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TERRITORIAL REFORM IMPLEMENTATION FROM A STRATEGIC MANAGEMENT PERSPECTIVE: THE CASE OF ESTONIA

Master's thesis

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ABSTRACT

Territorial reforms have been on the political agenda in many countries and often, this has also resulted in the redrawing of administrative-territorial boundaries. However, implementation of these reforms has differed as national governments have different strategies to achieve their reform objectives. Similarly to many other countries, Estonian government decided to implement territorial reform that reduced the number of local governments through territorial and demographic up-scaling. As a result, the number of municipalities was reduced from 213 to 79. The aim of this thesis is to, first, study the reform strategy that was used to merge local governments and second, analyse the reform implementation from strategic management viewpoint. The empirical findings show that the chosen strategy included various bottom-up as well as top-down reform elements and could thereby be classidied as a mixed strategy. In spite of changes in the ruling coalition that occurred in the middle of the reform, it could be condluded that this did not cause significant changes in the reform strategy. Regarding the reform implementation, findings from the Estonian case study showed that more emphasis should have been put on consensus building among key stakeholders in order to guarantee their commitment to the reform process. Findings also proved that in addition to the chosen reform strategy, public sector context also influenced the reform implementation in quite a few aspects. These influences were mainly related to changes in the governing coalition and ongoing presidential election campaign.

Keywords: *territorial reform; local government; strategic management; reform strategy*

INTRODUCTION

Since 1960s, territorial reforms have been a widespread phenomenon in various parts of Europe. While at first reforms could be mainly observed in Western Europe (Ceunick *et al.* 2010, 805), then since 1990s local government reforms have risen to the political agenda also in many Eastern European countries (Swianiewicz 2010, 183). From 2008 to 2017, territorial reforms were implemented in 15 European countries, including Estonia (Swianiewicz 2017, 2). These reforms generally focus on territorial consolidation that is often seen as means to achieve economies of scale and scope. The small size of local governments is often seen as an obstacle to their effective functioning and it is belived that due to economies of scale, larger municipalities are able to offer higher quality of public services and do it more efficiently. Larger operating scale can be achieved through municipal amalgamations (territorial up-scaling) or inter-municipal cooperation (trans-scaling), in which case local governments can cooperate to offer selected public services but remain to provide the rest of services on the local level. (Allers and Ommeren 2016, 717)

While there is a substantial amount of literature that focuses on municipal amalgamations and its positive effects on the functioning of local governments, there are also academics who have taken an opposite standpoint and emphasize the negative outcomes of territorial consolidation through mergers and stress that there is no "ideal size" of local governments (e.g. Denters 2002; Drechsler 2000; Heinisch *et al*. 2018). However, the purpose of this thesis is not to give judgements on the political decisions to amalgamate local governments nor does it strive to answer the question whether bigger local government is better. Instead, the focus is set on the strategic management of territorial reforms *after* the decision towards amalgamation has already been made.

Research has shown that while territorial reforms are a widespread phenomenon, the implementation of these reforms has differed significantly. Some countries have chosen to implement reforms incrementally, whereas others have chosen to carry out comprehensive reforms over a short period of time. (Askim *et al.* 2017) Additionally, it is possible to implement territorial reforms in a top-down manner (e.g. Denmark, Greece), or use bottom-up reform strategies (e.g. some parts of Switzerland). Some countries have also used mixed strategies that combine

voluntary and coercive elements, examples of such reforms can be found in Belgium and some German Länder. (Steiner *et al.* 2016)

Smilarly to many other European countries, the Estonian government decided to implement government initiated territorial reform which aimed to increase the average municipal population by merger of local governments. High on the priority list was to establish administrative territories that are able to ensure the provision of high quality public services. In addition, it was hoped that the reform will result in the increased capacity of local governments that are able to use regional prerequisites for development, and also a more balanced regional development. (Administrative Reform Act) Territorial reform under observation in this thesis took place from 2016 to 2017 and was therefore implemented quite recently. Estonian Parliament approved the Administrative Reform Act in 2016. According to the reform law, the process involved two stages. In the first phase, mergers took place on the initiative of the local councils that had the possibility to choose with whom to merge with. In the second phase, municipalities that did not fulfill the minimum size criteria set forth by law or failed to implement the reform scheme in the first phase, received merger proposals from the government. The reform was completed in October 2017 with local government elections held in new municipalities. As the result of alteration of administrative-territorial organisation, the number of municipalities was reduced from 213 to 79 and the median population of local governments increased from 1887 to 7739 (Ministry of Finance 2018a).

The purpose of this thesis is to study how territorial reform strategy affects the reform implementation, including various patterns of conflict that emerge during this process. It will do so by studying territorial reform implemented in Estonia from a strategic management viewpoint. Selection of the Estonian case as a research object is threefold: 1) it is one of the biggest and most influential public administration reforms in Estonia during the past decade; 2) it is a comprehensive reform which addressed the whole group of local governments; and 3) as the territorial reform under observation was implemented very recently, there is not much information and analysis available that would provide insight to the reform implementation. This thesis will try to contribute to filling this gap by focusing on the strategic management of the reform and try to identify links between reform strategy and implementation.

The following research questions have been formulated:

1) What was the territorial reform strategy in Estonia?

2) How did this strategy affect the implementation of territorial reform?

This paper is divided into three main parts. The first part of the paper presents the theoretical framework which, first, focuses on the strategic management literature with main emphasis on strategy formulation and implementation and special characteristics of public sector management. This is followed by an overview of territorial reform concept and trends. In the end of the theoretical framework, territorial reform literature is put into strategic management context. The second part of the paper consists of empirical analysis which starts with a short overview of the Estonian local government system. Research methodology is introduced, followed by the analysis of Estonian territorial reform, based on the theoretical framework. Data is collected through document analysis and semi-structured interviews that are conducted with representatives from the Estonian Ministry of Finance, The Association of Estonian Cities and Rural Municipalities (AECM) and local governments. Empirical analysis is followed by a concluding discussion that analyses how strategy affected the implementation of territorial reform in Estonia.

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1. THEORETICAL FRAMEWORK

1.1.   Strategy

To better understand the strategic management process, it is useful to give an overview of basic concepts in the strategic management literature. It should be noted that scholars in the strategic management field have used various approaches and emphasized different aspects, depending on the research object and interest, therefore there is no exact definition of what constitutes as a strategy or what exactly is strategic management. In addition, definitions have also evolved and changed over time and may depend on whether they are used in private or public sector context.

One option is to define strategy as a concept that involves long-term orientation and is primarily concerned with how an organization should act and arrange its operations (Walker *et al.* 2010, 731). In public sector context, Mulgan (2009) has defined strategy as "the systematic use of public resources and power, by public agencies, to achieve public goals" (Mulgan 2009, 19). Rumelt (2011) argues that "a good strategy has coherence, coordinating actions, policies, and resources so as to accomplish an important end" (Rumelt 2011, 11). While most of these definitions conceptualise strategy as planned and thoughtful actions that are targeted towards achieving some ultimate purpose, Mintzberg and Waters (1985) take a broader look and define strategy as "a pattern in the stream of actions" (Mintzberg and Waters 1985, 257). According to this definition, a strategy can be considered to have formulated if a consistency of sequential decisions in some area can be observed. This kind of approach is very broad but it allows to consider both, intended strategies, which are formed by a conscious process, and evolved strategies, which are formed gradually, sometimes even unintentionally. (Mintzberg 1978, 935) Mintzberg (1978) argues that definitions that view strategy as explicit, consciously and purposefully developed a priori guidelines, refer to strategy as a "plan". This kind of definitions are incomplete and should actually be referred to as intended strategies. (Mintzberg 1978, 935)

