informal first-line support to their colleagues in the office. The high demand for IT people at present means the department has been running with vacant posts and using contractors to fill gaps.

Handling the mergers with Fiskarbanken and now the agricultural bank has meant integrating three different banking systems over a three-year period. Given the amount of resources available, this has been a major achievement. The group has developed a user-friendly project administration system and front-end to the banking systems for use in the DKs based on a distributed architecture, but this is now reaching its technical limits.

The focus on keeping the core banking systems in operation has nonetheless meant that too little effort has gone into supporting the case officers. This is partly a question of demand: the DKs should be asking for much better support than they have today. A key example is that the systems provide no single customer view – the importance of which was obvious to commercial banks 20 years ago. This is a requirement if SND is to work in the proactive style that it intends. SND needs also to explore the use of the Internet in providing information and advice to customers. In our judgement, SND lies 2 – 3 years behind the state of the art in this kind of simple e-government.

The need to generate large numbers of reports to SND's funders has been taken very seriously in the IT group, and systems have been put in place to deliver these. However, the group is worried that the quality of the data outside the core banking systems is poor. Having tried to use some of these data in our survey and interview work, we share the group's view. According to the DK division<sup>45</sup>, the poor quality of the data it itself generates makes nonsense of any attempt to report ongoing cases in relation to the division's performance indicators, pinpointing the problem to the case management system. These kind of data problems typically arise where the data themselves are not important to those entering them, reflecting the hitherto poor level of case officer support provided by the systems.

We suggest that SND increase the amount of effort devoted to needs analysis and systems development to support both case officers and customers (through the Internet). Additional budget should be used on contractors, in order to keep costs variable. There is no evident need to expand the existing core team.

**Personnel.** The personnel group of 6.8 people services the organisation as a whole, including the DKs. The headquarters advertises posts and quality-controls shortlists. It does not normally expect to overrule regional hiring decisions, but has the right to do so. Conventional staff appraisal processes are in place, and SND say that they have considerable freedom to adjust salaries outside conventional scales, as well as a limited ability to provide one-time bonuses related to performance.

At the time of our discussions, many jobs still lacked functional job descriptions. A particular concern is that the profile of competences for case officers, whose

---

<sup>45</sup> *Statusrapport handlingsplan for 1. Kvartal 2000 for DKD*

performance is crucial to that of SND as a whole, lacks operational detail. This reflects the fact that the content of these jobs is in transition from reactive grant- and loan-giving to a more proactive, knowledge-based approach to customers.

The department offers a range of internal courses with annual capacities in the low tens of people, plus an 18-month management training course run by the business school BI. In the past year, familiarising the case officers with the new products and procedures resulting from the integration of the Agricultural Bank has soaked up much of the training capacity. Beyond this, mass training of the case officers in the elements of their work and the way it is changing – especially with the rapid extension of the product range that is in progress – was absent.

We see an urgent need to be clearer about the skill profiles needed in SND, especially in the DKs and parts of NÆR. This must originate with the departments themselves. A larger-scale training response appears to be needed to tackle the changes demanded of case officers. There appears to be scope to decentralise more of the responsibility for personnel, especially hiring and firing, so that the central function empowers and supports, rather than controls, regional managers in running ‘their’ offices.

**Estates and facilities management.** This function provides building management, switchboard, canteen services, etc. A reduction in numbers from 22 to 15 has recently been undertaken. The size of the department is largely driven by the size of the head office staff. Costs could in principle be made more variable through outsourcing.

#### 4.2.3.4 Communications and Strategy

The communications and strategy functions handle SND-wide communications strategy and implementation, strategic development, reporting the Departments of State, evaluation and aspects of knowledge management. They were brought together and expanded in 1998, to make strategy more transparent within SND, to enable a more holistic approach to communications and therefore help adapt to the regionalising structure of SND. The group comprised 13.5 people in 1999, 3 of whom are management. Historically, its work is said to have been hampered by SND’s ‘no redundancies’ policy, which made it hard to argue for recruitment in the strategic functions while the organisation was carrying excess weight elsewhere.

## **Communications**

This group (5.5) handles strategic communications for SND, sets house styles and supports others' communications work. These are important headquarters tasks, needed if SND is to be able to operate effectively as a decentralised but coherent organisation. A new communications strategy was drafted in the Autumn of 1999, and is currently being implemented at both headquarters and DK levels.

Implementation covers issues such as house style, advice and guidelines on the use of various media. This group is responsible for quality assuring publications from SND centrally. Certain programmes – for example, BIT and Women in Focus – have their own publicity budgets, and the central communications group will look at their publications before they are sent out. Individual DKs are responsible for communication within their own counties, and are supported by the central group.

The new strategy appears to have been needed. A strong message from our company and DK interviews was that even companies who are users of SND have little conception of the breadth of SND's ability to help them. In particular, they do not understand the newer, often 'soft' capability development services, thinking of SND primarily as a provider of various sorts of money. These unhelpful perceptions are also mirrored in SND's customer surveys, and are discussed at the beginning of this report.

A strong communications function is important not only to support the DKs and headquarters in their work, but also to create a profile for SND's work as *premissgiver*.

## **Strategy**

This group (5 – since supplemented with 2 statistics specialists from 1/1/00) is responsible for preparing strategy and planning documents, reporting to the funding Departments and to the fylkeskommuner about SND activities as well as for evaluation and knowledge management strategy. It manages aspects of SND's relations with the policy system and provides strategic advice and support to SND's divisions. Reporting consumed about one full-time post (prior to the addition of Landbruksbanken). Evaluation accounts for 1.5 to 2 posts.

The group co-ordinates the budget submissions made by SND's divisions, writes SND's overall strategy and devises knowledge management strategy within SND. It has prioritised the knowledge needs of the customer-facing personnel. A dedicated knowledge network has been set up to define and meet needs. An early result has been to establish the principle of setting up 'customer teams' where needed, to handle more complex cases.

The feeling of the group itself, as well as other parts of SND, is that plans and strategy are written 'by the book' but that they are not always sufficiently concrete to be useful. This mirrors the impression of remoteness given by the people we interviewed in the DKs. For example, neither the strategy nor the competence development plan was originally felt to involve enough of the organisation. The group has therefore started on a second round of work on these which, combined with systematic visits to the DKs, are intended to build greater 'ownership' in the decentralised organisation.

The evaluation function is correctly located in this group, away from line management but with easy access to top management. Through the work of the group, SND has established a strong evaluation tradition, which in the context of state organisations is a necessary component of being a learning organisation.

The group is involved in many internal studies. The normal way of working is to set up working parties to do them, bringing together experience from different parts of the organisation. The group is one of the keys to SND's *premissleverandør* role. The division of labour with *Næringsdivisjonen* seems appropriate, and should become clearer if that division chooses to cluster its analytic capabilities into a single group. This would mean that the Strategy group would comprise a strategic analysis and reporting staff, which focuses on SND's strategic needs, while *Næringsdivisjonen* provides the research needed for SND to operate as a *premissleverandør* with respect to industrial and regional development policy. Since the distinction between these functions can sometimes be fine, the existing co-operation between the staff and line groups will need to continue.

#### **4.2.4 External Partners, Managed at SND Headquarters Level**

SND works with a number of external partners, in order increasingly to offer a wide range of assistance to companies through the DKs. This principle of offering a 'first stop shop' to customers is a powerful way to bring the strength of the support system to bear on individual users. SND therefore rightly sees its partnerships as central to its decentralised role.

##### **4.2.4.1 Co-operation with Forskningsrådet**

The co-operation agreement between SND and Forskningsrådet builds on a history of running joint programmes and of close co-operation over programmes, which deal with SMEs' innovative capabilities. Relations at this level appear to work well, and the process of extending them by using SND's DKs to a greater extent to retail Forskningsrådet's R&D programmes is making significant progress. This requires more technical skills than exist in the DKs today, and it may be useful to consider following the Finnish example of placing a person from the R&D agency (in this case, Forskningsrådet) in at least some of the DKs.

SND and Forskningsrådet have had co-operation agreements in place since 1996. A key idea is the linear one that it is natural for Forskningsrådet to finance R&D, notably under its user-directed R&D programmes, and that SND should then follow this up with risk capital for a commercialisation phase. STEP points out in the companion volume to this one, that in many cases SND is able to pay the type of innovation costs (investments, capabilities upgrading, marketing research) that are outside the scope both of the formal definition of R&D and of Forskningsrådet's funding instruments. The partnership between the two organisations is, indeed, in this sense a natural one.

The current<sup>46</sup> agreement defines six areas where co-operation between Forskningsrådet and SND is natural

---

<sup>46</sup> 7 April 2000

- Common development of scenarios and perspectives for industrial development
- Co-operation in strategically important areas, in response to national needs
- Common lobbying on strategically important policy issues
- Common responsibility for operating programmes
- Common distribution of Forskningsrådet's SME products through the DKs
- Common administrative rules and procedures, where relevant

While the agreement is long on statements of principle, it is short on commitments to budget or timing.

The formal reports of the co-operation are positive. Some common lobbying positions have been taken, common programmes such as FORNY continue to run smoothly. The new SMB-Innovation programme, under which SND DKs 'retail' Forskningsrådet's innovation programmes, funded 235 projects in the period 1999-2000, compared with a target of 126.

Our interviews confirm Aasen's claim<sup>47</sup> that the (central) parts of SND and NFR that work together succeed in doing so partly because they have a common understanding of the innovation process. Discussions also tended to confirm his observation that "kulturforskjeller innad i organisasjonene hemmer ett koordinert samarbeid utad". These 'cultural' differences have quite concrete manifestations, especially in the DKs, where case officers often lack the skills needed to deal with research-based innovation projects. These skills exist in SND's headquarters but not to a sufficient extent in the field. Concrete measures are needed to train more case officers to understand innovation processes, and to develop some ability to identify situations where a research-related project may be relevant. Within Forskningsrådet, too, there is – as Aasen also points out – greater cultural distance between the Industry and Energy Division and the rest of the Council than there is to SND. The lower threshold for 'scientific quality' that has to be accepted when dealing with SND clients is difficult for the Council's research-dominated culture to handle.

There remains at present some disappointment within Forskningsrådet about the way the co-operation with SND is working. Despite the unexpectedly high volume of projects already generated, the research council is interested in yet more effective use of the DKs as a distribution channel. The intended new focus within Forskningsrådet's Industry and Energy Area on larger, more targeted projects and on handling the mass of companies through network projects opens up the possibility of a bigger role for SND in fostering network creation. However, SND's effectiveness as a partner in the short term as being hampered by

- Inappropriate skills in the DKs, of which only a third are seen as effective distributors today
- The seemingly constant funding cuts to which SND has become subject
- The huge amount of reorganisation work that SND has had to undertake in order to decentralise and to integrate the Agricultural bank

---

<sup>47</sup> Jon-Gunnar Aasen, Når ulike verdener må <<snakke>> sammen. En studie av samarbeidet mellom Statens nærings- og distriktsutviklingsfond og Norges forskningsråd, Universitetet i Bergen, Institutt for administrasjon og organisasjonsvitenskap, Hovedfagsoppgave våren 1999



- SND's lack of a research and analysis staff able to play a clearer role in policy debates and agenda-setting

It is difficult to see how a co-operation between the operating agencies can develop to its full potential unless NHD – which owns SND and is the main funder of Forskningsrådet's Industry and Energy Area – is prepared to back the partnership with a more stable financial and organisational framework for innovation.

#### 4.2.4.2 Co-operation with the Export Council

SND's co-operation with the Export Council is at an early stage. The process of promoting Export Council services through SND's DKs has been rolled out across the whole SND network only in 2000. The partnership provides the Council with an important route to market within Norway, and is seen by the DKs and customers alike as a useful and natural extension to SND's product range. Once experience has been gained, it will make sense to evaluate the way the partnership works.

The Norwegian Export Council was established in 1945, and has one of the most widely spread international networks of its kind (42 offices). Most of the efforts of this network area aimed at large companies, who can pay for the service. It offers individual companies research, consulting and help with access to international markets at rates typical of the Norwegian consulting market. (This effectively prevents most SMEs from using its services on a paid-for basis.)

The Export Council has responsibility for international technology co-operation, and is a point of entry to some of the EU programmes, such as Europartnariat. It provides export training, a free information service, and runs an SME export programme (funded by NHD) which subsidises the purchase of the Export Council's services by firms employing less than 250 people. The Council is widely used by Norwegian authorities as a channel for subsidised internationalisation assistance to firms.

It has been relatively easy to interest the DKs in the Export Council co-operation, whose value to customers is easy to understand. One person in each DK has been trained at the Export Council and given responsibility for liaising with the Council, which arranges presentations, 'office days' and other SME-oriented events in the regions. The agreement between SND and the Export Council is comparatively new, and only begins full-scale operation in 2000. Based on experience so far, the Council's customers would be better served if DKs were able to operate more as brokers and referrers to other services than on the traditional SND 'bank' model.

#### 4.2.4.3 Co-operation with the Design Council

The Design Council link, like that with the Export Council, has involved giving one person in each DK responsibility for design projects. While project work has been ongoing in Aust-Agder for the past three years and a number of other DKs have started to hold small design seminars for local companies, full-scale implementation of the agreement with the Council is primarily being done in 2000. So far, the majority of DKs have allocated responsibility for this to one person within the office, who has been trained and set a target of funding two design projects within the year.

SND has a strong evaluation tradition, and will no doubt look at this relationship once there is enough experience to make an evaluation useful.

### 4.3 Conclusions

Our review of the various parts of SND suggests that while SND has made good progress towards being a modern, decentralised and customer-oriented organisation, more work is needed in order fully to realise this intention. Key reasons why things have not improved as fast as SND management would prefer include the instability of the framework conditions under which SND operates and the continuous need to reorganise over the past few years.

The DKs are in the process of becoming the kind of close-to-customer ‘first stop shop’ that we believe is needed in the innovation infrastructure. (We discuss this further in Chapter 7). Much has been done by SND in a comparatively short time to regionalise the organisation, but this has been implemented by using a fragmentation of the original centralised model, rather than through the development of a specific regional model which takes into account necessary operational and control differences. As a result, frustrations remain at regional level due to the perceived ‘top down’ approach of the centre on issues such as strategic planning and budgeting. More work is needed on IT-based support to case officers, skills specification and development, organisation and division of labour within individual DKs, integration of *omstilling* skills and specification of what a more proactive role in relation to individual customers and *fylkeskommuner* actually means in practice.

The headquarters organisation has, for the most part, been decentralised as far as is sensible. There are some comparatively minor opportunities to transfer further responsibilities in parts of personnel administration and the like which can still be taken. While these are minor in terms of process, they have important symbolic value in the DKs. A more substantive change, which SND should consider, is to decentralise the *Regional Omstilling* group, to bring it closer to its users and to integrate its proactive style of working into the wider organisation, which will increasingly need to work in a more proactive manner. In this case, a national co-ordination function would still be needed at the headquarters.

It is crucial to the success of the decentralised organisation that the headquarters in Oslo be seen as providing back-office functions<sup>48</sup> and overall support to the DKs. The staff functions are now largely oriented towards doing so, though some time will be needed before newer initiatives to create knowledge networks across the DKs and to involve them fully in strategy formulation and analysis bear fruit. It may be helpful to reconsider the organisation of *Næringsdivisjonen* so as to group common skills and functions together.

---

<sup>48</sup> This does not mean that the DKs should be in charge of everything. The functions of the back office normally include product definition, setting strategy and standards and a range of other tasks required in order to enable the front office to deliver to customers

*Næringsdivisjonen* has a rich skill base. This includes

- Experience and tacit understanding of many branches, themes and customer groups, providing a strong basis for customer interaction and making judgements in individual cases
- Analytic capabilities, which could in principle be applied to any aspect of SND's work, but which are normally complemented by individuals' knowledge of particular domains
- Programme definition and management expertise relating to a range of instruments from the knowledge-focused FRAM programme to the more investment-focused Miljøfondet

Collectively, these skills enable *Næringsdivisjonen* to operate as SND's R&D department, handling needs identification and analysis, programme definition and implementation (in partnership with DKD), feedback and learning from experience (in partnership with the strategy staff's evaluation function). The first two provide the skills basis for SND's *premissgiver* role, in so far as this relates to doing analyses and maintaining overviews of branches, themes, customer groupings and so on. These are especially important in relation to our proposal that SND should be a more active *premissgiver*.

As *Næringsdivisjonen* slowly abandons its case-handling role, the first of these three sets of skills – the tacit and experiential one – will be increasingly hard to sustain at head office. These are the skills otherwise possessed by branch specialists throughout the SND network, where SND has rightly placed them close to the customer. *Næringsdivisjonen* will increasingly access them through the knowledge networks, in which it has a central role, rather than by having them internally available.

The organisation of *Næringsdivisjonen* could be reconsidered in the light of the opportunity to create

- A central analysis group, able to do the research and analysis work needed if SND is to act as a more proactive *premissgiver* at both national and regional levels. Such a group should work according to a programme determined by SND management, its funders and SND's development partners. Its customers will include SND itself, the departments of state and *fylkeskommuner*. Since, in the absence of cost limitations, the demand for such work is infinite, the group should work under a budget constraint. The group should be slightly under-dimensioned, in order to make sure that it exploits the tacit and experiential competences in the DKs in its analyses. The recent decision to decentralise much of the remainder of the head office's case load provides an opportunity to review which operational skills are best decentralised and which branch and analytic competences are needed in such a central group
- A central programme development and management group. This should be responsible for maintaining and developing SND's stock of national programmes and tools for company development. The knowledge networks will be important as partners for this function, too, since at least some programmes are specific to branches and themes considered by individual networks. This group will naturally liaise with relevant partners such as *Forskningsrådet*. SND should take

a strategic view on how much resource to devote to such national initiatives, and should agree this in aggregate with NHD, in order to provide a stable framework for operations. We see national initiatives such as the Russian and Eastern European Funds, and *Miljøfondet* as belonging naturally to such a group, which will have the DK division as its major internal customer. The core of the *Regional Omstilling* group would have a natural home here, if as we suggest this activity is successively decentralised

This is not a particularly radical suggestion. The two functions are already present within the structure of *Næringsdivisjonen* today, but are fragmented and mixed up. The question is simply whether SND feels it would be useful to cluster its activities around these functions, each of which has a different set of skill requirements and a different set of customers. There appear to us to be critical mass reasons for doing so, which become evident as soon as the distinctions are recognised between the three different types of skills distinguished above.

*Næringsdivisjonen* could consider whether the two functional groupings we propose are sufficient to set the boundaries between, or whether there are reasons (such as span of control and availability of relevant skills among the personnel) to spread these functions across more than two organisational groupings. Our rapid survey of SND's organisation is not a sufficient basis to dimension these groups. This should be considered by SND, in the light of its decision further to decentralise case work from the headquarters.

Partnerships are key to SND's ability to act as a good 'first stop shop' for companies. At present, such partnerships are managed within *Næringsdivisjonen*. SND has so far made little use of the opportunities offered by the EU system to act as an additional external partner, and could usefully investigate these.

Managing these partnerships involves defining how external organisations work with SND's DKs. The present arrangement, in effect, involves the DK division 'buying' from *Næringsdivisjonen*, which in turn 'buys' from these external partners and considers how their services should be embedded in the DKs. However, this has the advantage that the total national product offering is managed from a single place. This will be increasingly important if SND plays a bigger role in defining its own product offerings in future – as is implied by our suggestion that SND should be a more active industry policy *premissgiver*. Today, this is defined through a mixture of internal initiatives and instructions from Departments.

## 5 Fisheries and the Integration of Fiskarbanken

Fiskarbanken was the first of the state banks to be integrated into SND after the original fusion. A small bank with a staff of 37 at the time of its integration in 1997, it was absorbed with little difficulty. Back-office synergies have been exploited, saving of the order of ten posts. Although there was some limited discontinuity in the level of customer service, its customers have gained access to a wider range of supports and programmes than previously.

### 5.1 SND in Fisheries before the Fiskarbank Merger

Given the economic importance of these branches, SND has been deeply involved in fishing, aquaculture and the downstream supply chain since the start. In 1994, the Departments for Fisheries and Industry instructed SND to prepare a strategy for the industry. SND tabled *En markedsorientert strategi for fiskerinæringen* late that year. This proposed a 600 MNOK intervention. In 1995, Parliament earmarked 90 MNOK for implementing this plan, over and above SND's normal budget. In 1996, the equivalent additional budget was 50 MNOK. Against the background of this rather minimalist funding, the idea of further efforts to improve the market orientation of the industry reappeared in the 1997/8 Bill on the fishing industry.

The focus on fisheries followed a significant effort in the land-based food industry. Both were justified in part by the expected need to adjust to EU membership. The fishing industry was especially keen to access SND's investment grants, over and above the specialised and preferential loans available from the Fiskarbank.

In a world of limited marine resources, and in an industry whose geography is tied to the northern and western coastal districts, there is a continuing need for the state to regulate and support activity. Within this necessary limitation, SND's strategy was an attempt to shift away from traditional, detailed subsidy and regulatory intervention in the industry and towards an approach based more in market economics. As far as possible, it sought to apply its mainstream instruments to implementing the additional support for the industry. A major focus was on 'soft' investments in competence and networking, to increase the efficiency, quality and value-added offered by the industry as a whole to international markets that are increasingly dominated by large, demanding customers. During the course of our case study interviews, we have examined some very successful projects of this type, dating both from the mid-90s effort and from later on. Andersen et al<sup>49</sup> paint a similarly positive picture in their review of 10 project cases from this period.

Arbro<sup>50</sup> remarks that SND's plan was wide-ranging – stretching from finance through co-ordination of the support infrastructure to changes in law. SND effectively used this strategy to seize the initiative in trying to define national policy in fisheries. He also remarks that while SND established an internal co-ordinating forum for fisheries

---

<sup>49</sup> Magnar Andersen, Bjørn Inge Bendiksen, Peter Arbro og Arne Rydingen, *SNDs Fiskerisatsing: Tredje delrapport i evalueringen av SNDs strategi og virkemidler overfor fiskeindustrien*, Tromsø: NORUT Samfunnsforskning, 1998

<sup>50</sup> Peter Arbro, *SNDs Fiskerisatsing: Første delrapport i evalueringen av SNDs strategi og virkemidler overfor fiskeindustrien*, Tromsø: NORUT Samfunnsforskning, 1996

questions in 1995 (which still exists), the lack of a dedicated programme management for the fisheries “åpner for en pulverisering av ansvar.” SND did indeed, establish central responsibility for the industry in the form of a dedicated unit within Industridivisjonen. Today, this has been absorbed into a wider food industry group in Næringsdivisjonen, and the number of people working centrally with the issues reduced. As with other types of branch competence within SND, this could re-open the door to the kind of ‘pulverisation of responsibility’ and loss of strategic overview that Arbro feared. However, SND’s approach today is to use ‘competence networks’ to leverage the smaller numbers of people at headquarters who today have branch- or theme-specific competences. These networks are intended to bring together expertise across the organisation, as a basis for co-ordinated treatment and well-informed analysis as well as establishing pools of knowledge to support case officers in individual cases.

While the co-ordinating forum initially succeeded in operating as a kind of programme management, and while individual applications for support seem to have been thoroughly analysed, Arbro et al<sup>51</sup> remark that there is little sign that individual projects were related to an overall strategy. Rather, they were selected strictly according to the case handling manual and existing professional norms. Case officers, both within SND and in the fylkeskommuner, were aware of and generally agreed with overall strategy, but there was no operational link from strategy to the individual project decision. Once projects were funded, there was little follow-up. Nonetheless, despite these administrative weaknesses, it appears<sup>52</sup> that the strategy has made a significant difference to the degree of market orientation of firms in the industry.

## 5.2 Fiskarbanken

Statens Fiskarbank was established in 1921, replacing Det eldre Havfiskefond, set up as early as 1899 and which had provided limited loans to support the building of new fishing vessels. However, it was only after the War that there was major growth in activity and the amount of money lent. At the peak in 1978/9, the bank had a loan portfolio of some 3 BNOK, reducing somewhat through the 1980s. The outstanding loans declined rapidly from 1991/2, when the interest rate Fiskarbanken was able to offer rose above the average market level<sup>53</sup>.

The bank had a total of 45 different products available across the years, in six product families

---

<sup>51</sup> Peter Arbro, Bjørn Inge Bendiksen, Bent Dreyer and Odd-Arne Paulsen, *SNDs Fiskerisatsing: Andre delrapport i evalueringen av SNDs strategi og virkemidler overfor fiskeindustrien*, Tromsø: NORUT Samfunnsforskning, 1996

<sup>52</sup> Magnar Andersen, Bjørn Inge Bendiksen and Arne Rydingen, *Sluttrapport for evalueringen av SND's strategi og virkemiddel overfor fiskerinæringen*, Tromsø: NORUT Samfunnsforskning, 1999

<sup>53</sup> Statens Fiskarbank 75 År, Oslo: Statens Fiskarbank, 1996

- **Ordinary loans**, primarily 1<sup>st</sup>-priority loans for building new vessels and for major refurbishments
- **Fishing vessel finance**, especially a 9% subsidy to the purchasers of new craft. (This was, in effect, a hidden subsidy to the ship yards)
- **Structural interventions**, especially subsidies for scrapping surplus and out-dated vessels
- **Liquidity loans**
- **Grants** to tackle specific problems and
- **Other supports**, especially refinancing

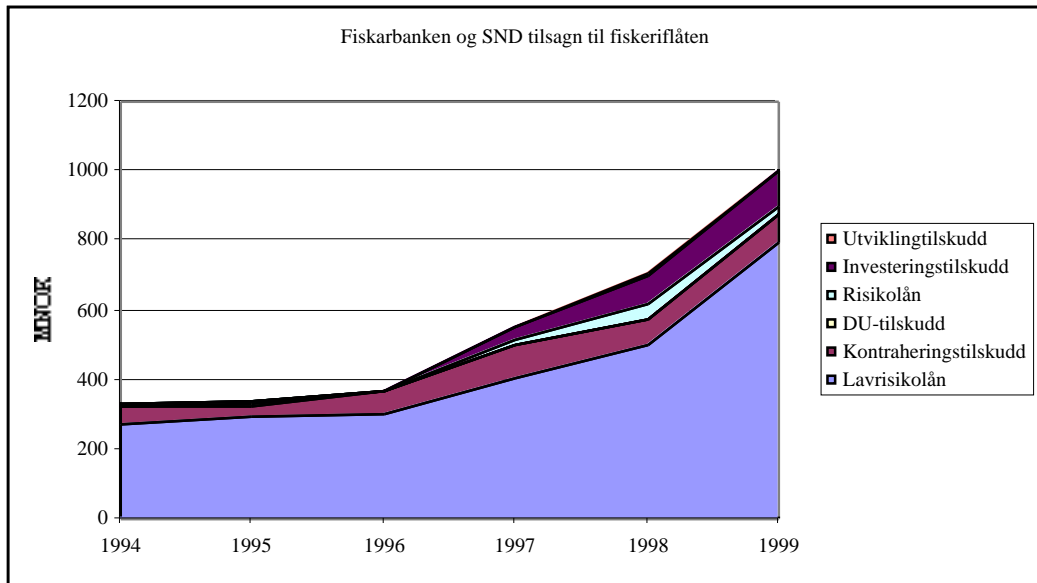
Not all of these were constantly available. Liquidity loans were offered in the 1970s and 1980s, in response to specific difficulties. Grants were used mainly in the 1980s, to help with structural adjustments in response to changes in work environment legislation, the need for increased energy efficiency, and so on.