Considering these different definitions and the complex nature of strategy formation process, distinction can be made between deliberate strategies and emergent strategies (see Figure 1). Simply said, deliberate strategies are intended strategies that have been entirely realized, while emergent strategies are patterns that have been realized despite of intentions. To define strategy as an utterly deliberate one, at least three criteria should be met: 1) precise intentions that are articulated as concrete as possible before any action, 2) these intentions must be common to all actors, and 3) intentions must be realized exactly as intended (in public sector context this means no interference from any political force). In contrast, strategy can be considered perfectly emergent if consistency in action can be observed without intention for it. (Mintzberg and Waters 1985, 258) One of the advantages of emergent strategy is that it accepts the uncertainty of environment and therefore enables to address current challenges that the organization faces (Downs *et al.* 2003, 5). However, it is difficult to find a perfect form of either and instead, tendencies towards deliberate or emergent strategies can be observed (Mintzberg and Waters 1985, 258). Additionally, it is also possible to distinguish unrealized strategies which stand for those intentions (intended strategies) that are not realized but the latter should not be confused with realized strategy that can be considered unsuccessful due to its consequences. (*Ibid.,* 260)
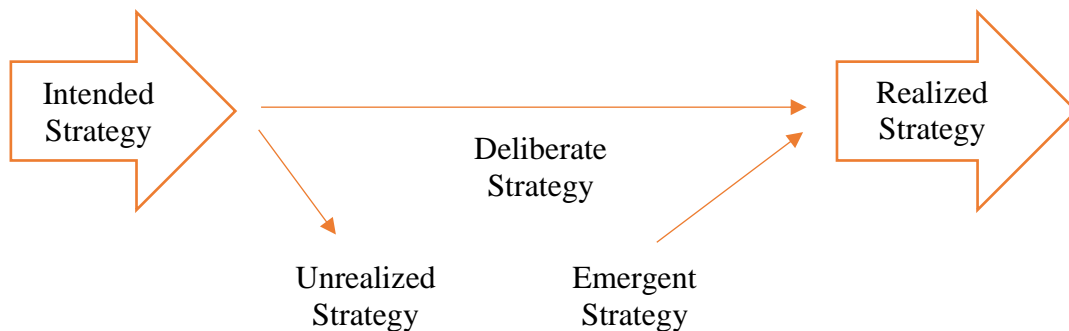

Figure 1. Types of Strategies
Source: Mintzberg (1978, 945)

Although emergent strategies are developed inadvertently, this does not necessarily mean that they are bad, likewise deliberate strategies are not necessarily good. Instead, successful strategies should be a mix of deliberate and emergent strategies and include elements of control and learning and thereby enable reaction to unexpected events (Mintzberg 2000, 24-25). Rose and Cray (2010) suggest the same as they argue that deliberate and emergent approaches to strategy formulation are not necessarily exclusive. Instead, it would be beneficial to consider them as a two-part strategy development process: at first, strategy is planned deliberately and articulated in enough detail so that it allows clear guidance for various counterparts who are involved in the strategy

implementation; but at the same time, strategy is flexible enough to allow reaction to changes in the environment, therefore enabling the strategy to evolve over time. (Rose and Cray 2010, 456)

Another term in the strategic management field that deserves attention is strategy content. According to Boyne and Walker (2004), strategy content can be conceptualized on two levels. On the one hand, strategy content can be considered as a broad and enduring approach to how an organization positions itself and interacts with surrounding environment (also called strategic stance). In contrast to this relatively broad view, the second level of strategy is more concrete as it focuses on specific (strategic) actions that are used to operationalize strategic stance. Short term changes are more likely to occur in strategic actions, whereas strategic stance is relatively stable. (Boyne and Walker 2004, 231)

1.2.   Strategic management

Emergence of strategic management as an academic field of research dates to 1960s (Furrer *et al*. 2008, 1). In 1960s and 1970s, research focused mainly on strategic planning with emphasis on analytical decision-making with the intention to anticipate threats and opportunities (Joyce 2015, 8). Attention was paid to specific steps that managers could take if they wished to guarantee effective outcomes and goal achievement (Rose and Cray 2010, 454). Since then, the research field has become more comprehensive and a shift from strategic planning to strategic management can be observed: more attention was paid to various aspects that are important for strategy implementation, such as creative problem solving, learning, conflict management and negotiation (Joyce 2015, 8). Strategic decision-making and strategic planning were viewed as parts that constitute the wider strategic management process (Prokop and Wright 2002, 95). However, the distinction between terms "strategic planning" and "strategic management" might still be somewhat confusing as in the existing literature they are often used equivalently. Purpose of the following discussion is to explain the concepts of strategic planning and management, together with their components, in more detail.

The purpose of strategic planning is to help organisations respond to new situations (Bryson 1988, 75). It involves clarifying organizational purposes and strategies for achieving them (Bryson 2010, 257). Strategic planning can be targeted towards small and routine changes or wide-scale paradigm-changing type of changes (Poister 2010, 250). While the concept was initially meant to

be used by organisations, it can also be applied to projects, functions and communities (Bryson 1998, 75).

Mintzberg (1994) has criticized traditional strategic planning as he distinguishes between strategic planning and strategic thinking. He argues that these two concepts are not equivalent and sometimes strategic planning may even obstruct truly strategic thinking, mainly because of too formalized planning systems. The main difference is that while strategic planning is mostly about analysis, strategic thinking also involves intuition and creativity. Formal planning is dependent on already existing categories, but if real change is desired, the process of strategy formation must allow informal learning, new perspectives and creation of new categories. (Mintzberg 1994, 107-9) The way that strategic planning is often used, is actually *strategic programming*, "the articulation and elaboration of strategies, or visions, that already exist" (*Ibid.*, 107).

However, not everyone agrees with this criticism. It has also been argued that for many, the concept of strategic planning involves more than just strategy formulation through analysis and therefore, a rigid distinction between strategic planning and strategic management is not justified (Joyce 2015, 19). Bryson (2010) has suggested that Mintzberg's criticism is based on outdated private sector practices. He argues that thanks to the practical experience gathered during the last decades in the strategic management field, much more emphasis has been put on purpose, various stakeholders, environment assessment (both internal and external), coalition building, strategy implementation etc. He argues that strategic planning should be seen as a practice that in addition to mere analysis also contains strategic thinking, acting and learning. (Bryson 2010, 257-260)

Poister (2010) suggests that successful strategic planning needs an "out of the box" approach with emphasis on realistic assessment of organizations own capacities and expectations towards future but also trends and forces that might be beyond the control of managers. Instead of just "number crunching", it is important that strategy formulation is based on extensive intelligence that also includes soft data. It is important to assess options in terms of their feasibility and to consider various consequences, costs and risks that might be associated with these plans. (Poister 2010, 248)

Whereas strategic planning is mainly concerned with strategy formulation, strategic management is a more comprehensive concept that is concerned with management on an ongoing basis (Poister and Streib 1999, 310). Strategic management comprises strategic planning and implementation,

and aims to ensure that in addition to strategy formulation, strategic plans are also kept current and successfully implemented using various activities, such as strategic learning and acting (Poister 2010, 249). To achieve this, the management process should include shaping and communicating a clear vision to all counterparts, in both internal and external environment (Poister and Streib 1999, 311). Persuasive communication helps to build change readiness and commitment and to reduce resistance to change (Armenakis *et al.* 1993, 688). In addition, management process should include continuous monitoring of trends, forces and changes in order to guarantee a "fit" between organization and its environment (Poister and Streib 1999, 311). On-going information gathering and assessment of expectations and circumstances should be a part of strategic management, this information can be used in plan formulation, setting a timeline for plan implementation and to modify the strategy, if necessary. (Poister 2010, 249-50)

1.2.1 Strategy implementation

The ability to formulate and implement strategies is considered necessary for the continued survival of any organization, irrespective of whether it operates in private or public sector (Rose and Cray 2010, 453). When strategic plans have already been formulated, implementation of these plans can prove to be challenging (Poister *et al.* 2010, 527), but without implementation, strategic planning does not produce any action or change. Bryson (2010) argues that strategic planning and implementation are both action oriented, but when strategic planning focuses mostly on frame setting, implementation focuses on "sustained action within the constraints of mandates, mission, goals, and strategies, while being open to new learning that may affect the framework for action" (Bryson 2010, 257). Actions in the implementation phase usually include the "communication, interpretation, adoption and enactment of strategic plans" (Noble 1999, 120).

However, it is not rare that despite best intentions, strategic change initiatives fail to achieve desired outcomes. There can be various reasons for this, such as misjudgements about the environment, unrealistic expectations or changes in expectations that occur during the implementation process (Mintzberg 1978, 945). In addition, changes often cause resistance that might have political or social roots (Nutt 1989, 146) and the difficulty of implementing change is often underestimated (McMillian and Tampoe 2000). Bryson (1998) argues that strategic issues involve conflicts which, on the one hand, may be over the ends (what), but also over the means (how). In addition, conflicts can also occur over philosophy (why); location (where) and timing (when) of strategic issues and people (who) are affected (Bryson 1988, 76).