The bank was based in Bergen, with branch offices in Tromsø, Bodø and Ålesund. Each of the branches had a board, with delegated authority to make investments and grants. We understand that in practice, an informal ‘queuing system’ was in place, so that access to the bank’s resources was shared out across the fishing community.

### 5.3 Integration into SND

While there was some understandable disquiet in the fishing community when it was announced that such a venerable institution as Statens Fiskarbank was to disappear, the process of integration into SND appears to have gone rather smoothly. The bank’s financial systems were run in parallel to SND’s for 3 years, waiting for SND’s overall banking software to be updated. The bank’s staff was absorbed into the SND regional offices, and customers continued largely to receive service from the same people in the same places, though staff numbers have since been reduced significantly by integrating the back office functions of Fiskarbanken and SND. As **Exhibit 27** suggests, an effect of the merger was the intended one of giving the fishing industry access to the wider resources of SND, though fishery was kept outside the investment grant system until the middle of 1997 in order to control pent-up demand for support to new builds. Outside the special 150 MNOK market-orientation programme, however, almost all the projects supported involved physical investments.

## Exhibit 27 Loans and Grants to the Fishing Fleet, 1994 - 99



Source: SND

Within SND, the industry is able to access

- Second priority loans and risk capital. Fiskarbanken used mainly first priority loans
- Vessel investment and scrapping grants, much as previously in Fiskarbanken
- *Investeringstilskudd*. Accessing this stream of funding was the key motivating factor for the industry in supporting the integration of Fiskarbanken into SND
- *Etablererstipend*, which is in principle a useful tool in trying to renew an industry which is ageing, but one which has been little used
- Development grants, for use with capability enhancement programmes such as FRAM, which has now been deployed in the industry, though again with limited take-up

That said, the additional resources made available to the industry through the SND schemes peaked at 40 MNOK in 1997.

Living within SND's rules, however, also means that project prioritisation is done on the basis of more formal economic criteria. It has eliminated the local branch office boards and their influence over funding decisions. However, fisheries interests are still represented on the boards of relevant DKs, so that the fisheries can be taken into account of in planning and implementing regional development activities.

Integration with SND has also brought some teething problems. In 1997, SND received three times as many fisheries applications as it could finance. This implied a clear need to handle applications in batches through the year, as Fiskarbanken had done in the past. Initially, case handling times are said to have become very long, sometimes many months. SND's policy was to examine and prioritise larger investments two or three times per year, in order to spread the budget across the year.



In 2000, however, the available money was used early in the year, as with other national programmes. The Fiskarbank customer handling tradition appears to have been much more ‘hands on’ than has been normal in SND, involving more continuous contact with the customer base and a higher ratio of case officers to customers. SND is more inward facing, and developing an understanding of SND’s growing product range can be seen as a diversion from the main business of handling customers. “We spend lots of internal time **talking** about customer service, so we never have the time actually to **work** with customers,” as one case officer put it.

**Exhibit 28** shows how the total Fiskarbank loan portfolio developed during and after the merger with SND. It suggests that the long decline in the portfolio since its peak of 3 BNOK in 1979 was arrested. The fact that SND was able to offer lower interest rates than Fiskarbanken was one factor. In the period covered by the **Exhibit**, there is also a quite marked shift in the mix away from Ålesund towards Bergen, which SND centrally sees as a result of increased interest and competence in fishing among the commercial banks, who have now hired some of Fiskarbanken’s former employees. The commercial banks’ interest coincides with a buoyant period for the industry. SND employees are somewhat skeptical about the commercial banks’ ability to cope with the industry’s frequent periods of poor profitability, pointing to the Fiskarbanken/SND tradition of granting repayment holidays and providing other kinds of financial support to help the industry through the bad times. More widely, Norwegian venture capital companies have now become interested in the fleet and in aquaculture, following the lead of SND and SND Invest, and increasing the availability of capital.

**Exhibit 28 Development of Fiskarbank Loan Portfolio after the SND Merger**

	Total Loans	Tromsø	Bodø	Ålesund	Bergen
Dec-96	1496	33%	25%	21%	21%
Jun-97	1413	31%	25%	21%	22%
Dec-97	1358	30%	25%	23%	22%
Jun-98	1283	26%	25%	22%	26%
Dec-98	1397	27%	27%	20%	26%
Jun-99	1460	29%	26%	20%	26%

Source: SND Bergen

Following the integration of Fiskarbanken, a fisheries group was established within the Industry Division, to ensure both that there was a knowledge-bearer concerned with fishery issues within the Head Office and that fisheries concerns became part of SND’s internal culture. Fishing fleet expertise is now represented at head office by a single person. He works in a sub-group together with experts on aquaculture and fish processing. Three of the bank’s specialist ship-inspectors left soon after the mergers. In addition to inspecting and valuing boats for the bank, these inspectors had been an important source of more general advice, both to Fiskarbanken and its customers, on detailed matters. These could include the history of individual vessels, the best winch to use in a particular application, or the operating characteristics of different types of engines. Such advice can still be bought in from consultants, but since this has a price it is no longer ‘part of the service’.

Industry knowledge in the fishing area remains strongly focused in the DKs containing former Fiskarbanken employees. At the same time, this **operative**

knowledge is not the same as that needed to maintain an overview and analysis of the industry, and to engage in the proactive policy work that we understand to be implicit in SND's role as premissgiver. In fisheries questions, as with other industries, SND needs more clearly to distinguish between these somewhat different skills and knowledge.

#### **5.4 Conclusions on the Fiskarbank Integration**

Integrating Fiskarbanken was a logical extension of SND's already important role in the fishing industry. It provided a wider and more generous service offering to the industry, as well as giving the state a more integrated way to implement development strategy. In the context of increasingly tough global competition and quality standards, this broader approach allows the state not only to assist with needed physical investments. It also creates a mechanism for it to help with the 'soft' factors (marketing, supply chain management, internal capabilities, access to research, and so on) that need to be tackled in order to maintain competitiveness.

The integration seems to have brought some costs in reduced customer service levels, at least in a transitional period. Despite this, and the growing interest of the commercial banks in the sector, demand for support nonetheless continues to outstrip supply, with the focus primarily being on assistance for capital investment.

## **6 SND Invest and the Provision of Venture Capital**

This Chapter is primarily about SND Invest. We have also made some observations about the wider provision of state venture capital in Norway. The reader should note that the information available about Norwegian capital markets is deficient, and should read our observations and conclusions in that light.

SND Invest addresses failures and weaknesses in Norwegian venture capital markets. Its independence from the rest of the SND system and its ability to fund itself are keys to its growing success in company development and in influencing the behaviour of other investors. Its role needs to be complemented by better co-ordination of the state's venture capital holdings, which are currently fragmented.

### **6.1 The need for intervention in the venture capital market**

The Norwegian capital markets are small, rather national and volatile, and are said by participants to involve limited Foreign Direct Investment<sup>54</sup> (FDI). In 1993, when SND was established, it is generally agreed that there was a shortage of venture capital. While in overall terms this is not currently the case, regional and branch-specific market imperfections appear to persist. Available venture capital focuses on the fashionable 'high tech' industries, leaving fewer funding opportunities in other branches.

SND Invest aims to help ensure that Norwegian companies have good access to investment capital, to bring management capabilities and contribute to the development of the companies in which it invests. Its mission is to invest primarily in SMEs, and it claims to be Norway's largest investor in this area. The typical investment horizon is 5-7 years, during which time SND Invest expects generally to be an "active owner": placing a representative on companies' Boards to help with development, rather than passively waiting for companies in its portfolio to mature.

### **6.2 History and performance**

SND Invest began life as SND's Egenkapitaldivisjon (EKD), and was the substantially new element in SND's product offering compared with its predecessor organisations. It was set up as an in-house venture capitalist, and given a fund of 2 BNOK to manage. Its job was primarily to invest in SMEs, increasing their capital base by raising shareholders' funds through share purchases. It was to increase value-creation in the economy through active ownership and long-term commitment to companies in the portfolio.

---

<sup>54</sup> SND Invest itself, for example, has foreign co-investors in only 4 – 5 of its more than 150 holdings

Restrictions placed on its operations meant that EKD could not be a profit maximiser

- The maximum investment, which may be made by the fund, was (and remains today) 50 MNOK
- SND Invest may own up to 35% (exceptionally, 49%) of a company. It should attract others to invest at least kroner 0.50 per krone invested. (Currently, others in fact invest kroner 2.20 per krone of SND investment<sup>55</sup>)

In addition, the company has imposed a number of additional guidelines upon itself, in order to maintain a portfolio balanced both in business terms and in terms of the company's industrial policy task. These are shown in **Exhibit 29**.

### Exhibit 29 SND Invest's Operational Goals

Måleindikator	Måleenhet	Styringsmål
• Bedriftenes livssyklus	Antall bedrifter	65-80% i omstilling/vekst 10-20% i nyetabl./nyskaping 10-15% i snuoperasjoner
• Bransjetilhørighet	Investert beløp	Ingen bransje bør utgjøre > 20%
• Bedriftenes størrelse målt i antall ansatte	Antall bedrifter	ca. 40% < 50 ansatte ca. 75% < 250 ansatte
• Bedriftenes størrelse målt i omsetning	Antall bedrifter	ca. 40% < 50 mill. kr. ca. 75% < 300 mill. kr.
• Størrelsessammensetning på investeringene	Antall bedrifter	Investert beløp pr. bedrift under NOK 4 mill. bør maks. utgjøre 1/3 av antall investeringer
• Geografisk fordeling av bedriftene	Antall bedrifter	Være investert i bedrifter i alle fylker
• SND Invests andel av emisjonen	Investert beløp	Maks 66 % i gj.snitt
• SND Invests eierandel	Eierandel	Bare unntaksvis over 35 % i eierandel

Source: SND Invest, Strategy, 1999

Nonetheless, EKD was required to operate on a commercial basis, and to pay interest on the fund to the state after the first 5 years, equivalent to the 7-year treasury bill rate. This arrangement was changed to a requirement to pay a profits-based dividend to the state after SNF pointed out in the last evaluation that paying interest could result in the fund being run down over time.

While we are not aware that any irregularities have been identified, there had been a long-standing concern that companies in which SND held shares would receive preferential treatment in the allocation of grants and loans. EKD was therefore separated from the main SND organisation in September 1998, to become a wholly owned subsidiary company of SND, in response to Parliament's desire to see a clearer distinction between SND's loan and grant activities and its role as a venture capitalist. The governance of the two organisations is linked only through having a common chairman of the Board. SND and SND Invest have no executives in common, so that in principle there are no opportunities for conflicts of interest to arise.

<sup>55</sup> SND Invest, *Annual Report*, 1999

An evaluation of EKD<sup>56</sup> in 1996, based on telephone interviews with the portfolio companies and a control group, found that EKD seemed likely to reach its return on investment goal. It had initially prioritised investments in large companies over its SME target group, in order to place funds in a liquid base from which to work with smaller companies. While portfolio companies valued SND as a friendly, long-term investor who added value in the process of their development, there was disappointment with the level of advice and support given. Small start-ups and companies in North Norway found EKD a particularly tough negotiator, suggesting that EKD exercised a degree of tough-mindedness about ensuring that it made high-quality investments also in parts of the economy where much public action takes the form of subsidy. Companies in the size range 11-50 people seemed most to appreciate support and advice from EKD, but it was generally necessary for EKD to increase its ability to deliver mentorship proactively, by increasing the capabilities of people placed on company boards as part of its policy of “active ownership.”

In the EKD period, staff typically had a banking background. Since SND Invest was launched, recruitment has focused more on people with industrial and consulting experience, in order to increase the contribution SND can make to its portfolio companies through Board memberships. A 1999 survey of portfolio companies suggests this contribution is indeed rising, compared with the situation in 1996. Nonetheless, companies had greater faith in the contributions of the senior SND Invest board representatives than those of the more junior analysts. Improvement opportunities for SND Invest were mainly in helping companies establish business networks and develop strategies. SND case handling was seen as thorough, and SND Invest itself valued as an owner. But while companies valued SND Invest’s contribution through active ownership, the most positive aspect of SND Invest’s involvement was the signal it gave to others about the company’s viability. In other words, in the view of the companies in which it invested, SND Invest’s participation was reducing the way the market perceived the risk of investing in the company. SND Invest itself claims<sup>57</sup> that each krone it invests now allows its portfolio companies to attract a further kroner 2.20.

Like SND itself, SND Invest operates much more through responding to applications than by proactively seeking out investment opportunities<sup>58</sup>. In principle, SND’s DKs should be a useful channel in making contact with potential portfolio companies. In practice, this is by no means the main source of opportunities, as applicants tend to go directly to SND Invest. In the first half of 2000, 19 (25%) of the 76 one-page outline investment proposals considered by SND Invest’s investment committee originated with the DKs. A future problem in using the DKs as a source of potential investment opportunities may be the extension of the freedom of information principle to SND’s decisions. Companies seeking investment may be reluctant to have the fact known, and unwilling to put themselves in a position where a rejection could become public information, since this would undermine their credibility.