Elbanna (2016) argues that successful implementation can be achieved by strengthening the link between strategy formulation and implementation, and that strategic thinking in the planning phase should also address the question of implementation (MacMillian and Tampoe 2000, 185). To make the implementation process smoother, it is important to build consensus among internal and external veto players (Poister 2010, 248). Strategic consensus means that individuals and groups who are affected by upcoming changes have a shared understanding and are therefore committed to change process (Noble 1999, 121). In some situations, conflicts and resistance might be inevitable and thus, action during the implementation (but also strategy formulation) phase should be focused towards overcoming these barriers and managing forces that otherwise might obstruct the whole process. (Nutt 1989, 146)

Although strategy formulation and implementation are often discussed separately, viewing strategic management as a linear process can be an oversimplification. Since planning has direct impact on implementation which, in turn, might cause the need to make changes in the initial strategy, these two processes are interdependent. (Hrebiniak 2006, 13) This is also related to previous discussion regarding the nature of emergent strategies which emphasized that despite of initial intentions, unexpected factors might cause the need to modify the strategy. Although distinction between strategy development and implementation is often blur in practice as these processes are strongly connected, separation might be necessary in research. Focusing on one aspect of the strategic management process allows to study the object of interest in depth, but the blurred distinction should still be kept in mind. (Nutt 1989, 146)

1.2.2. Strategic management in the public sector

Most of the strategic management concepts and techniques have been originally elaborated for private sector purposes to achieve competitive success (Stewart 2004, 16). Nevertheless, strategic planning has also been widely adopted in public and non-profit sector with the intention to achieve goal alignment, effectiveness and continuity of effort (Bryson *et al.* 2018, 319). It is believed that the use of strategic management in the public sector enables governmental units to ensure productive "fit" to the surrounding environment (Poister and Streib 1999, 324). Potential benefits, such as improved decision making, enhanced organizational responsiveness and resilience, promotion of strategic thinking, acting and learning and improved organizational legitimacy, have given rise to the use of strategic management at various levels of government (Bryson 2010, 255).

Due to its increasing use, public sector strategic planning and management has been of interest for many scholars and the appropriateness of private sector management tools in the public sector has been widely discussed (e.g. Goldsmith 1997; Höglund *et al.* 2018; Bryson and Roering 1987). Several authors have also stressed the substantive differences in public and private management (e.g. Ring and Perry 1985; Nutt and Backoff 1993). Purpose of the following discussion is to give an overview of the main theoretical positions regarding the specifics of public sector management that might affect how strategies are formulated and implemented.

While management in private sector is usually concerned with one organization that seeks to pursue its own objectives, governments must "operate through networks of interdependent organizations", which makes the management problems more complex (Metcalfe 1993, 292). Distinguishing between private and public sector management means distinguishing between micro and macro management processes: in case of micro management, the unit under observations is a single organization, whereas macro management is concerned with a network of organizations (Metcalfe and Richards 1993, 144). These networks are relevant as they affect policy programs, goals, resources and reputation (Walker *et al.* 2010, 732). Although management in public sector might also focus on one single organization, managing complex reforms that affect various levels of governance and stakeholders can prove to be a real challenge.

People who are responsible for goal implementation process in the business sector are usually also involved in the preceding process of formulating and defining organizational goals. Thereby, basic goals in private sector organizations are usually clear and specific. This might not always be the case in public sector where policy formulation and implementation are often separated. Strategy content is often derived from political priorities and formulated by the political leadership of the day, whereas the implementation and delivery of these plans is responsibility of civil servants. (Joyce 2015, 4; Boyne and Walker 2004, 236) Political ambitions of present government and the legislation shape the aims of public organizations, making public organizations' aims exogenous (Walker 2013, 676). In addition, management functions are separated between the executive and legislative branch, but also between central government and local government levels. While the purpose is to maintain separation of powers and prevent improper use of power, it can also cause vagueness in objectives, which in the end can result in ambiguity or vagueness in strategy and lack of policy clarity. (Ring and Perry 1985, 277)

Another important distinction is that strategy formulation and implementation in the public sector is dependent on the election cycle. The replacement of political leadership might bring about new views and contrasting priorities which might cause changes in strategies or even opposed strategies. (Rose and Cray 2010, 457) Unstable and changing coalitions often cause changes in the policy agenda which means that public management is often characterised by discontinuity and uncertainty (Ring and Perry 1985, 284) which can result in incomplete policies and reform attempts.

Public sector management is also complicated by the multiplicity of stakeholders who often represent different and conflicting interests (Ring and Perry 1985, 280; Williams and Lewis 2008). Interest groups might present competing agendas and diverse understanding of policy success or failure. Balancing the claims of various stakeholders is essential for finding necessary support for new initiatives. Nevertheless, it might not always be possible to satisfy the claims of all stakeholders. Choosing which strategies to implement and whom to disappoint is a part of decision-making process in the public sector that is characterized by conflicting policy objectives. (Rose and Cray 2010, 459) The need to form alliances and make compromises between various stakeholders can again cause vagueness (Halachmi 1986, 41). On the one hand, vague and general articulation of strategy might reduce political opposition (Ring and Perry 1985, 278) but it might also obstruct the whole strategic management process because if the intentions are not clear, it is difficult to bring about positive change.

Decision-making in public as well as private sector is influenced by context that stems from organization's role in the society. While private sector organizations offer products and services to consumers with the purpose to generate profit and wealth for a limited number of shareholders, public sector agencies can be considered as instruments of public policy and are therefore a subject to the societal expectations and demands for accountability (Nutt 2006, 290). Funding often comes with regulatory instruments (e.g. audits, inspections, performance indicators and laws). While the purpose of these regulations is to assure accountability, they also set constraints on the strategic management processes. (Boyne 2003, 369)

While strategic management approaches in the private sector usually assume clearly defined goals and unlimited freedom to act, the situation is much more complicated in the public sector due to the "publicness" of organizations (Nutt and Backoff 1993, 209). This could mean that the society has certain expectations towards these organizations and their actions. The "publicness" of

governmental organizations means that assumptions that are valid in private sector strategic management, might not apply in public sector context. (Nutt and Backoff 1993, 210). However, it has also been argued that nowadays, a sharp distinction between private and public organizations has lost its significance because many public sector organizations resemble to ones in the private sector in their way of operating and thus, it would be more accurate to view organizations on a continuum from purely private to public organizations (Wright 2002, 23).

Since public organizations must deal with conflicting and competing goals, they are more likely than private organizations to pursue a mix of strategies at the same time (Andrews *et al.* 2009, 733). Connections between various policy fields increase the need to take into consideration possible externalities stemming from strategies that are being pursued (Nutt 1993, 219) and this also means that the implementation of a specific reform might be affected by other reforms that are implemented at the same time and which might also be contradictory. (Pollitt and Bouckaert 2004, 36)

Due to the multiplicity of stakeholders and the fact that many issues are linked, it is relevant for public sector organizations to be inclusive in the strategic management process and collect input from stakeholders who are affected by the changes ahead. Involvement of internal as well as external key stakeholders might increase the likelihood of reaching consensus among the "veto players", which, in turn, increases the probability for successful strategy implementation. (Poister 2010, 248). For successful strategic planning in the public sector, the analysis of strategic issues must include large amount of information that involves qualitative "soft" data as opposed to "number crunching". Experience and intuition should have a place in the strategy formulation process but at the same time, it is important to keep in mind political feasibility when choosing which alternatives to implement. (Poister 2010, 248)

For successful strategic management, it is necessary for public agencies to understand the driving forces and assess likely consequences, costs and risks of strategic options (Poister 2010, 248). Some have also argued that emergent strategies allow public organizations to be more flexible and responsive when dealing with the constraints stemming from public sector context (Ring and Perry 1985, 283). Focusing on emergent strategies allows public sector organizations to make necessary adjustments to their strategies, if needed. In addition, openness in strategy formulation could be achieved by adding negotiating and bargaining opportunities that will help to fend off criticism and thereby make the implementation process smoother. (Nutt 1993, 217)

Pollitt and Bouckaert (2004) stress the importance of the implementation stage in case of public sector reforms. It is not unlikely that changes in the original reform design occur during implementation, which can prove to be especially difficult if the changes are implemented thorough networks (this includes various levels of government, non-profit organizations etc.). (Pollitt and Bouckaert 2004, 36) Walker *et al*. (2010) also emphasizes the importance of networking in the public management process as they determine how organization addresses the political, socioeconomic and institutional environments and changes that take place in them (Walker 2010, 731).

The intention of previous argumentation was not to exclude the possibility that private-sector organizations might to some extent face similar challenges in the process of strategy formulation and implementation. However, it is important to take these specifics into account when analysing strategic management in the public sector context.

1.3. Territorial reforms

Bouckaert and Kuhlmann (2016) conceptualize local public sector reforms as "a specific type of policy, namely *institutional policies*, which are directed at political and administrative institutional structures" (Bouckaert and Kuhlmann 2016, 3). These reforms can take different forms, depending on what aspect of local government is subject to reform. In case of territorial reforms, the focus is set on redrawing political-administrative boundaries (Rose 2005, 398). The size and functioning of local government has been a debated issue in many European countries and territorial reforms have been of interest for many scholars. The objective of the following sections is to introduce main theoretical perspectives and trends of territorial reforms and their implementation.

Although local government systems in most European countries have been historically characterized as fragmented systems that included a large number of small-sized municipalities, many national governments have decided to implement territorial reforms and reduce the number of municipalities by territorial and demographic extension (territorial up-scaling), e.g. United Kingdom, Sweden and Denmark (Kuhlmann and Wollmann 2015, 150). This type of reforms started to spread after the World War II and they were mostly triggered by the need to keep up with growing demands that were imposed on local governments because of the expanding welfare

state (Rose 2005, 399). Reforms that focus on territorial up-scaling are often triggered by hopes that local government mergers result in improved public service delivery and increased efficiency. (Steiner *et al.* 2016, 26, 32) In addition, objectives such ash more specialized and professional staff (*Ibid.*), promotion of local democracy, less need for horizontal equalisation mechanisms and increased capacity that allows local governments to take over more functions (Swianiewicz 2010, 186), have also been brought out.

It should be noted that in addition to territorial up-scaling, territorial reforms can also be of a different character. Some countries, e.g. Czech Republic and Hungary, have decided in favour of territorial fragmentation: in the beginning of 1990s, Hungry increased the number of municipalities from 1364 to 3133 (Rose 2005, 401), and in a similar fragmentation process, the number of Czech municipalities was increased from 4104 to 6230. In Central and Eastern European countries, this has been explained as a reaction to earlier consolidation imposed by the communist government that reduced the number of local governments in an undemocratic manner. (Swianiewicz 2010, 183-184)

However, there are also countries, e.g. France and Italy, where there is strong local resistance towards reducing the number of municipalities. Because of this, municipal amalgamations have only taken place with local government consent and as an alternative, the viability of small municipalities is ensured through inter-municipal cooperation. (Kuhlmann and Wolllmann 2015, 150) Nevertheless, the size of local governments still varies greatly all over Europe. Large local governments in terms of population can be found in the UK, Denmark and Lithuania (Baldersheim and Rose 2010, 4), while relatively small local governments are in Hungary and Czech Republic (Swianiewicz 2002, 6). In addition to differences in size, local governments also vary in their functional responsibilities and level of autonomy. Level of local discretion can also affect reforms that seek to reorganize local government system. (Bouckaert and Kuhlmann 2016, 9)

1.3.1. Territorial reform strategies

While many national governments have decided to reduce the number of municipalities, means of achieving this has varied greatly. Research on territorial reforms shows that there are different means and tactics that governments can use to merge local governments. Based on a study of amalgamation reforms in various European countries, Steiner *et al.* (2016) distinguish between two dimensions of reform strategies. In the first dimension, it is possible to make a distinction

between bottom-up and top-down approaches. In case of bottom-up reform strategies, boundary changes are voluntary and are initiated by the local tier, local governments are free to decide if and with whom they wish to merge with. In case of top-down strategies, boundary changes are initiated by the central government and are coercive. In the second dimension, reform strategies can be either comprehensive or incremental. Comprehensive reform strategy means that whole local government system is analysed during the reform. In case of incremental reform strategy, the approach is more step by step which means that only part(s) of countries' territorial structure are analysed and reformed. (Steiner *et al.* 2016, 26-27)

In addition to purely bottom-up or top-down approaches, there are some countries (e.g. Belgium) that have used mixed strategies, which are sometimes also called "carrot-and-stick" strategies. This approach includes elements from bottom-up as well as top-down approaches. (Steiner *et al.* 216, 31) In case of mixed reform strategy, the first phase of the reform is usually voluntary but local governments still need to take into consideration the guidelines which usually include minimal size criterion and deadlines for reform implementation (Wollmann 2010, 254, 258). To foster voluntary amalgamation, governments might use financial incentives as a bonus ("carrots") (Steiner *et al.* 2016, 31). The voluntary phase might also include public hearings through which citizens have the possibility to express their opinions (Wollmann 2010, 254). This is followed by the second phase of the reform in which the binding legislation comes to force ('stick') and the municipalities who failed to merge in the voluntary phase, are merged by the government (Steiner *et al. 2016,* 31).

Difficulty of implementing comprehensive reforms in the public sector has been well acknowledged. Large scale reforms mobilize various interests and political groups, especially among those that are more likely to bear losses and are therefore also more motivated to create political resistance to reform proposals (Christiansen and Klitgaard 2010, 183). This also applies to territorial reforms that seek to re-draw political-administrative boundaries (Blom-Hansen *et al.* 2012, 71; Zimmerbauer and Paasi 2013). Municipality amalgamations can be highly emotional and contested processes because municipalities, especially in the Nordic countries, are important sources of local identity and local governance. Acceptance is less likely if merger justifications are vague and immediate economic threats to municipality are noticeable. (Zimmerbauer and Paasi 2013, 39).

In case of territorial reforms, Steiner *et al.* (2016) argue that chosen strategies influence the implementation of reforms by causing various patterns of conflicts and resistance. It has also been suggested that governments can adopt various strategies to reduce resistance to their reform proposals (Christiansen and Klitgaard 2010, 183). Although bottom-up and incremental strategies help to reduce resistance, international experience with territorial reforms has shown that when only bottom-up approaches to amalgamations are used, reforms can last a long time and therefore, top-down coercive reforms are expected to enable reform implementation in a short period of time (Sootla *et al.* 2011, 42). However, top-down reform strategies are also more likely to cause resistance and conflicts which may arise along the central-local division, between rich and poor municipalities or small and large municipalities. Opposition to the reform can also arise from politicians and employees. (Steiner *et al.* 2016, 33) Resistance might have different roots but in case of municipal amalgamations, one important source of public resistance is the fear of losing autonomy and local identity (Allers and van Ommeren 2016, 718). In addition to reform measures, resistance might also be caused by reform objectives, for example increased efficiency as a reform objective is likely to cause opposition. (Steiner *et al.* 2016, 27). Other factors that might hinder the implementation process are insufficient resources, lack of time to prepare the implementation and inconsistent reform objectives (Steiner *et al.* 2016, 35)

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┌──────────────┐                          ┌──────────────┐
│ TERRITORIAL  │◄─────────────────────────│   REFORM     │
│   REFORM     │                          │IMPLEMENTATION│
│  STRATEGY    │─────────────────────────►│              │
└──────────────┘                          └──────────────┘
       ▲                                          ▲
       └──────────┬──────────────┬────────────────┘
                  ▲              ▲              ▲
          ┌────────────┐  ┌────────────┐  ┌────────────┐
          │Multiplicity│  │ Unstable and│  │ Political  │
          │    of      │  │  changing   │  │ ambitions  │
          │stakeholders│  │ coalitions  │  │            │
          └────────────┘  └────────────┘  └────────────┘
                          ┌────────────┐
                          │Election cycle│
                          └────────────┘
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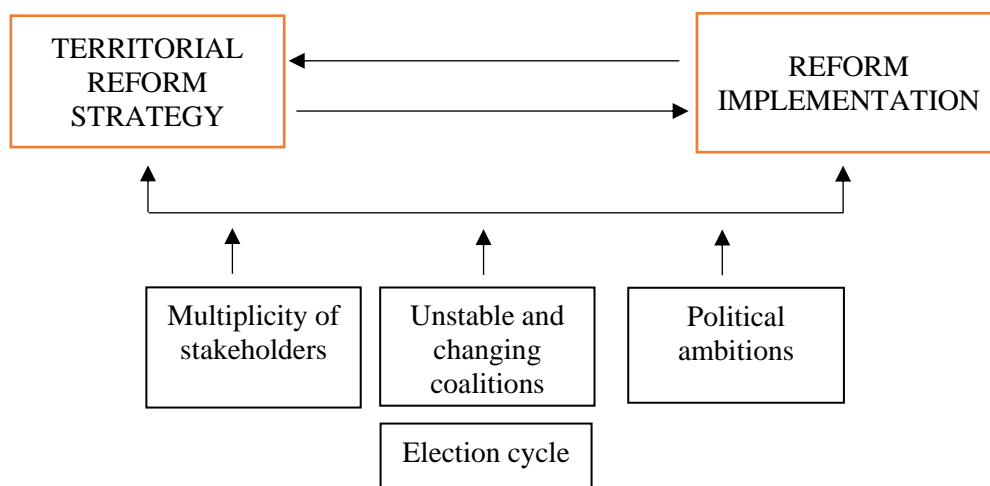
Figure 2. Analytical framework.
Source: compiled by the author, based on the theoretical framework.

All this can result in the rejection of reform attempts (Baldersheim and Rose 2010, 9). On the one hand, the chosen reform strategy might give rise to resistance and conflicts, but in addition to the chosen strategy, territorial reform implementation is complicated by public sector specific factors, e.g. the multiplicity of stakeholders and political ambitions, that were discussed afore. Together,

the chosen reform strategy and factors stemming from the public sector context, shape the process of reform implementation and might cause the need make changes in the initial reform strategy (see Figure 2), therefore demonstrating the non-linear nature of strategic management process.