---

<sup>56</sup> Lasse Bræin og Arild Hervik, *Surveyundersøkelse av SNDs egenkapitalordning*, Molde: Møreforskning, Arbeidsrapport M9609, 1996

<sup>57</sup> SND Invest, *Annual Report*, 1999

<sup>58</sup> To Øyvind Baardsen og Lasse B Lien, *SND Invest som aktiv eier: Rapport fra en spørreundersøkelse*, AFF-rapport nr. 5/99, Desember 1999

In comparison with US venture capital funds<sup>59</sup>, SND Invest focuses on very small companies and deals. Its average disbursement is between a fifth and a tenth of that in the USA. Recent internal rates of return have been about 7%, and while returns have recovered to more like 13% ( **Exhibit 30**), these still compare unfavourably with US expectations that average rates in the industry should be about 25%. They compare better, however, with the performance of European funds. The European Venture Capital Association's statistics<sup>60</sup> shows that returns are strongly linked to fund size. Recent median internal rates of return for funds up to 25 MEuro are currently 5.8%, compared with 7.8% for funds in the range 25 – 50 MEuro and 15.1% for funds over 50 MEuro. The latter is the right benchmark for SND Invest, which has an overall fund of about 250 MEuro.

However, it is very noticeable from **Exhibit 30** that the rate at which investments are being made fell by half in 1998 (a bad year for the Norwegian financial markets) and has remained at about the same low level. If it is to exploit the full fund available to it, and if it should expect to dispose of 20% of the portfolio holdings each year, SND Invest needs also to invest at least at the rate of 400 MNOK per year – otherwise the portfolio will stagnate.

### **Exhibit 30 Build-up of EKD/SND Invest Portfolio**

Beløp i mill. kr	1993	1994	1995	1996	1997	1998	1999	2000*
Årlig investert beløp	102	298	551	387	429	212	222	104
Akkumulert investert beløp	102	341	822	1.019	1.307	1.408	1.322	1.263
Markedsverdi		360	876	1.118	1.463	1.237	1.391	1.725
Porteføljearvkastning p.a.				12,8 %	16,8 %	7,2 %	6,8 %	13,2 %

Source: SND Invest \* 6 months

**Exhibit 31** shows the numbers of transactions underlying the development of the portfolio, and the number of people employed in EKD/SND Invest. If we relate the numbers of personnel to the numbers of companies sold as well as bought there is only a relatively modest fall in productivity since SND Invest was set up. However, the fact that employment has been flat since that time means that the rate of investment per person has necessarily halved. This is a natural consequence of the flattening of the employment curve. New recruits spend all their time assessing investment opportunities. As they invest, they acquire company board responsibilities, in line with SND Invest's policy of active ownership. This reduces the amount of time they have available to make new investments. Over a longer period of time, an equilibrium should be established, as the company cashes out of its investments, freeing up time and money to make further investments. For the time being, however, SND Invest is having difficulty recruiting in a tight labour market and losing some people, since it is not paying as high wages as are offered in the private sector. To some extent, it feels it is becoming a training school for investment analysts. (While painful for SND Invest, of course, this may not be a wholly bad thing for the development of the Norwegian capital markets.)

<sup>59</sup> Mckinsey & Co, US Venture Capital – Industry Overview and Economics, Mckinsey, 1998

<sup>60</sup> EVCA website

### Exhibit 31 Shareholdings Bought and Sold and Personnel, 1993-1999

	1993	1994	1995	1996	1997	1998	1999	Akk.
Per periodeslutt Beløp i mill. kr								
Antall nye bedrifter per periode	20	37	41	62	51	32	19	264
Antall bedrifter solgt/avviklet per periode		1	11	20	14	25	35	106
Antall bedrifter per periodeslutt	20	56	86	128	165	174	158	
Gjennomsnittlig investering (kostpris)/bedrift	5,1	6,1	9,6	8,0	7,9	8,1	8,4	
Personale	10	20	19	25	28	28	27	
MNOK investert per person	10.2	14.9	29.0	15.5	15.3	7.6	8.2	
Bedrifter kjøpt/solgt per person	2.0	1.9	2.7	3.3	2.3	2.1	2.0	

Source: SND Invest; Technopolis Analysis

While SND Invest strives to act as commercially as it can, given its societal role it cannot also maximise profits. This affects both the rate of return it can be expected to achieve on funds invested and the amount spent on analysis and administration. The rate of return achieved is appropriate, given SND Invest's tasks. It is less than the industry norm, reflecting its mission to take on smaller and potentially more risky investments than commercial venture capital will handle. But the rate of return is nonetheless positive. This is an important signal to the market that SND invests in a viable portfolio, that SND's investment analysis is trustworthy, and therefore that it is appropriate for other investors to invest alongside it.

Private venture capitalists have lower limits on the size of the investments they are willing to make (often 20 – 30 MNOK in Norway), in order to ensure that administrative costs are kept low. Since this is one of the market imperfections that SND Invest tackles, by considering small as well as larger investments, it should follow that SND Invest's administrative costs will be high. In fact, SND Invest's ratio of administrative cost to fund invested is managed to be 2.5%: below the bottom of the range, which is normal in Europe: namely, 3 – 5%. It would be appropriate for SND Invest to add staff and therefore also capacity to make new investments, even if this raises the administrative percentage by a small amount.

SND Invest is also staffed and rewarded in a different way from the commercial venture capital funds. In private venture funds, managers are typically on fixed-term contracts with a relatively low salary and the potential for a large terminal bonus based on the fund's overall performance. SND Invest staff have permanent positions. Their wages are comparable to those in large commercial banks and they have the prospect of a bonus of not more than 25% of salary. This may have been a factor contributing to the loss of SND Invest's IT team at the outset, since this is currently an area of especially high labour demand in the investment markets. In the venture capital labour market, SND Invest staff may be thought of as seeking work with less risk, and correspondingly fewer rewards, than in much of the private sector.

Since SND's product mix has shifted over time, with reduced emphasis on commercial instruments (base finance, soft loans) and more on instruments related to regional development and company capabilities, operating level skills within SND

and SND Invest are said to have been diverging. This is reinforced by SND Invest's ability to recruit from people from outside SND's traditional banking and administrative recruitment pool. However, customers of both SND and SND Invest indicate in our and others' surveys that they are looking for a source not only of finance but also of rounded business understanding and mentorship. We see a need not for divergence but for increasing the role played by more rounded industrial skills in the SND group as a whole.

The issue of whether SND Invest should be moved from Oslo or decentralised to form a part of SND's district office apparatus has been addressed in a recent study<sup>61</sup>. The nub of the working group's argument is that EKD/SND Invest operates within the Norwegian financial services cluster, which is physically concentrated in Oslo. While it is important to exploit the DKs to establish customer contact, moving the venture capital function outside Oslo would eliminate the advantages of working within the financial cluster. Existing personnel would not find this attractive, and would defect, in order to stay within the Oslo labour market. We believe that the reasons why EKD was set up in the first place also signal the need to stay in Oslo. That is, there are market imperfections and failures that arise because Norway is a small economic unit. Fragmenting the already small Oslo capital market is only likely to increase these imperfections.

### **6.3 SND Invest in the venture capital market**

The small size of the Norwegian market means that the number of sources of capital is always low – especially as the market is rather national. Other venture capital companies do not appear to regard SND Invest as a competitor, but as a useful co-investor.

In the 1999 survey of SND Invest's portfolio companies, there were wide differences in the perceptions about whether capital markets relevant to them were competitive. Competition appeared strong in fish-related industry – an area where capital markets appear to have functioned poorly before EKD's significant investments in recent years. The 1999 survey result is also consistent with Hervik and Bræin's 1996 finding that a large minority of EKD's portfolio companies felt they could have gone elsewhere for money if EKD had chosen not to invest, and with the qualitative descriptions of Norwegian capital markets that we obtained in interviews. These suggest that the financial markets (in Oslo) are working reasonably well for medium-large investments, for IT investments and (recently) for fish-related industry but that the markets for other branches of industry and regions remain less perfect.

---

<sup>61</sup> *Statens nærings- og distriktsutviklingsfond: Lokalisering av egenkapitaldivisjonen*, Rapport fra arbeidsgruppe med representanter fra Nærings- og handelsdepartementet og Statens nærings- og distriktsutviklingsfond, Oslo 5 juni 1998



It does not follow from this that SND Invest's role should be restricted to areas of market failure

- In the comparatively short period since the 1980s bull market and banking collapses, there have been periods when capital markets have functioned well and others when they have not. As SNF pointed out in the earlier evaluation, if SND Invest is needed in the bad times, it has to be present in the good times as well
- Participating across a wide range of industrial markets and geographies is necessary if SND Invest is to maintain critical mass and internal capability, and increase the value of its investment portfolio
- SND Invest has historically been able to demonstrate the attractiveness of investments in newer areas such as fish farming, encouraging other investors to enter the market
- SND Invest's function is normally to co-invest with others, rather than to be the only source of external shareholders' funds. Not only its direct investment performance but also the effect it has on 'lubricating' market mechanisms needs to be considered when judging its performance

We therefore agree with SNF's position<sup>62</sup> that

Mye taler for at det offentlige deltar som investor i små og mellomstore bedrifter pga. markedsimperfeksjon i egenkapitalmarkedet. For å dempe risikoen og for å øke sjansene for at bare livskraftige bedrifter får tilført egenkapital via offentlige institusjoner, er det viktig at man satser på kompetanseoppbygging i de institusjonene som skal investere på vegne av det offentlige. Behovet for offentlig medvirkning varierer over tid. For å bevare kompetansen i de institusjoner som deltar i markedet, er det nødvendig at man opprettholder aktiviteten også i tider med mindre behov for offentlig medvirkning.

## 6.4 State venture capital funds

SND Invest is one of five kinds of state venture capital arrangements in Norway

- The START fund, where SND is in partnership with Norsk Investorforum and other private-sector investors (320 MNOK) Half the capital is provided by SND
- The regional seedcorn (såkorn) funds – currently in the process of raising capital to grow from 20 MNOK to 100 MNOK each (400 MNOK). Half the capital is provided by SND
- Regional venture funds, where the state is a minority shareholder together with private and (sometimes) local government owners (about 132 MNOK). SND Invest has recently taken over the state's main holdings in these funds, holding out a possibility of extending its regional distribution apparatus<sup>63</sup>
- Investment funds connected to SIVA's science parks (about 208 MNOK)
- EKD/SND Invest, organised nationally but with a regional contact network via SND's DKs. (This was originally 2000 MNOK, but now stands at 1810 MNOK after repayment of part of the fund to the state)

---

<sup>62</sup> Torger Reve og Klaus Walderhaug (red.) *Fire gode år med SND?* Bergen: SNF 8/97, 1997

<sup>63</sup> SIVA also has smaller holdings in some of these funds

In terms of company life cycles, all the first four claim or have claimed to be engaged at the 'seed corn' stage. SND itself offers grants and loans to start-up companies, which it claims in practice have a similar function to seedcorn capital, often allowing entrepreneurs the breathing space needed to develop an idea to the point where a more serious commercial assessment of its prospects can be made. SND Invest is a more mainstream venture capitalist, entering at the stage where a company exists and there is a clear track record on which to base an investment decision.

The START fund was established by agreement between Norsk Investor Forum and SND in February 1998. The Forum – which comprises 18 private investment companies – put up 160 MNOK to set up a seed capital fund. SND matches investments krone for krone through loans, but therefore has greater priority than the private sector's share investments. The original proposal that the Forum and government would each put up 200 MNOK was criticised by SNF<sup>64</sup> as being far too small to tackle latent demand for seed corn money. It was in any case watered down by the government's requirement that there be a regional component, where four 10 MNOK funds would be created and similarly matched by SND. The earlier venture and seed corn funds have clearly demonstrated the non-viability of this fragmented approach.

To date, the START fund has focused on technology-based start-ups, and appears to make a useful (if very small) contribution to improving access to capital for companies at the early stage in the life cycle.

The new regional START funds are each expanding from very small (20 MNOK) to a small (100 MNOK) capital base. Their mandates limit their activities to their respective regions, limiting their choice of investments. SND apparently shares our concern that these funds are, in isolation, under-critical and has identified a need to use its funding role to underpin co-ordination and possibly the pooling of some tasks (such as investment analysis) between these funds. If this is possible, their collective capital base of 400 MNOK would enable them to include comparatively risky investments in their portfolios. Without co-ordination, we are skeptical about the possibility for them to contribute much to early-stage and riskier types of financing.

The regional 'venture funds' were created as a result of a perceived shortage of risk capital at the end of the 1980s. The state made 180 MNOK available for its participation in regional funds, which were intended to participate in early life-cycle investments. By 1997, some 154 MNOK<sup>65</sup> had been taken up. SND Invest together with regional and local government now owns the state's minority participation in six such funds today. These together represent total funds of 132 MNOK

SIVA has also established a number of investment funds, linked to its science parks and development companies. SND Invest is a smaller co-investor in a number of these funds. These do not always operate as pure investment funds but may be parts of bigger packages of company development support provided by SIVA.