While strategic management research usually focuses on managing change within one organisation (e.g. By 2007; Fernandez and Rainey 2006), the following empirical analysis will try to take a broader look and use strategic management theory to analyse the implementation of the Estonian territorial reform. Although analysing public sector reforms from strategic management perspective has so far not been widely adopted, there are some exceptions, e.g. Kickert (2010) who used the emergent change theory to analyse the management of the Dutch agencification reform. Still, it could be assumed that various aspects that are considered important for successful change management within an organisation, can also be useful when implementing comprehensive reform, such as re-drawing administrative-territorial boundaries. For example, Haveri (2006) suggests that when implementing reforms on the local government level, it is important to find political consensus as well as political leadership to lead the change and to "pull the different interests together and establish a process of decision making and implementation" (Haveri 2006, 32).

2. THE CASE OF THE ESTONIAN TERRITORIAL REFORM

2.1. Estonian local government system

Since 1993 Estonia has a one-level local government system that consists of rural municipalities (*vald*) and cities (*linn*) (Mäeltsemees 2012, 158). There are also 15 counties (*maakond*) that until recently were governed by the county governors who were not directly elected by citizens, instead the county administration subordinated to the central government. Effective since 01.01.2018, the county governments were abolished and their functions and tasks were distributed among local governments and various ministries (Ministry of Finance 2017). The Constitution of the Republic of Estonia includes a chapter on local governments that sets general principles and significant constitutional guarantees to local self-government.

Prior to the reform, Estonia was characterized by a fragmented local government system which was dominated by small-sized municipalities. This is illustrated by the fact that 169 local governments out of 213 had less than 5000 residents (Ministry of Finance 2018a) (Overview of the size of Estonian local governments before and after the reform can be found in Table 1). In addition, there were also significant disparities between municipalities, partially caused by internal migration that has increased in the past decade (Mäeltsemees *et al.* 2013, 72).

Before the reform, local government amalgamations had only taken place on voluntary basis. No top-down reforms had been implemented and because of this, the number of local governments had reduced in a very slow pace. (Mäeltsemees 2012, 160) Amalgamations were seen as a voluntary process, in which the government took a modest role by supporting voluntary mergers with legal and management mechanisms, such as compensation of costs related to the amalgamation process (Sootla *et al.* 2009, 54). It has been brought out that the incentive mechanisms of the voluntary merger policy were not sufficient to address the issue of scale. Inter-municipal cooperation, which in some countries has been used as an alternative to amalgamations,

has for various reasons not been widely used in Estonia. (OECD 2011, 49) While some of the constraints to voluntary horizontal cooperation are related to values and beliefs (*Ibid.*, 49), administrative complexity of cooperation and political rivalry have also been brought out (Explanatory memorandum of Administrative Reform Act 200 SE, 2). In addition to the general supportive stance towards voluntary mergers, there have also been several attempts to reduce the number of local governments through implementation of administrative-territorial reform. Ministers from different political parties have presented different visions regarding the alteration of administrative-territorial organisation but these reforms did not find the necessary political support until 2016.[1]

2.2. Research methodology

This thesis uses a qualitative case-study approach to study the Estonian territorial reform from a strategic management viewpoint. It will do so by focusing on the territorial reform strategy that was used to reduce the number of local governments in Estonia, followed by analysis of how the chosen strategy affected the reform implementation. The analysis of reform strategy and its effect on the reform implementation is based on the theoretical framework introduced in the first part of the paper. Information was collected through qualitative methods which allow to study the chosen case in depth and detail (Patton 2002, 14). Data that is necessary to answer research questions was collected through document analysis and semi-structured interviews. Document analysis was mainly used to collect information regarding the reform strategy that was used to reduce the number of municipalities in Estonia. Most of the information regarding reform implementation was gathered through semi-structured interviews. The interviews were necessary because while there is an adequate amount of information available concerning the reform strategy that was used to reduce the number of municipalities in Estonia, data regarding reform implementation and various obstacles that arose during this process is still insufficient as the reform was implemented quite recently. Semi-structured interviews allowed to elaborate on selected questions and ask for clarifications, if needed (Johnson 2002, 90).

Interviewees were chosen thorough purposive sampling which allows to select information-rich cases that yield insight to the reform implementation process which is the issue of central

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[1] Overview of previous reform proposals is available at: https://haldusreform.fin.ee/haldusreformi-seadus/uuringud/

importance in this thesis (Patton 2002, 230). Eight interviews in total were conducted over the period of 3 April until 2 May 2018 (the list of interviews can be found in Appendix 1). Interviews were carried out with officials from the Estonian Ministry of Finance who were involved in drafting the Administrative Reform Act and in the following reform process; with a representative from The Association of Estonian Cities and Rural Municipalities (AECM); and with representatives from selected local governments. Interviewing people from central and local government level offers the opportunity to gain insight from the viewpoint of various parties. When choosing local governments, the aim was to include municipalities which had different geographical locations, backgrounds and experience in the reform process. Therefore, the sample included local governments which merged voluntarily in the first phase of the reform, local governments that were merged by the government in the second phase of the reform as well as those which contested the reform in the Estonian Supreme Court. All interviews were conducted in Estonian, recorded and transcribed. Four interviews with local government representatives were conducted via Skype.

One of the limitations stemming from the use of a single case-study approach, when compared to a multiple-case design, is the external generalizability of findings (Yin 2003, 53). It has been found that the nature of public sector reforms is also affected by various contextual conditions, such as administrative culture and tradition, type of local democracy, state structure *etc*. (Bouckaert and Kuhlmann 2016, 8) While some of findings of the following empirical analysis might also be generalizable to territorial reforms implemented in other countries, it should also be noted that there are country-specific contextual factors that might affect the nature and implementation of reforms, which are not involved in this analysis.

2.3. Territorial reform strategy

After parliamentary elections in 2015, new governing coalition was formed between the Estonian Reform Party (*Eesti Reformierakond*), The Social Democratic Party (*Sotsiaaldemokraatlik Erakond*) and Pro Patria and Res Publica Union (*Isamaa ja Res Publica Liit*). The coalition agreement of 2015 involved the implementation of administrative-territorial reform and a goal was set to pass the necessary legislation in the parliament by July 1, 2016 the latest (ERR 2015). According to the Administrative Reform Act, the purpose of the reform was "to support the increase of the capacity of local governments in case of offering high quality public services, using

regional prerequisites for development, increasing competitiveness, and ensuring a more consistent regional development".[2] The objective of the following section is to give an overview of various elements that all together constituted the reform strategy that was used to merge local governments.

With the intent to stress the importance of the cause, it was agreed that the political coordination of the reform will be under the prime minister (ERR 2015) and a separate reform law that would provide basis and procedures for the reform, will be formulated (Explanatory memorandum of the Administrative Reform Act). Estonian Parliament approved the Administrative Reform Act 200 SE on June 7, 2016. The law included deadlines for the reform implementation, the minimum and recommended size criteria for future local governments, rights and obligations of municipalities and conditions under which the government had the right to apply exemptions.

To achieve reform objectives, the government decided that the reform implementation should be based on objective and explicit criteria (ERR 2015) and therefore, a minimum size criterion for local governments was agreed upon. Taking into consideration recommendations of the expert committee[3], it was decided that the alteration of administrative-territorial organisation should result in the creation of local governments with at least 5000 residents (Administrative Reform Act § 3). As there were also more ambitious alternatives on the table, the decision to draw the line at 5000 residents was eventually a political compromise (Interview A, C). The number of residents was considered an objective criterion to evaluate the administrative capacity of local governments. Although they were discussed, deciding upon more subjective criteria would have meant that they are also less accurate and easier to be contested and manipulated with (Interview A). The chosen number was reasoned with increased administrative capacity: it was argued that local governments in this size are capable of fulfilling tasks and obligations set forth by law and are able to develop and arrange local matters independently (Explanatory memorandum of the Administrative Reform Act). While the minimum size criteria for future local governments was set at 5000 inhabitants, it was hoped that mergers will result in the creation of larger municipalities and therefore, the recommended size of local governments was set at 11 000 residents. Although fulfilling the recommended size criterion was not obligatory for local governments, it was encouraged with

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[2] Article 1, subsection (2) of the Administrative Reform Act. RT I, 21.06.2016, 1.
[3] The Minister of Public Administration decided to form an expert committee that played an advisory role in the reform preparation. The committee included people from various fields, such as representatives from local governments, ministries, universities etc.

financial incentives (this will be explained in more detail later). (Explanatory memorandum of Administrative Reform Act 200 SE)

The law designated the implementation of the reform in two stages. While the first phase of the reform included various bottom-up elements, implementation of the reform scheme in the second phase was rather top-down. According to the Administrative Reform Act, local governments that did not meet the minimum size criterion (5000 residents) were given the possibility to merge on their own initiative in the first phase of the reform (for the reform timeline, see Figure 4). Local governments had to submit a proposal to start negotiations with another municipality by 1 October 2016 the latest and submit the resolution for the alteration of administrative-territorial organisation to the county governor by January 1, 2017.

1st phase
- **until 01.01.2017** - preparation of voluntary mergers on the initiative of local governments
- **01.07.2016** - Administrative Reform Act came into force
- **01.10.2016** - deadline for local governments who did not meet the minimum size criteria to start merger negotiations.
- **01.01.2017** - deadline for submitting resolutions to county governor.

2nd phase
- **01.01.-15.07.2017** - preparation and initiation of amalgamation proposals by the government
- **15.02.2017 -** Ministry of Finance submits merger proposals
- **15.05.2017 -** deadling for local governments to submit their opinions regarding government proposals.

15.10.2017
- Amalgamations came into force with local government elections held in new boundaries **15.10.2017**
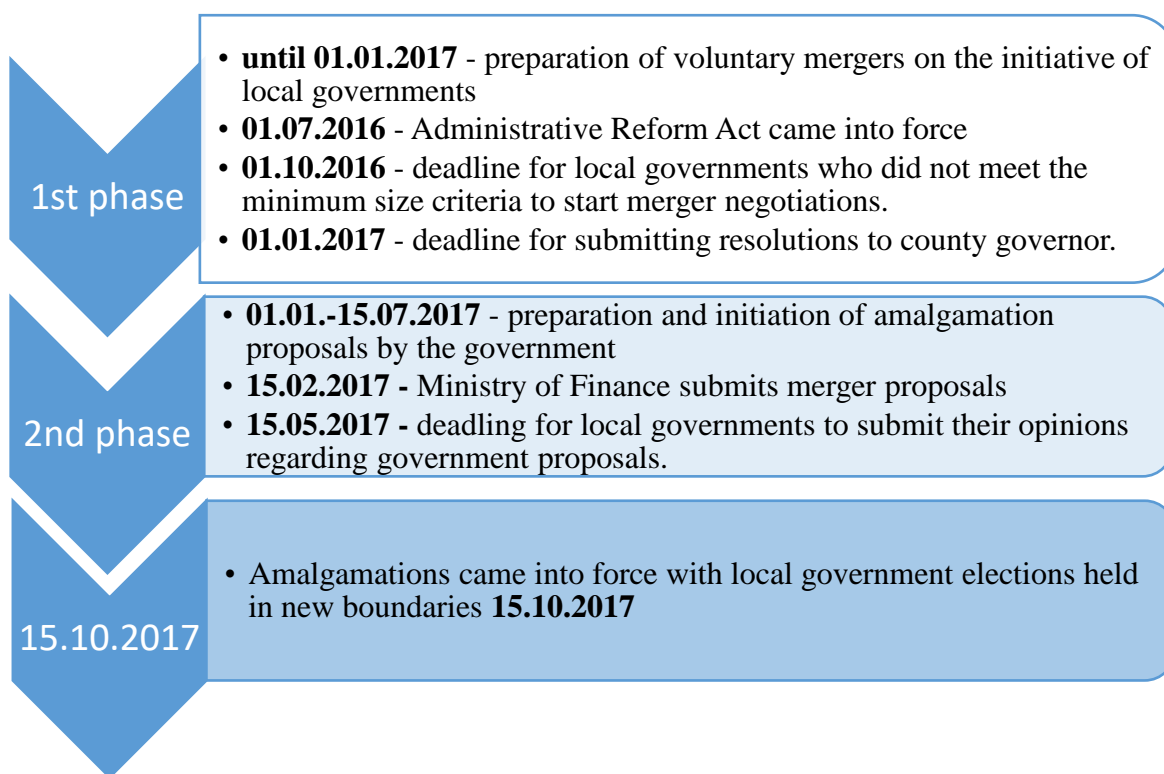
Figure 4. Timetable of the reform
Source: Ministry of Finance.

Since purely voluntary approach to local government amalgamations in the previous decades had not been as successful as hoped, the government decided to include top-down elements in the reform strategy and therefore, the alteration of administrative-territorial division in the second phase of the reform took place on the initiative of the government. According to the reform law,

the Ministry of Finance submitted merger proposals by February 15, 2017 to those local governments that did not meet the minimum size criterion and decided not to merge during the first phase. Local governments that received such a proposal had to submit their opinion regarding the proposal to the Ministry of Finance by May 15, 2017. Municipalities had to demonstrate their independent administrative capacity or sign the merger agreement proposed by the government. After that, final decisions concerning government initiated mergers were made. (Administrative Reform Act)

The reform strategy also foresaw that local governments had to determine the opinion of residents if the alteration of administrative-territorial organization took place on the initiative of the council (Administrative Reform Act § 6) but also if the local government received a proposal from the government (*Ibid.,* § 12) in the second reform phase. However, the results of opinion polls were not binding to municipalities nor the government.

To minimize the resistance to amalgamations, the government decided to use various financial incentives ("carrots") to make the reform implementation smoother, to increase the number of voluntary amalgamations in the first phase of the reform and to reduce the necessity for government intervention in the second phase (Concept Paper for the Administrative Reform, 12). Merger grants (50 euros per resident) were paid to all local governments that formed as a result of merger initiated by the local council.[4] In addition, financial incentives were used to encourage local governments to fulfil the recommended size criterion (11 000 residents): additional financial grant in the amount of 500 000 euros was paid if merger resulted in the creation of local government with at least 11 000 inhabitants or if local government in the size of county was formed (Administrative Reform Act § 21).

In addition to merger grants, the government tried to reduce resistance to amalgamations by providing social guarantees to the heads of local government (Concept Paper for the Administrative Reform). If the municipality mayor or a chairman of the council had been holding the seat for at least a year and the merger on the initiative of local council resulted in the termination of their authority, they received compensation in the amount of 12 times the average monthly salary (HRS § 19). The purpose of such compensations was to reduce the uncertainty for

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[4] According to the Article 20, subsection (2) of the Administrative Reform Act, the minimal merger grant for a merged local government was 150 000 euros and the maximum 400 000 euros.

local government leaders and to motivate them to lead and take active stance in the reform process and merger negotiations (Concept Paper for the Administrative Reform, 13).

To offer support to local governments in the first phase of the reform, three regional advisory committees were established with the purpose to advise local governments in merger negotiations. In addition to giving recommendations to local governments, regional advisory committees also gave opinions to the Ministry of Finance regarding forced mergers in the second phase of the reform. (Administrative Reform Act § 5)

2.4. Reform implementation

The following section will study the implementation of territorial reform, which was to a large extent based upon the reform strategy. It will first bring out influences of the reform strategy, followed by other factors related to the general context of public sector management.

2.4.1. Strategic factors

It could be argued that the Estonian territorial reform was implemented in a rather short period of time: preparations of this specific reform proposals started after the parliamentary elections in 2015, parliament approved the Administrative Reform Act in June 2016 and final decisions concerning government initiated municipal mergers were made roughly a year later. As the signals that territorial reform will be actually implemented were quite strong and the government seemed consistent in its pursuit to prepare and pass the necessary legislation, considerable amount of local governments started merger negotiations with neighbouring municipalities already before the adoption of the Administrative Reform Act by the parliament (Interview A and H).

While there was initially an idea to postpone government initiated forced mergers after local elections of 2017 (Interview A), it was eventually decided that whole reform scheme will be implemented at once and before the elections. Although it resulted in a tight time frame that has been criticized by various parties (ERR 2016a; Interview D and F), it was also acknowledged that the decision to implement the reform scheme within one election cycle was probably the right decision as it reduced the political uncertainty of the future and confusion that would arise from a longer transition period (Interview A and C). While the short deadlines were brought out by several

interviewees (Interview D, F, G, H), it was also found that the success or failure to implement the reform scheme on time depended on the will to do so:

"Those who wanted to negotiate managed to do so… as it is often the case in the public sector… to a great degree it also depended on the will. The time frame could be considered sufficient to decide whether to merge or not… but another question is to what extent this schedule left time to involve local communities in the process…" (Interview G)

"I think that we had just about enough time but we also started [with merger negotiations] before the parliament started the proceedings… If we wouldn't have started before… then no… the time would not have been sufficient…" (Interview H)

Although the necessity for reform was generally acknowledged by various stakeholders (Interview A, C, D and E), the fact that the reform implementation was to a great degree based on the criterion of 5000 residents caused criticism which mainly arose among local governments. While the requirement to have a certain number of residents was clear and understandable, many local governments still questioned the calculations upon which the minimum size criterion were based on (Interview C, D and G).