---

<sup>64</sup> *Ibid.*

<sup>65</sup> Ernst & Young Management Consulting, *Evaluering av myndighetenes deltaking i regionale såkorn- og venturefond*, Oslo, 1998. Some of the difference between this sum and the sum in the **Exhibit** is accounted for by the take-over of Barents Invest by Nordnorsk vekst at the end of 1997. Sør-Varanger Invest has also effectively disappeared into Kirkenes Utvikling

STEP's evaluation<sup>66</sup> of SIVA investigated the four of its funds, which operate as comparatively free-standing venture capitalists. It shows that the companies in which SIVA's regional funds invest are comparatively established, and mainly work with established types of products. STEP received questionnaire responses from the majority of the portfolio companies in the funds it investigated, and it was clear that total employment was growing among these companies. Clients are normally located within the region covered by the fund, and are mostly oriented to serving customers in that same region. Two thirds of the portfolio companies were not tenants on SIVA parks at the time of the investment, but there was a tendency for a number of them to move into the parks, so that about half the companies are now renting premises from SIVA. The portfolios overall are not particularly risky, though they do contain a minority of newer technology-based enterprises.

Ernst & Young's evaluation of the Venture and SIVA seed corn funds showed that they were all were staffed by small numbers of people – normally one or two. In cases where more staff was involved, this was because the investment function was integrated into wider ranges of services in company incubators or development companies. While most tried to exercise active ownership, the companies in which they invested generally said that their role was limited, at best, to board representation, and that the more proactive support they needed was largely absent. The funds were close to useless as sources of networking and business contacts. There were honourable exceptions to this poor performance, but these were driven largely by the skills and interest of particular individuals.

Few of the funds had been able to focus their investments on single branches or clusters. None was big enough to manage portfolio risk. Most were driven over time to make successively less and less risky investments, moving away from the seed corn role and towards more classical venture capitalism. Ernst & Young were deeply skeptical about the rentability of the funds, and pointed out that the state – as minority owner – was not in a position to steer their policy or development.

There have been similar experiences in other countries, notably Finland. The problems to which Ernst & Young point arise because such small regional funds are simply trying to operate below critical mass – both in terms of analysis capacity and in terms of the absolute amount of money in the funds. This problem has been tackled in Finland by letting out the management of collections of regional funds to private sector managers, effectively raising the analytical critical mass. It is too soon to say whether this approach also lets the funds tackle significant portfolio risk.

The available evidence is patchy. It appears that the combined effect of the state's interventions via investment funds is to improve capital availability to existing companies, but to make on a limited difference to the company formation and pre-commercialisation phases, which are, to some degree, served by SND's mainstream grant measures. SND Invest is one to two orders of magnitude bigger than the others, and is clearly doing its job effectively. Improving the ability of the other funds to contribute, especially at the intended early stage in the company life cycle, depends on creating critical mass. Co-ordination, and in smaller cases probably also merger, is needed.

---

<sup>66</sup> Forthcoming, 2000

## 6.5 Conclusions and Recommendations

EKD/SND Invest has made a positive contribution to strengthening the Norwegian venture capital market. This should be seen as one of the successes of the merger, which created SND. EKD/SND Invest has exercised 'active ownership' with increasing success. It has influenced the way venture capital markets work in Norway, altering risk perceptions over time.

Separating EKD from SND to form SND Invest has been useful, in that it has freed it to pursue independent personnel policies and that it reduces the appearance of conflict of interest. Its independence from other policy considerations is also a precondition for SND Invest to operate as a viable 'satisficer.' While there appears to be a strong case for locating SND Invest in Oslo, there is also a need to sustain its regional distribution apparatus. There appears to be no strong reason why SND Invest should be part of the SND group, rather than a partner. The present governance arrangements and 'Chinese wall' between the two organisations effectively prevent them co-operating, and it is not clear that co-operation would be desirable.

As an instrument of the state tackling market imperfections, SND Invest will make a lower rate of return than the private sector and will have higher administration costs. This is a special case of 'satisficing,' where profitability is traded off against other goals. SND Invest seems to have set itself an over-ambitious target for administration costs, and should consider raising this to a level more normal in the industry, so that it can recruit and continue to exercise its function. In order to be self-sustaining the amount of risk it can take is limited. It is not, therefore, possible to mix up SND Invest's current venture capital role with seedcorn funding, which has to be provided by different funds with a different risk profile, different underlying funding arrangements and different skills.

SND Invest's mission has not been focused on seed corn capital. Other state actions in the area have been fragmented, under-critical and – to a considerable extent – have been driven by these factors to abandon their seed corn role for safer investments. There is a clear need for the seed corn role to be tackled at greater scale, if it is to be effective. There is a role for the state to co-ordinate its provision of venture and seedcorn capital. NHD and KRD could usefully consider how to do this – for example, by creating an umbrella organisation for the state's venture and seedcorn holdings. At the same time, it will be important not to over-centralise so that a quasi-monopoly state system has to 'pick winners'.

As a 'footnote' to this Chapter, we need to say that we have been able to find very few useful data on Norwegian capital markets, and this is an important limitation of the analysis we have been able to undertake here. NHD has already identified the data shortage as a weakness. We strongly support NHD's conclusion that a separate study is needed of the Norwegian capital markets. This should seek to fill not only the descriptive gap but also develop a clearer understanding of the apparent isolation of the Norwegian market from international venture capital markets, and the extent to which this is driven by policy and institutional factors. Finding ways to increase the presence of international venture capital should itself reduce some of the imperfections in the Norwegian market. It would additionally be useful to consider whether the pattern of state seedcorn capital provision is adequate – both in terms of

the total amount of money available and in terms of its separation into various funds and its overall management.

## 7 The support portfolio

SND is a key part of Norway's national and regional business support system (virkemiddelapparat). The SND and Forskningsrådet reforms of the early 1990s were major contributions to simplifying that support system, which had been built piecemeal since before the War. Our report on SND support to companies goes through the theoretical arguments about the need for a support system. Here, we think a little in abstract terms about how support systems should be put together before considering the division of labour between SND and others and reaching conclusions about whether this should be changed.

By and large the division of labour in the system appears satisfactory. The boundary between *Forskningsrådet* and SND is grey, as it is between equivalent organisations in other countries. It is not clear that there is an optimal organisational solution to this untidiness. SND's concept of partnership is central to fulfilling its role in the system. The major development seed is to improve the ability of SND's DKs to provide a 'first stop shop' service to SMEs.

### 7.1 A conceptual framework for business support

To consider how a business support organisation such as SND should work and what its role should be in the support infrastructure, we need a conceptual framework. Here, we use current thinking about how national innovation systems combined with a segmented view of company capabilities. A central principle is that a key job of the support infrastructure is to raise those capabilities.

#### 7.1.1 Innovation Systems

For almost a decade now the international policy discussion about improving national economic performance has not been about single-point intervention in the economy but about 'National Systems of Innovation' - NIS.<sup>67</sup> The name is a bit unfortunate, because the discussion of the NIS goes well beyond innovation to consider much of what has conventionally been handled in industry and business support policy.

**Exhibit 32** provides a simplified overview of the elements of the innovation system in developed countries. It is clear from this and from the broader policy discussion on NIS that

- Most if not all of the elements of the NIS shown in the **Exhibit** need to be available to the economy. This is the **necessary** condition for economic development

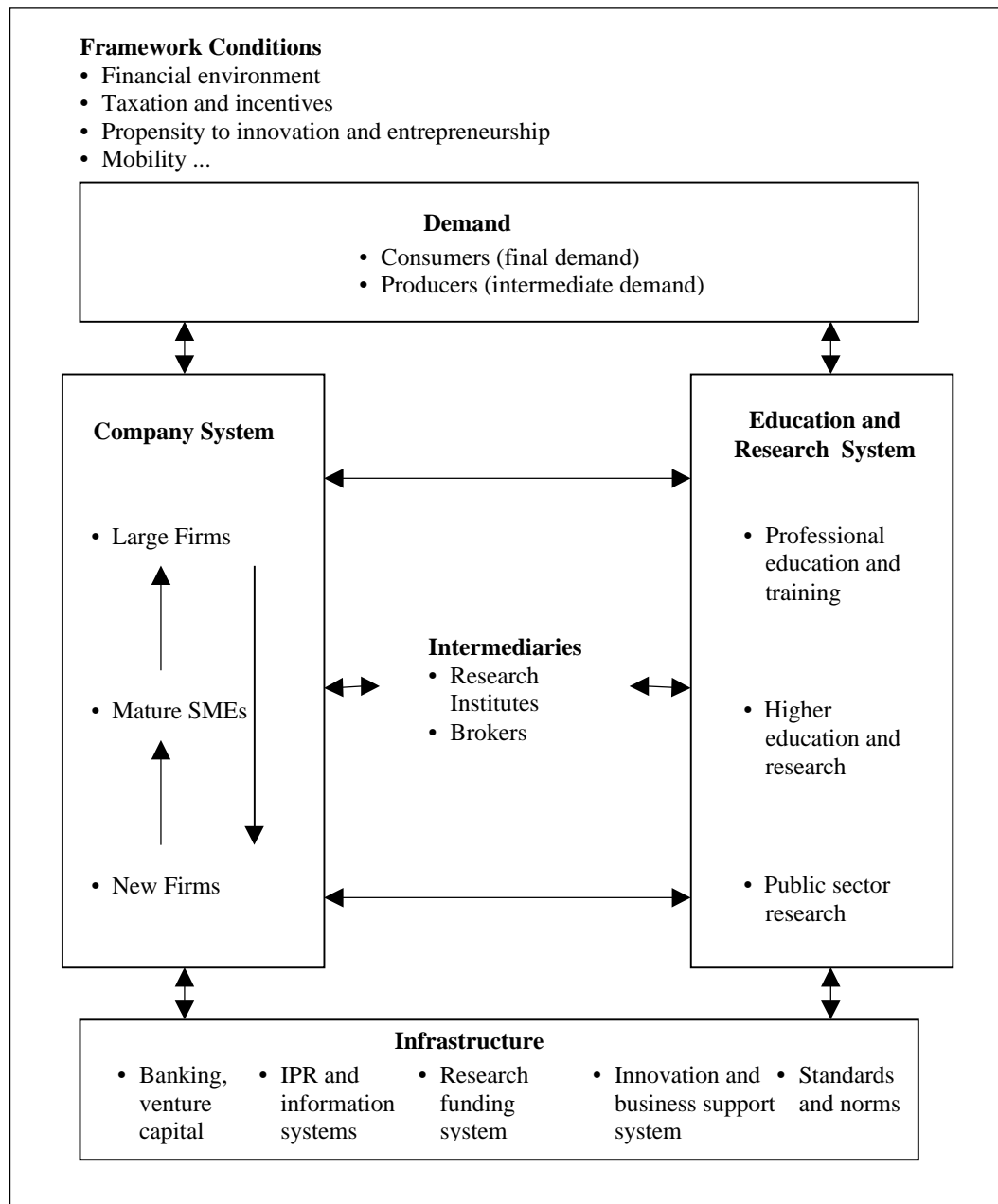
---

<sup>67</sup> See, for example, Bengt-Åke Lundvall, *National Systems of Innovation: Towards a Theory of Innovation and Interactive Learning*, London: Pinter, 1992; RR Nelson, *National Innovation Systems*, New York: Oxford University Press, 1993

- The individual elements of the system must be of sufficient quality to provide useful outputs and must work together well enough to allow the NIS as a whole to function. This is the **sufficient** condition for self-sustaining economic development<sup>68</sup>

Other aspects, such as natural resource endowments, are also important, but the quality of functioning of the NIS is a major determinant of international competitive performance

### Exhibit 32 Major Elements of a National Innovation System



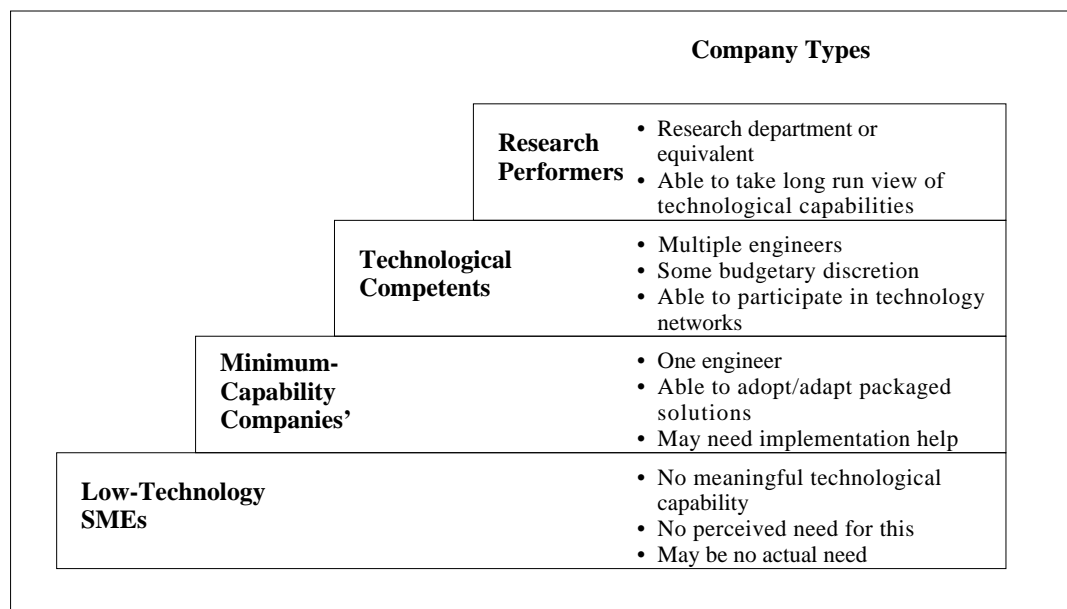
<sup>68</sup> We owe this distinction between necessary and sufficient conditions to Miguel Landabaso, DG XVI

Since wealth is created in companies rather than in other parts of the NIS, companies' capabilities and their access to the resources in other parts of the NIS are especially important in determining economic performance. It is key to note that the performance of the overall NIS is not only driven by how well the individual components function, but also by the quality of the links between them. This means that a systemic approach is needed in both regional and national policy.