"There was also an insane idea to evaluate all local governments in terms of their administrative capacity… the existence of local government officials with certain qualifications etc… Insane in a sense that if we add such requirements and variables into such a complicated process… it is easy to contest them in court. And now… only one parameter was left to contest [5000 resident and even this caused problems… if there would have been more parameters then I can't imagine how this reform would had been realized…" (Interview C)

While many local governments decided to initiate voluntary amalgamations in the first phase, there was also a considerable amount of those who protested against mandatory mergers. 26 local governments appealed to the Estonian Supreme Court and contested the constitutionality of the Administrative Reform Act. Complainants questioned the proportionality of the minimum size criterion and argued that the short deadlines do not provide local governments enough time to prepare and negotiate voluntary mergers. Opponents also found that the act is in potential conflict with local governments' right to self-management. (ERR 2016c) In addition, local governments

argued that municipalities with less than 5000 inhabitants can also have the necessary administrative and financial capacity to perform tasks set forth by law (ERR 2016b, Interview D).

It was speculated and hoped by many local governments that the Supreme Court will eventually decide that the Administrative Reform Act is unconstitutional and for that reason, several municipalities decided not to participate in merger negotiations in the first phase of the reform (Interview A and C). However, the ruling of the Constitutional Review Chamber of the Supreme Court stated that forced mergers are constitutionally justified and added that the reform law gives the government some freedom to waive the forced mergers in case of some particular local government.[5] Supreme Court made the judgement public on December 20, 2016, only 10 days before the deadline set forth by law for submitting resolution to apply for alteration of administrative-territorial organisation. This meant that local governments affected by this had no time to change their position and merge voluntarily due to the strict time frame set forth by law (Interview A, C and D).

Regarding reform communication, interviewees among local governments had different views. Two respondents stated that the communication was well planned and visible (Interview G and H):

"*The communication of the reform was systematic and well-advised… really… all 3 ministers of public administration that held office during the reform process were actively meeting and communicating with local governments… also in places and events that they otherwise might not attend…*" (Interview G).

At the same time, some interviewees also found that the reform strategy lacked clear communication from the government regarding the ultimate purpose of the reform and the means to get there (Interview D and F):

"*Communication was deficient, it was not articulated clearly enough what one or another local government must do or precisely which criteria it must fulfil… (…) there was a lot of confusion…*" (Interview F)

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[5] 20.12.2016 judgement of the Constitutional Review Chamber of the Supreme Court in the case number 3-4-1-3-16.

In addition, confusing and contradictory recommendations from the regional advisory committees were also brought out (Interview D). Confusion was also caused by the obligation for local governments to determine the opinion of residents several times during the reform process, although the results were not binding (Interview D and F). One interviewee stated that because of negative attitudes among residents towards merger, some local governments decided to quit merger negotiations in the first phase of the reform, but were merged by force in the second phase by the government despite of opinion poll results (Interview F). In addition, respondents from local governments also brought out the lack of guidance and support from the government, after the merger agreements had been signed:

"From the government side… as soon as we had signed our merger agreement, they were happy… you are one municipality now… until that moment they were very interested but when the real merger process began… there was nothing… no support from the government… I think that there should have been more guidance." (Interview E)

Regarding the impact of financial incentives on the reform implementation, the respondents had diverse opinions. While the positive impact of financial incentives on voluntary mergers, such as merger grants for local governments who fulfilled the recommended size criterion, was estimated quite high by the official of the Ministry of Finance, two interviewees from local governments also brought out that while the possibility for financial grants was known, final decisions whether to merge or not depended mostly on other factors (Interview D and F).

Overall, the interviewees from the central government as well as local level thought that the decision to include bottom-up elements in the reform strategy, that gave local governments the opportunity to decide with whom to merge with, was the right call at the time because it made the reform implementation process smoother by reducing the necessity for forced top-down mergers in the second phase of the reform.[6]

2.4.2. Political factors

Interviews demonstrated that in addition to elements from the reform strategy, reform implementation was also influenced by changes in the ruling coalition and other political variables.

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[6] Overview of local governments who decided to merge on their own initiative in the first phase of the reform can be found at: https://haldusreform.fin.ee/kov-volikogude-algatatud-uhinemised/

In November 2016, just before the end of the first reform phase, the ruling cabinet ended in a no confidence vote against the cabinet and a new ruling coalition was formed between the Centre Party (*Keskerakond*), Pro Patria and Res Publica Union and Social Democratic Party (ERR 2016). This meant that the reform was hereinafter led by the political party who had previously criticized the chosen reform strategy while being in the opposition (Interview C) and was therefore in a difficult position as the sensitive and conflictual decisions regarding forced mergers in the second phase of the reform were left to the new coalition.

According to an interviewee from the Ministry of Finance, agitation made by reform opponents and opposition politicians during the Supreme Court trial had its impact on the number of voluntary mergers in the first phase of the reform (Interview A). It is likely that there would have been more voluntary mergers if the Estonian Presidential elections of 2016 would not have taken place at the same time with merger negotiations. Because of messages and statements made by some of the candidates, some local governments decided to quit merger negotiations at the last minute. (Interview A)

"*There was knowledge that the previous coalition was more technocratic than the present one… processes were moving in the right direction… the fact that some local governments surprisingly interrupted the merger negotiations was to a great extent caused because the Centre party entered the coalition… Candidate X visited most of the municipalities during the presidential campaign and gave promises that if they get to power, they will turn the reform process around or at least try to bargain exceptions… a lot of political campaign was made at the expense of the reform…*" (Interview A)

In the second stage of the reform, the reform law left the government under certain conditions the right to suspend the procedure of merging a local government unit if the justifications in the opinion of local government gave an adequate ground for this (Administrative Reform Act § 9). Broadly speaking, the decisions to merge local governments were based on the criteria set forth by law (Interview B and C), but the opportunity to make exceptions was also used by several coalition parties as a political tool in bargaining and deciding whether to amalgamate certain municipalities (Interview A and C). In addition, the statements of leading politicians were at times contradictory and were not always in accordance with the reform objectives and rules set forth by the Administrative Reform Act (Interview A). Statements were often based on political calculations and depended on the audience, which, in turn, sent confusing signals to local

governments that were deciding whether to merge on their own initiative or not (Interview A, D and F).

"*Clearly the whole reform process was also influenced by political themes. For example, Loksa… a municipality with less than 5000 residents, was not merged… but it was also well-known that the municipality is governed by the prime ministers' party… this kind of things caused questions…*" (Interview F)

"*A bad surprise was that if the whole reform process was designed with the purpose to minimize the possibility for political randomness… there were scientific calculations and objective grounds regarding which areas would function logically… and then proposals such as Loksa were made.*" (Interview A)

Table 1. Overview of local governments before and after the reform

Local government	Before the reform (as of January 1, 2017)	After the reform (as of January 1, 2018)
Number	213	79
Population less than 5000	169	17
Population 5001-11 000	28	34
Population more than 11 000	16	28
Average population size	6349	17 152
Median size	1887	7739
Average size of territory (km^2)	204	550
Median size of territory (km^2)	180	512

Source: Ministry of Finance (2018a)

In sum, the interviews brought out that in addition to the criteria set forth by the reform law, the implementation was also affected by political considerations. The possibility to make exceptions was not always used purposefully and the reform was also a subject to political bargaining.

3. DISCUSSION

Several conclusions based on the empirical findings of the Estonian territorial reform can be made.

First, it can be said that the reform strategy that was used to implement territorial reform in Estonia did not change significantly during the implementation process and was to a large extent implemented as intended. In broad terms, the implementation of the reform took place according to the criteria set forth by the Administrative Reform Act and the changes in the ruling coalition did not bring about significant changes in the reform scheme. To some extent, this could be explained by the shared political will of most parties. Still, the strategy cannot be considered as a purely deliberate one as there were various emergent aspects that were mainly related to political influences that were not initially intended, such as the decisions to waive mergers of some concrete municipality. In addition, Mintzberg and Waters (1985) note that for a strategy to be perfectly deliberate, intentions must be common to all the actors (Mintzberg, Waters 1985, 258), but this is unlikely in case of Estonian territorial reform and government initiated top-down mergers. Still, on a continuum from perfectly deliberate to perfectly emergent strategies, the Estonian reform strategy would more likely fall along the deliberate side of the continuum than the emergent one.