### 7.1.2 Different Firms have Different Needs

SMEs and others in the company sector have capabilities that are not homogenous. **Exhibit 33** shows a simple hypothesis about a useful way to segment companies according to their level of **research and engineering** capability. More general business capabilities are harder to characterise in this simple way. However, there will tend to be a similar hierarchy. While big, established companies tend to be quite high in both hierarchies, smaller and newer firms can sometimes be highly developed on one axis and underdeveloped on the other.

**Exhibit 33 Simple Hierarchy of Company Types**



Our segmentation suggests that there are four reasonably distinct levels in the development of firms' engineering and research capabilities. At the bottom level, there is no meaningful capability and there will tend to be a presumption that none is needed. At the next level up, the 'minimum capability' level, the firm acquires at least one person able to speak the language of technology, to monitor and understand the significance of technological changes happening outside the firm. These bottom two levels of firm rarely have much contact with universities. They do not share a common language or interest with them. The professors are likely to be interested in things, which are longer-term than they can consider.

In OECD countries, many larger firms belong to the third level of 'technological competents', where there is enough capability to do fairly serious development work and where there tends to be a specialised innovation or development function. The highest level firms - 'research performers' - are of two types. Some correspond to the ideal of the very large company with capabilities in research as well as development



and the strength and vision to work for the long term as well as the immediate future. Others are new, technology-based firms such as university or other research spin-offs, many of which exist primarily to do research and will be absorbed by larger companies if their work is successful. Such start-ups may be at the highest level of the ‘technological capabilities’ staircase, but at the same time be at the bottom of an equivalent business capabilities hierarchy. The highest-level firms’ research departments communicate easily with universities. Third-level firms often have difficulties in doing so.

In general, the higher up the capabilities hierarchies that companies find themselves, the less they are affected by structural and market imperfections<sup>69</sup>. These hierarchical ways of describing capabilities provide useful clues about the need to segment and to build hierarchy into policies aimed at developing company capabilities.

The heterogeneity of firms means a simple approach to designing a support infrastructure is not adequate. Policy must **segment** firms into groups with generically similar needs. However, the design of policy delivery systems needs also to take account of the uniqueness of firms as individuals. Some state support infrastructures such as the Irish and British ones are (in our view, rightly) taking an approach of diagnosing needs at the level of individual companies as part of their approach to developing companies and capabilities. Support is then offered to companies, on a selective basis.

The need for such a diagnostic approach is built into the ‘learning paradox’ associated with capabilities. Those with limited capabilities also have limited ability to identify their own problems and opportunities. If it is to help, the state needs to be **proactive** with those who cannot yet decide what to do for the best. Despite the attractions of ‘hands-off’ policies, which do not involve the state in making firm-level decisions (‘picking winners’), it is therefore difficult to imagine many effective ‘hands-off’ measures to improve capabilities (especially among weaker firms). This means that progress in policy depends not only on finding the right economic levers but also on closer engagement with firms and practice.

Generally, quite a number of actors and programmes share the task of developing technology capabilities. However, the support system needs to operate as an effective whole. It is important that individual programmes operate in conjunction with the other parts of the support system to

- Provide a single point of entry and referral for companies unable to navigate the support system
- Obtain cost synergies, especially in needs diagnosis
- Enable cross-referrals to and from other parts of the system
- Enable an holistic approach by the system to company development
- Avoid fragmentation and build the scale necessary to provide high-quality, specialist capabilities

---

<sup>69</sup> There will be important exceptions to his generalisation – especially in the case of lock-in failures

A complete Capability Development system would tend to have services capable of moving firms some considerable distance up the capability staircase. At the top of the staircase, research-performing firms will be integrated well into global sources of science and technology. There is not a necessity for local or regional actors to meet their needs - though it may nonetheless be helpful, for example in influencing company decisions about where to locate R&D. A good innovation support infrastructure would have the following services available

- **Proactive mentoring** One of the most difficult problems to be overcome in helping SMEs develop capabilities is caused by the 'learning paradox'. That is, that until you have learnt something you cannot properly specify what you need to learn. Someone in the infrastructure is needed who has a brief to guide firms - especially those with limited technological capabilities - in identifying their needs and finding ways to satisfy them. In Ireland, this role is played by Forbairt regional staff, who visit companies on their 'patch' periodically to identify needs and suggest ways in which the state infrastructure would help. The former Engineering Industry Training Board's regional training advisors used to play this kind of role in the UK. In agriculture the world over it tends to be performed by agricultural extension services
- **Basic, general-purpose capability development services** To raise SMEs' competences, not only in technology but also in the basics of business, there need to be sources of practical help and training close at hand. Issues such as Quality, simple manufacturing strategy and use of IT are generic, yet these are areas where many SMEs need help. Some of these services are useful to firms at the 'Low-tech SME' stage in development; all have relevance to the 'Minimum Capability' stage, and provide an important basis for moving firms up the capabilities staircase
- **Sector- or technology-specific capability development services** may not be more sophisticated than those considered under 2 above. However, for reasons of scale, they are certainly more difficult to deliver across the generality of the economy unless target firms are present in 'clusters' - especially where the sectors they address are relatively narrow
- **Technological development services** such as contract R&D can be bought by almost any firm with money to spend. However, adequately specifying and making good use of them requires a fair degree of internal capability. By the time a firm climbs to this point on the staircase, the questions are no longer about creating a level of internal technological capability but about making best use of it
- **R&D services** include collective R&D, research information and services to link companies with capabilities in universities and research institutes. These presuppose quite high levels of technological capability on the part of users. Most SMEs are not in a position even to have a conversation with university or research institute researchers, so users of this type of service are quite special

## 7.2 The Norwegian business support infrastructure

The business support infrastructure in Norway has four major components

- Research and innovation services, comprising Norges Forskningsråd, as well as the research and higher education sector which it funds
- Business capability development services, provided by Forskningsrådet and SND
- Advisory services (veiledningsapparatet), comprising TI, ViNN, the former BRT (Bedriftenes Rådgivnings Tjeneste) network, the inventors' service (SVO), and aspects of more functionally specialised organisations such as the Export and Design Councils. *Kommunal* business development advisory services can also be considered under this heading
- Finance for business, from SND and various sources of start-up and venture capital

The distinctions between categories here are not clean, since many of the programmes and actors considered work with packages of supports. Notably, SIVA works across these boundaries, by bringing packages of innovation-related infrastructure and services to bear in science and research parks, and using a range of advisory and investment instruments to try to drive growth in the associated companies.

Norges Forskningsråd was set up to integrate previously disparate Norwegian R&D policy and to create a more holistic way both to manage curiosity-driven research and to integrate the definition and use of R&D more closely into society and industry. In 1999, 61% of its 2.6 BNOK budget was devoted to company-related work. A quarter of the budget was spent on brukerstyrt forskning, and a further 4% (113 MNOK) on innovation programmes such as SMB-Kompetanse, FORNY and TEFT – many of them in conjunction with SND.

From 2000, the Research Council's Industry and Energy Area is now planning to devote a greater part of its resources to larger projects. Smaller projects and smaller companies will be less involved with Forskningsrådet as a result of its increased emphasis on research content in projects. The expectation on both sides is that a gap will start to open up between the two agencies in the area of SMEs and innovation.

The institutional boundary between the Research Council's services, which mostly have some anchor in research activities or institutions, and SND's innovation and business capability development services is grey, and would remain so even if it were moved. Management and technology are inextricably interwoven in industrial practice, and no amount of fiddling with organisational boundaries will change this.

The advisory service providers offer a range of more or less specialised ways to help companies tackle their specific problems. They often tailor their services to tackle particular situations, providing special kinds of consultancy. SVO handles the specialist function of advising inventors, so it has a somewhat different target population to the other services. Unlike the others, too, it does not charge for its services, but accepts clients based on its own evaluation of their projects' potential. It is organised nationally and based outside Oslo in Bærum. Its 9 employees travel extensively, often using SND offices as convenient places to meet inventors.

Other parts of the advisory service system have been privatised or de-emphasised in recent years. TI operates increasingly as if it were a private consultant. The fylke-owned BRT network of business advisory consultants has been privatised, though former members remain important deliverers of national programmes such as FRAM. BRT had been set up (1) to ensure that a consulting supply-side existed across the whole of Norway, which could be accessed by small firms and (2) to deliver tailored business advisory support to the smallest companies. Failure to separate these functions seems to have been important in the decision to cut central state funding to this network. Some fylkeskommuner use the private sector consultants who into which individual BRT organisations have transformed themselves to deliver business support services. The loss of the BRT's status as a state-funded advisor means there is no longer a legitimate and independent 'one stop shop' for business support at *fylke* level.

*Kommune*-level business development officers (*næringssejfer*) can play an important 'signposting' role. Outside the cities, there is typically one or a half a person-year per *kommune* devoted to this development function, so the focus is strongly on the practicalities of setting up business in the *kommune*. Little wider advice can be given, and there are neither the resources nor the capabilities to provide diagnostic services. In the larger cities, on the other hand, the *kommune* business development services can be a significant force. Our interviews at the *kommune* level have made it clear that, in most cases, it is not possible for the business development officers to play an adequate role in first-line business support. Their staffs are too small, they are inadequately trained – both in business and in the specificities of the business support system – and they lack the needed tools. Strengthening this level to provide the kind of 'proactive mentorship' needed in the business support system would be extremely expensive, and would tend to leave the function both over-staffed and under-critical in most *fylker*.

The remaining category of service in the business support infrastructure is finance, where SND itself plays the dominant role. As we discuss in **Chapter 6**, there is a proliferation of seed corn and venture funds. Hence, attempts to increase the amount of seed corn venture capital available in Norway have been fragmented and under-critical and will continue to be so unless one or more strong funds are created at greater scale.

### **7.3 Is the division of labour between SND and others the right one?**

In analysing the division of labour within the business support infrastructure, we have to consider

- The need for a visible and proactive interface to the support system as a whole to be available to lower-capability customers and customers who would benefit from a longer-term development partnership
- The need for different functional and geographical specialisation patterns among support organisations
- The risks involved in over-determined solutions – especially in areas such as state support, where there is little natural competition
- The likely costs of change

As the previous section suggests, there is no really proactive and effective ‘first stop shop’ structure in the Norwegian business support system. Based on our experience of practice elsewhere, we think this is a major weakness. While the BRT system formerly had the potential to tackle this job, its break-up and privatisation eliminates this possibility. First stop shops need the freedom to act only in the clients’ interest, which means they should not have interests of their own. This is difficult to achieve in the private sector. SND’s district offices present the only potentially viable network, which could tackle this function in the support system. SND has begun to take on this job. However, as we indicate below, there is more internal work to be done in order to transform the DKs from a kind of regionalised banking role into the more proactive units needed to provide a first stop shop service.

### 7.3.1 Business support organisations

**Exhibit 34** shows in simple form the customer focus of each business support organisations discussed here, arranged against a hierarchy of company capabilities similar to that in **Exhibit 33**. (Compared with the earlier Exhibit, we have added start-up firms into the lowest rung of the ladder.) We have shaded SND’s formal partner organisations in the title row.

**Exhibit 34 Customer Foci of Business Support Organisations**

	Kommunale næringssejfer	BRT, TI, VINN	Export Council	Design Council	SVO	NFR Researc Councils	NFR Brukerstyrt	NFR Innovation	SIVA	SND
Majors			◐			●	●			
Competents		◐	●	◐		◐	●	◐	●	◐
Minimum capability firms	●	●	◐	●	◐		◐	●		●
Start-ups and low capability firms	●	◐		◐	●			◐	●	●

The Exhibit shows that SND’s focus on start-ups and the lower part of the capability spectrum is by no means unique. The *kommunal* business development managers tackle part of the same customer base as SND, and provide a first line of support. As we have explained, we see them as very useful allies for SND – especially in providing information and referral services to companies – but not as a potential replacement for the first stop shop function needed in the DKs. SND should provide services to the *kommunal* business development managers, which will enable them to serve their customers better with information about the opportunities provided in the business support infrastructure.

The privatised remains of the BRT network as well as TI and ViNN are very useful implementation resources for programmes. Together with other parts of the private business services world (notably management consultants), their role is as contractors rather than as service agencies.

The Export Council's focus is on larger customers than those served by SND. Its international network has a quite different shape to SND's. The overlap between the two organisations is in subsidised services to the more capable part of SND's customer base, and this seems to be well secured through the existing partnership.

The Design Council's customer base is more similar to SND's, but its skill base and modus operandi are quite different. Again, the needed overlap is secured by a partnership agreement and by the allocation of a small amount of design-specific funding within SND.

The inventor support organisation, SVO, works with a sub-set of SND's customer base and with problems that are similar to those SND tackles, although SVO has more focus on questions of intellectual property exploitation than SND. A case could be made to merge SVO into SND. (In Sweden, ALMI has an internal inventor support scheme, operated at district office level.) The counter-argument would be that SVO appears to be functioning quite well as it stands, and – crucially – that internalising it within the DKs would break down SVO's existing team capabilities and shared knowledge base. It would also require doubling the number of invention specialists from SVO's 9 to cover SND's 18 district offices, or finding a way to share specialists between DKs. The other factor to consider is that dealing with independent or small-scale inventors has a very high nuisance value in an organisation like SND, with a broad product range and customer base. Formalising the present informal co-operation between SVO and SND may be valuable, improving the interface between SVO and its customers by creating a physical presence in each *fylke*, through the SND DKs, and easing referrals from SND to SVO. A full merger might look tidier on paper, but we do not see many advantages compared with a partnership and there are some clear potential disadvantages.

SIVA is rather different from the other organisations considered here, in that it focuses its efforts on spatial clusters where research is present and can be considered a potential growth node. The range of services it offers are the normal ones offered in science and research parks, though it is internationally unusual to see these parks and services operating in effect as a national 'chain.' Inevitably, SIVA's non-property activities overlap with those of others, and a number of our interviewees have questioned whether this is a good way to organise the support system, but SIVA's focus on science and research parks appears to be unique in Norway. Good science park management requires the services SIVA provides. Experience in particularly successful science-based clusters (Cambridge, UK; Cambridge, Mass; the biomedical cluster in Munich, and so on) is that having multiple sources of finance and advice strengthens the hand of developing companies. It is therefore important within the Norwegian system to ensure that local service – and, especially, venture capital – monopolies do not arise. Both the SIVA parks and other parts of the Norwegian system working with venture capital could do well to develop closer links with foreign sources.

### 7.3.2 Forskningsrådet

We have treated Forskningsrådet in three parts. Most of the Areas within it are similar to traditional research councils, focusing on work in the research and higher education sector. These are rarely of direct relevance to SND's customer base.

The great effort Forskningsrådet devotes to user-directed R&D ought, in principle, to be highly relevant to large parts of SND's customer base. It is clear from the quantitative success of the agreement with SND that this overlap is productive. But there is also anecdotal evidence from our cases studies that Forskningsrådet is seen as remote, centralistic and unhelpful to smaller and medium-sized firms. To the extent that this is true, it will be exacerbated by Forskningsrådet's current plans to focus on larger projects. SND's continuing relevance as a 'distributor' for user-directed R&D in turn depends on the customer groups at which this effort will be directed. If, in the longer term, Forskningsrådet continues to pursue its target of raising the share of GDP Norway devotes to R&D so that it reaches the OECD average, it will have to find a way to deal with smaller and less research-capable firms.

Part of the needed approach is already being taken in Forskningsrådet's innovation-oriented programmes, over which it co-operates closely with SND and where there is the greatest overlap between the two organisations. Making this co-operation effective requires strengthening the innovation and technology function in the individual DKs. The Norwegian economy is far too small for it to be worthwhile considering separate regional distribution channels for business and innovation support. (For comparison, it is worth noting that the UK Business Links system has devised a 'double' interface **internally**. Every firm has access both to a Personal Business Advisor and to an Innovation and Technology Counsellor at its local Business Link. Similarly, the regional TE-Centres in Finland offer separate capabilities from TEKES and the Ministry of Trade and Industry, though not without internal organisational problems.)

While some people suggest that SND should merge with the part of *Forskningsrådet* responsible for company-oriented R&D and innovation, we have not been able to find sufficient evidence to support this idea during our present study. Such a proposal would also involve separating this part of the Council from its more research-focused components. Since **joining** research- and innovation-oriented activities together was a central idea in the creation of Forskningsrådet, it would also seem inappropriate for us to try to reach a conclusion on this aspect ahead of the coming Forskningsråd evaluation.

An obvious alternative would be to merge SND and Forskningsrådet into a single organisation, responsible for all research, innovation and business support. This would

- Create a soviet-style monolith of frightening proportions, trying to tackle situations, which contain a lot of uncertainty
- Bring together a wide diversity of processes, which need to be tackled in different ways. The organisation would therefore have to be strongly divisionalised – placing a severe limit on the operational benefits of integration and the synergies available

- Foster real or apparent conflicts of interest, since there will be an internal assumption that companies receiving R&D subsidies are best placed to receive other benefits from the same organisations

A third alternative would be to transfer innovation-related activities from SND to Forskningsrådet. Given that SND is increasingly working in the ‘grey’ area of company capabilities, innovation-preparedness and aspects of innovation, this would force the rump of SND ‘back’ into a focus on capital-related instruments. It would undermine the growing focus on innovation in regional development strategies and disintegrate the supports available to companies in a way which separates innovation from ‘normal business.’ These seem to us to be the opposite of what is desirable in a modern innovation infrastructure.

One clear possibility, advocated by some, is radically to reorganise the innovation funding system, merging SND with the innovation-oriented parts of Forskningsrådet (namely, Industri & Energi, and parts of Bioproduksjon & Foredling). The expectation is that this would better integrate state supports aimed at increasing the rate of industrial innovation. We do not think there is today an adequate basis for making such a recommendation – though there might be once the coming evaluation of Forskningsrådet is complete.

Our first reason for caution is theoretical. Since the relation between research, innovation and commercialisation processes is not automatic or linear, we should not expect necessarily to see successful innovations passing successively through these stages, with the help of an omniscient innovation agency. Indeed, the idea that an innovation would need state support at multiple stages should be enough to frighten off any investor. So there is not necessarily great value from the customer perspective in dealing with the same agency for different things.

The skills and organisation needed to support R&D, are not the same as those needed to support innovation and company development. In practice, different people within a research and business support agency would have to deal with different functions. This can be seen clearly in the way such agencies have been organised. NUTEK in Sweden is a good example, where different people work in the Teknik division supporting R&D and in the Företag division, supporting company development. While there may in some places be a common interface to companies needing business and innovation support (as in Enterprise Ireland or in the UK Business Links) , the delivery of help is done by different groups of people.

This fact probably explains our third reason for caution, which is that different countries have at different times organised the R&D and innovation/business support systems in different ways without a clearly superior model emerging. **Exhibit 35** provides a summary view of how the state’s responsibilities for research, innovation and business support is organised in a number of different countries. ‘Research’ is the funding of basic and applied science, largely in universities and research institutes. ‘R&D’ is the funding of R&D which is linked in some way with industry, and which may be jointly performed (such as brukerstyrt forskning’) with the research and higher education sector. ‘Innovation’ involves the funding or promotion of in-company innovation, including the development of technological capabilities. ‘Business support’ involves other types of financial and capability-building support



for industry such as loans, help in implementing ISO 9000 and so on. These categories inevitably overlap to some degree, as in many cases do operative responsibilities.

### Exhibit 35 State Responsibilities for R&D and Business Support

Country	Research	R&D	Innovation	Business Support
<b>Finland</b>	Academy of Finland & Research Councils	TEKES		Ministries of Trade & Industry, Agriculture, Labour
<b>Sweden 2000</b>	Research Councils	NUTEK Teknik, KFB, RALF, BFR		NUTEK Företag, NUTEK Regioner + ALMI
<b>Sweden 2001</b>	Research Councils	'FoU Myndigheten'		Merged NUTEK/ALMI
<b>Netherlands</b>	Ministry of Education & Science		Ministry of Economic Affairs, SENTER	
<b>Denmark</b>	Research Councils		Erhvervsfremme Styrelsen	
<b>Ireland</b>	DES	Science Foundation Ireland	Enterprise Ireland	
<b>UK</b>	DES, Research Councils	Research Councils	Department of Trade and Industry	
<b>France</b>	Ministry of Research	Ministry of Research, CNRS	ANVAR	Ministry of Industry
<b>Germany</b>	BMBF		BMBF, BMWI	BMWI
<b>Austria</b>	FWF Fonds	BMVIT, FFF Fonds, TIG	BMVIT, ERP Fonds, TIG	BMWV
<b>Norway</b>	Forskningsrådet			SND

Finland splits its research and innovation funding between the Academy of Finland and its constituent research councils, which pay for university research, and TEKES which funds industry-relevant research in the universities, institutes and companies, as well as promoting company innovation. The Ministry of Trade and Industry and other ministries look after business support in their respective sectors. TEKES and the sectoral Ministries cohabit in district offices, trying to provide a 'one stop shop' to companies for questions of business and innovation support. The function of these district offices is very similar to those of SND, and there is intended to be a close link to regional planners and, where relevant, the use of European structural funds.

Sweden has historically had a sharp divide between its research councils and the R&D system. Styrelsen för Teknisk Utveckling (STU) was established in 1968 to make a better link to industrial R&D, and to act as a change agent in the system. It was very important in promoting the growth of new and industry-relevant research areas such as microelectronics. In 1991, it was merged with Statens Industriverk (SIND), which had provided loans and other business support services. NUTEK was reorganised every year from then until 2000, when it is being abolished. It generally had three divisions: Teknik, which corresponded to the old STU, and funded linkages between research in the research and higher education sector and industry; Företag, which corresponded to the former SIND; and Regioner, which worked with the Län (fylker) on business support and innovation measures. There were good, but not always very close, internal relations between these three functions. In parallel, ALMI was organised to provide loans, business support and consulting to smaller

companies. It is organised as a national mother company with regionally-owned daughters. (In Norwegian terms, it has been a mixture of elements of SND and BRT.)

Through the 1990s, NUTEK became a hate-object for the scientific community, which resented its focus on industrial relevance and consistently lobbied for increased funds for basic research. This pressure was reflected in the Research 2000 report<sup>70</sup> in 1998, in which a panel of scientists essentially proposed that the state should stop wasting its resources on R&D and innovation and instead reallocate all the money spent on these functions to them. Following a noisy argument between the scientific and the technical communities and the appointment of seven more committees to investigate various aspects, of organisation, the research councils have been given more money and NUTEK has been split. This recreates the old STU, but with wider sectoral responsibilities. The remainder of NUTEK has been pooled with other parts of the system in a long-overdue rationalisation of business support to create an organisation in many ways similar to today's SND. From our perspective, there was a rational basis to the reorganisation of the business support system. The other changes appear mostly to be necessary for symbolic reasons.

The Netherlands and Denmark have a relatively clear division of responsibilities between those who fund research in the university and research system (including its links with industry) and those who work with industrial innovation and business support.

Ireland has historically funded little basic research, and is currently going through a £1 2.2 billion investment programme to raise the level of its scientific infrastructure. Past efforts in R&D and innovation have been focused in Enterprise Ireland (and its predecessors Forbairt and EOLAS), which brings together all the state system except basic and applied university research.

In the UK, the Research Councils formerly answered to the Department of Education and Science. Mrs Thatcher established an Office of Science and Technology within the Cabinet Office during the 1980s, to which the Councils then answered. Their functions were broadened to cover both Research and R&D in the sense of Exhibit . After some years, OST was moved to the Department of Trade and Industry, which is now responsible for everything except the university infrastructure and basic faculty funding, which remain with the DES and the higher education councils. At the operational level, however, the DTI uses a range of agencies to provide different types of support.

In France, the system is broadly divided between the Ministries of Research and Industry, and their regional agencies. There is a similar divide in Germany between the Ministry of Education and Research and that for Economic Affairs.

Austria maintains a complex of funds, respectively responsible for scientific research, R&D and innovation, whose roots go back to the post-war reconstruction and the

---

<sup>70</sup> *Slutbetänkande av Kommittén för översyn av den svenska sorskningspolitiken (Forskning 2000), Stockholm, 1998.* For a more extended discussion, see our rebuttal of the Research 2000 report, Erik Arnold, Ben Thuriaux and Catherine Whitelegg, *Research 2000 or Research 1950? Forskning 2000 and the Future of Research Funding in Sweden*, Brighton: Technopolis, 1999, which can be downloaded from [www.technopolis.co.uk](http://www.technopolis.co.uk)

Marshall Plan. A new agency – TIG – is handling cross-cutting types of programme (such as the K+ centres of excellence) which link research and industry. The Economics Ministry looks after business supports.

The architecture of the Norwegian system is rather special. Built on the parallel reforms, which created Forskningsrådet and SND in the early 1990s, it has a rather fuzzy boundary between the two organisations in the area of innovation supports. The single Forskningsråd organisation contains six Areas, and was intended as a way to work holistically with science and technology – integrating across fields and between different parts of the innovation process. Some people in Forskningsrådet suggest there is a very strong divide between the parts, which have a Research Council function and those working more with R&D and innovation. Whether the Forskningsrådet experiment in integration has worked or not is the central question in an evaluation shortly to be launched by KUF. This is not an issue, which the SND evaluation can or should pre-empt.

What is clear, both from international experience and our discussions with Forskningsrådet and SND, is that the boundaries between functions tend to be grey. This is consistent with our systems view of innovation. The interfaces between some groups work better than others, but interface problems are created wherever specialised groupings exist. There is a choice to be made about whether to make these interfaces and grey areas internal or external to institutions. In either case, there are not likely to be perfect solutions. Given goodwill, it is not even clear that the choice matters. We struggle, for example, to see any important difference in the quality of the internal relations between NUTEK Företag and Teknik, on the one hand, and the external relations between SND and Forskningsrådet. Each of the groupings has in any case separately to justify its own budget.

It is not clear to us that moving the boundary between Forskningsrådet and SND makes sense at this stage. The story could change once Forskningsrådet itself has been evaluated<sup>71</sup> at the end of 2001.

The present ‘grey boundary’ arrangement does have certain advantages. First, budget can be made available from two alternative sources, making programme introduction and continuity easier to achieve. Second, the current, slightly ambiguous arrangements mean both that Forskningsrådet is forced to deal with the ‘dirty realities’ of technology capability, transfer and learning among less capable companies, and that SND is forced to tackle innovation issues. ‘Cleaning up’ the ambiguities by allocating responsibility for innovation programmes to either Forskningsrådet or SND would give both organisations institutional excuses for not tackling the innovation process in its real industrial context. Almost all the theoretical progress we have made in understanding innovation and business processes in the last 20 years has pointed to the way these processes are closely intertwined.

---

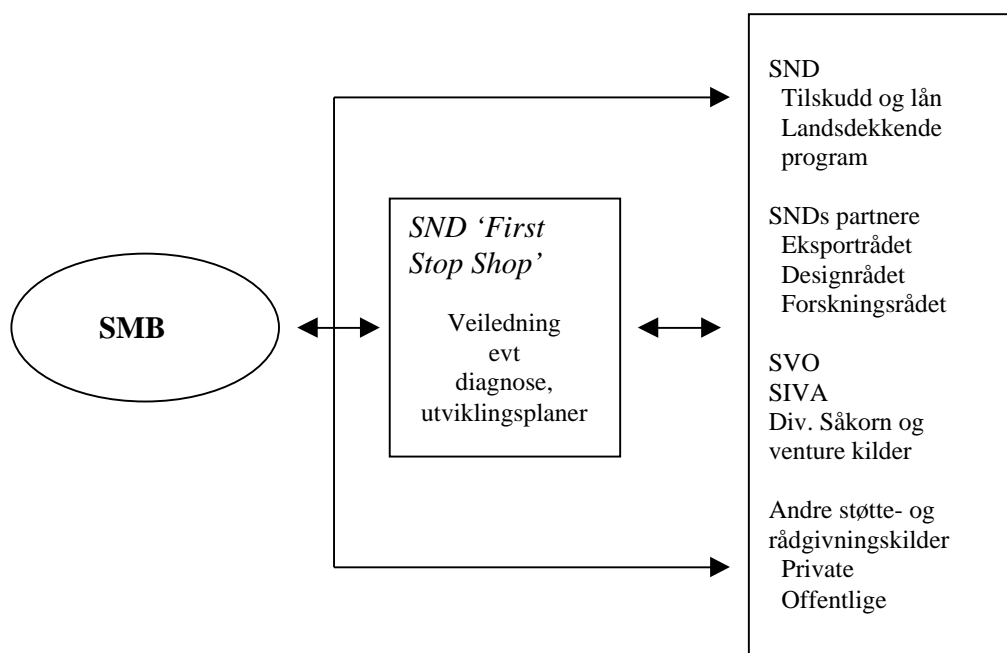
<sup>71</sup> In that evaluation, a key issue is whether the merger of six research councils to form a single one has added value, not least by making the whole research performing sector more accessible and open to industrial needs. A conceivable outcome would be the de-merger of Forskningsrådet to create a group of research councils and an industrial innovation agency. Under this scenario – which is similar to the pattern in Finland and Sweden today - it could be worth re-opening a discussion about integrating SND and the new innovation agency

The point where it seems to use that the separation between SND and Forskningsrådet actually matters is the customer interface. The DKs today have an inadequate ability to understand and communicate the possibilities that Forskningsrådet offers companies. It is more important – and probably easier – to resolve this question than to fine-tune the boundary between functions in SND and Forskningsrådet which – in the nature of things – inherently overlap. To this extent, the partnership between the two organisations provides a perfectly adequate start, upon which to build, with an initial focus on improving the ‘offer’ to firms made through SND’s DKs. The most likely solution would be to follow the Finnish model of placing (in their case, TEKES) personnel in the district offices, but it is clearly up to Forskningsrådet and SND to consider this possibility in detail.

## 7.4 Conclusions

The design of business support infrastructures should reflect a systems understanding of innovation and economic development. It should be able to handle the diversity of company needs, recognising that those with limited capabilities will need more help to find their way than those who are already well endowed. While there should, therefore, be functional specialisation in the support system in order to deliver high quality services, there is also a crucial need for ‘first stop shops’ (**Exhibit 36**). These provide a point of entry to the support system for those who do not naturally find their way, and a source of proactive company development services.

**Exhibit 36** SND as a First Stop Shop



This latter role is a task for the state, but is still missing from the Norwegian system. SND is the organisation best equipped to take the lead in performing such a role, but this will require going beyond the steps it has taken so far to offer a broader spectrum of services to customers through its regional offices. SND needs better to integrate innovation-related services into its portfolio. The *kommunal* business development officers should be a very useful complementary source of first-line help to companies. SND should therefore support them through internal training and information services.

The division of labour within the Norwegian innovation and business support system is rather clear. There are inevitably grey areas, but we do not see strong reasons to incur the organisational costs involved in further restructuring of the system at this time. Incremental improvements are needed within SND's DK division. This will include better integration of innovation-related services with those of Forskningsrådet at the level of the individual district office, so that SND customers can access both innovation-related and general business skills.

## 8 Conclusions and Recommendations

From the organisational perspective, we regard SND's performance to date as strong. It has tackled some major changes in the business support system, and is in the process of tuning its regional apparatus. SND needs a period of peace and quiet – and, not least, budget stability - to consolidate its achievements. There is always scope for incremental improvement, and we have identified a number of such possibilities for SND's consideration. The Departments of State need to play their part in creating the needed framework conditions.

The costs of institutional change in business support systems are high. Both the SND case and foreign experiences in these systems show that reorganisation absorbs very large amounts of management time, while causing uncertainties among staff that together reduce effectiveness for surprisingly long periods. (Often, institutional and organisational change in such bodies is hampered by civil service employment terms, lack of management freedom in hiring and firing and difficulty in using temporary external help in defining and managing the transition. They tend therefore to be much slower to change than private sector institutions.) Not only are the direct change costs high, but the reduced output means the economic benefits of the institution are also reduced during the transition. There can be other important costs, too, on the demand side, where the user population may have to learn how to find and use new interfaces to the business support system.

If we are to recommend big structural changes, therefore, there need to be big potential benefits to pay for all these costs. A lot can be achieved by incremental improvement. And in a world where the perfect organisational solution may be difficult or impossible to define, it may be well to respect the ability of intelligent people to 'muddle through.' On the balance of judgement, we feel that SND has a need for incremental improvement rather than major structural change. Management has already identified many of the change needs, and some of them are already being addressed.

SND's performance to date has been honourable. It has managed successive mergers and obtained synergies, although at a slower rate than would have been achieved in a private sector organisation. Service to all groups of customers has improved over time.

SND's performance as a learning organisation has been mixed. Knowledge management is being addressed but still needs improvement. There is a need to distinguish between **tacit** and operational knowledge of branches, which needs to reside as close to the customer as possible, and **analytic** or **codified** knowledge, which needs to be centrally managed so that it can be shared. Existing knowledge management strategies – customer teams and competence strategies – are nascent. More concrete experience is needed to make these more practically useful within SND.

The *premissgiver* role is inherently difficult to evaluate. It is clear that SND has made contributions to thinking internally, at Departmental and at *fylkeskommune* levels. However, it has not been able to define agendas sufficiently to have a major impact on policy. In particular, it has failed to define what its own role and strategy should be in a sufficiently clear way to allow the policy level to take a position on it. As a result, SND has had to be reactive to continuous changes in goals and funding levels – in turn undermining its own performance.

If we look at the effect of the changes through which SND has gone in its comparatively short life, it has had to take on board

- Moving from being a centralised bank-like organisation to being a decentralised one, with much greater responsibility for clients
- Acquiring multiple ‘upstream’ partners and products, which need to be retailed through the district offices, in parallel with SND’s traditional ‘core’ products and programmes
- Addressing multiple ‘downstream’ customer bases
- Defining and implementing a new and more active role in regional development policy

Many of the development needs relate to completing the implementation of these changes. The Departments need to act, too

- A longer-term planning process is required, setting a framework for strategy development with a 4-5 year horizon, rather than the single budget year currently available. This should be responsive to SND-generated proposals
- It would be useful to detach SND from the administrative budget year, allowing it to plan against a guaranteed cash flow and put an end to the absurd annual ‘chicken race’ for national programme funding that undermines both the quality of SND’s work and its image with customers. Performance contracting would be an appropriate mechanism to regulate the relationship between SND and the state.
- Mid-year budget changes undermine both SND’s credibility and its ability to act
- Better inter-Departmental co-ordination is needed in order to set high-level objectives and to leave SND to get on with the detailed work

Implementation can only be tackled in a comparatively stable context. Political and budgetary stability has not been available to SND in recent years.

The relationship between the headquarters and the district offices need to change, so that HQ increasingly functions as a service organisation for the offices. This involves both altering some practices and altering **perceptions** within the organisation.

Headquarters needs therefore to

- Negotiate with the ‘upstream’ Departments and policy customers
- Provide analytic support to its own strategy development, to that of the Departments and to individual *fylkeskommuner*
- Manage the budget and portfolio
- Develop and manage national initiatives and programmes

- Provide the elements of SND-wide administrative, legal, communications and systems support, which cannot productively be given at DK level
- Relinquish those aspects of ‘hard operations’ which are capable of decentralisation to the district offices
- Quality-assure SND processes, and take initiatives to manage cross-office Continuous Improvement activities

In many respects, this means the headquarters has to regard itself as the ‘back office’ – serving the needs of the customer-facing personnel, rather than bossing them about on the old-fashioned, hierarchical model.

Today, IT support to internal, customer-facing processes is inadequate because it is under-resourced. SND lags good practice in e-government by some years, and should devote effort to improving its ability both to communicate with and inform the potential customer base through the Internet and to interacting electronically with its customers.

Human resource management staff at headquarters appear too involved in details which should be handled at district office level, such as holidays, and too little occupied with human resource management. Initiatives are needed to define skill profiles at district office level, improve incentives, extend the range of training available to handle interpersonal and negotiation skills.

These recommendations have organisational implications

- Maintain existing staff capabilities, while continuing to seek rationalisation. Outsource non-critical functions to increase cost variability
- *Omstilling* work should be decentralised to the larger district offices, as far as possible
- SND should consider splitting *Næringsdivisjonen* into an analysis unit, with general analysis skills, and a national programmes unit. The analysis unit would have a mandate to maintain SND’s formal knowledge about branches, and to do analysis needed to support both policy making and internal needs. The programmes unit would develop, manage, and quality-assure programmes such as FRAM and national initiatives such as the Eastern European fund, as well as the associated budgets

The key change needed at district office level is to distinguish properly between SND’s role as a proactive mentor and broker of information to customers, on the one hand, and as a taker of funding decisions on the other. This will remove both a source of implicit conflicts of interest and a barrier to providing a ‘first stop shop’ service to companies. District offices will therefore need

- A group of people who evaluate cases that they have not themselves prepared<sup>72</sup>
- Allocation of proactive responsibility for particular companies to particular case officers

---

<sup>72</sup> This can, of course, simply be achieved through internal review. It would not be useful to set up a specialist group which **only** does evaluations



- Diagnostic and planning support tools for company development
- Better documented and more widely available databases on support mechanisms and sources of knowledge. (These should be shared with business development officers at *kommune* level, supporting their role in part of the ‘first line’ service provision.)
- Allocation of lead responsibilities per district office for external product ranges and organisational partners, and office-wide training to give all case officers enough understanding to be able to identify needs and bring in the appropriate specialist(s)
- (Re)definition of skills profiles needed in the district offices
- If they are to become active in developing and implementing regional development plans, DK staff will need to become more active in the field, via company and network meetings, organising and supporting community development groups and so on. This has implications both for time allocation and the profile of the people selected to do this work

These recommendations are in general consistent with the direction in which SND has been moving, but they do also have cost implications. To the extent that SND wants to take them up, a costing exercise will be needed. More generally, much more explicit definition of costs is implied by the recommendation elsewhere in this evaluation to move towards Danish-style ‘results contracts.’ If the Departments want a more proactive SND – and we believe that they should – they should also be willing to pay.

Our vision of a future SND builds strongly upon its considerable achievements to date. We see no reason to incur the massive costs of another institutional upheaval in the business support system. The future SND will be

- An active premissgiver and partner in the development of policy – at the level of national policy, for *fylkeskommuner* and others involved in regional development, and for promising individual companies
- A service organisation working on agreed tasks to achieve SMARTE goals. Not only will the goals be more clearly and simply specified than today, but they will have prices attached, so that it is clear what the state is buying and what SND has to do to justify the budget. Some of the services of SND will be provided by its headquarters teams; others by the regional offices. SND will no longer be a ‘dustbin’ for uncostered ‘odd jobs’ for the Departments of State
- The major ‘first stop shop’ for company support, working in partnership with national and regional suppliers in the public and private sectors, while providing information and support where needed to the *kommunale næringsstjenester*
- A partner, not a monopolist. SND is not the right organisation to perform all tasks in the business support system. While it should be the leading ‘first stop shop,’ it should be able to refer not only to SND’s own services but to whichever supplier is best able to tackle companies’ needs

On the information we have, it appears that the creation of an analysis unit at SND headquarters to spearhead the more active premissgiver role could be achieved within a modest increase in the administration budget.

Restructuring the district offices and providing them with the support needed to act as modern 'first stop shops' is a more complex undertaking, whose cost varies with the ambition level SND is willing to adopt. SND itself needs to consider how far it is willing to go in this respect, and to quantify the costs involved.

An early act in its new and more active *premissgiver* role should then be consider the suggestions made here and to make a costed proposal to the relevant Departments of State, which can be incorporated into a results contract.