Second, although the difficulty of reforming public sector has been well acknowledged (Blom-Hansen *et al.* 2012; Christiansen and Klitgaard 2010), it has also been suggested that governments can use various strategies to reduce resistance to their reform proposals and make the reform implementation smoother (Blom-Hansen *et al.* 2012, 72; Wollmann 2010, 258). Findings from the Estonian case study show that the strategy that was used to implement territorial reform also included several elements that aimed to reduce stakeholder resistance**.** For example, the reform strategy involved financial incentives, such as merger grants and additional grants if the recommended size criterion was met or if a local government in the size of a county was formed, with the purpose to encourage voluntary mergers in the first phase and to reduce the necessity for government intervention in the second reform phase. In addition, the reform strategy also involved social guarantees for local government leaders to encourage them to take an active role in the

reform process and lead merger negotiations. While it is not possible to conclude from these findings to what extent these incentives influenced the decisions of local government leaders, it was brought out in the interviews that to some extent, this reform element helped to reduce the uncertainty for local government leaders towards future.

Third, according to the theoretical literature, the strategy that was used to implement territorial reform in Estonia could be categorized as a mixed ('carrot and stick') strategy since it included both voluntary and compulsory reform elements (Steiner *et al*., 31; Wollmann 2010, 254). Regarding bottom-up elements, local governments could choose with whom to amalgamate with and amalgamations that took place on the initiative of municipal councils were supported with various financial incentives. However, the reform legislation also included various top-down reform elements: if local governments did not meet the criteria set forth by law and failed to merge in time, the reform legislation came into force and eventually many municipalities were merged by the government. Although various participatory elements, such as unbinding public hearings and advisory committees, were included in the reform design, eventually the will of the government to merge local governments prevailed. Overall, it can be said that the decision to implement the reform in two stages and to use bottom-up approach in the first phase of the reform, which gave local governments the option to choose with whom to merge with, reduced the necessity for government intervention in the second phase as many local governments had already decided to implement the reform scheme on their own initiative.

Fourth, theoretical literature focusing on territorial reform implementation suggested that reforms that aim to reduce the number of local governments and include top-down elements to do so, will bring about conflicts along the central-local division (Steiner *et al.* 2016), but also allow to implement the reform scheme in a short period of time (Sootla *et al.* 2011, 42) as the fixed deadlines are usually included in the reform legislation (Wollmann 2010, 255). These theoretical assumptions are also confirmed by the Estonian case which showed that although many local governments decided to implement the reform scheme on their own initiative in the voluntary phase, the reform implementation did not pass by without setbacks and challenges as there was also a considerable number of municipalities that contested the constitutionality of the reform law and top-down mergers in the Supreme Court of Estonia. Although the ruling eventually stated that forced mergers are constitutionally justified, the ruling was made public only 10 days before the end of the voluntary reform phase. The tight reform timeframe did not give these local governments the possibility to merge on their own initiative anymore and most of them were

merged by the government. On the one hand, this could imply that the reform process lacked realistic assessment of various consequences and risks associated with the chosen strategy (Poister 2010, 248), but considering the international experience with territorial reform implementation and various signals from Estonian local governments, it is unlikely that such opposition came as a surprise to the government. Interviews with representatives from local governments (also those that had contested the reform) showed that the need to reform the local government system was acknowledged, and rather, the questions and doubts were related to the rationale used by the government to justify the chosen minimum size criterion, and other concrete reform elements, such as the tight timeframe, which was also brought out by many interviewees.

Fifth, the strategic management literature emphasises the importance of building change readiness and commitment to increase the likelihood of successful implementation (e.g. Armenakis *et al.* 1993, 688). This viewpoint can also be extended to the implementation of territorial reform that seeks to redraw administrative-territorial boundaries by merger of existing municipalities. Although it is possible to implement such reforms in a very top-down manner, it would be beneficial to put more emphasis on communication and consensus building among various stakeholders, especially those on the local level. This would help to create cooperative context among those who take part in the implementation process. (Cline 2000, 552). On the one hand, this is important because it increases the likelihood for a successful and smoother reform implementation, but on the other hand, it might also reduce tensions among local governments that henceforth need to function as one entity.[7] The Estonian case shows that the need to address implementation barriers stemming from stakeholder resistance were to some extent brought to attention and addressed in the reform strategy, but these attempts were mostly related to various *financial* incentives that aimed to encourage local governments to merge on their own initiative, and not enough emphasis was put on creating a shared understanding of the future local government system and coalition building. The interviews also brought forth the importance of communication in the implementation phase. In case of territorial re-scaling, the heads of local governments and local council members can be considered important actors, whose support for the reform is crucial to ensure successful implementation. Even if the necessity of reform is generally recognized, it is still important to put emphasis on the communication of the reform objectives as well as means to achieve them.

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[7] An interesting example can be found from some of the Australian states where local government amalgamations were carried through in a very top-down manner and with limited public consultation, which gave rise to public discontent and resulted in local campaigns for de-amalgamation (see Dollery *et al.* 2011).

Sixth, the findings also proved the importance of public sector context in shaping the reform implementation process (Nutt 2006; Bryson and Roering 1987, 15). Theoretical literature on public sector management emphasises the role of diverse and often competing interests, which can also result in shaky coalitions (Ring and Perry 1985, 281). On the one hand, the Estonian territorial reform implementation was affected by changes in the ruling coalition that took place in the middle of the reform process and during active merger negotiations between local governments. The new coalition involved a political party that had previously, when in opposition, taken a negative stance towards the chosen reform strategy, but was from thereafter responsible for the reform implementation. Although this did not result in significant changes in the strategy and the reform was eventually implemented, it was hoped by many that the reform process will be turned around. While the reform implementation was to a large extent based on the criteria set forth by the reform law, political ambitions and considerations eventually also determined final decisions regarding mergers of some specific municipalities.

It has been suggested that political considerations, which are always present in the public sector strategy formulation and implementation process, may become more relevant during an active election campaign (Rose and Cray 2010, 459). Findings from the case study show that this proves to be the case also in Estonia. Although the preparations for the reform started directly after the parliamentary elections of 2015 and the whole reform scheme was designed to be implemented within one election cycle, the reform process was still affected by the looming presidential election campaign that occurred at the same time as active merger negotiations among local governments. The findings indicated that during the presidential election campaign, several candidates used the reform as a political tool to win sympathy (Interview A) of potential voters.

In sum, the Estonian case study demonstrated the importance of strategy in shaping the reform implementation process, but it also showed that the unique aspects of strategic management in public sector should also be taken into consideration. While it is not entirely possible to predict and address all possible obstacles that might occur during the implementation process, putting more emphasis on consensus building and shaping a clear vision to all relevant actors might still prove to be beneficial.

CONCLUSION

Territorial reforms that focus on redrawing administrative-territorial boundaries have taken place in many European countries, including Estonia. These reforms often seek to reduce the number of local governments through territorial and demographic up-scaling because it is believed that thanks to economies of scale, larger municipalities are able to offer higher quality public services and do it more efficiently. Although territorial reforms are a widespread phenomenon, these reforms might have different characteristics as well as strategies for implementation. Theoretical literature suggests that the chosen strategy can influence the reform implementation by causing conflicts which can eventually cause the need to make changes in the initial strategy. This is in accordance with strategic management literature which emphasises that the processes of strategy formulation and implementation are strongly related as different variables and environmental changes might cause the need to make changes in the initial strategy, which means that the processes of strategy formulation and implementation are not necessarily linear.

Territorial reform was recently also implemented in Estonia and as a result, the number of local governments was reduced from 213 to 79. The purpose of this thesis was to study the implementation of the Estonian territorial reform from a strategic management viewpoint. The aim was to, first, identify the strategy that was used to merge local governments and, second, to study how the chosen strategy affected the reform implementation. As there is not much information available that would provide insight to the reform process, this thesis sought to at least partially fill this gap.

Regarding the reform strategy, the findings of the case study showed that the strategy that was used to merge local governments included bottom-up as well as top-down reform elements and could therefore be classified as a mixed strategy. The strategy foresaw reform implementation in two stages. First was the voluntary stage, in which local governments had the possibility to choose how to implement the reform scheme and with whom to merge with. In the second stage, municipalities that had not merged on their own initiative by the fixed deadline or did not fulfil

the minimum size criterion set forth by reform law, were merged by the government. In addition, the findings showed that despite of changes in the ruling coalition, no significant changes in the reform strategy occurred during the reform implementation and broadly speaking, the implementation took place according to the specifics set forth by the reform law.

However, the findings showed that the reform was not implemented without setbacks as there was a considerable number of local governments that contested the top-down mergers and minimum size criterion, which was set forth by the reform law, therefore demonstrating the conflict between central-local division. Several interviewees brought out that to some extent, the tight timeframe was also an obstacle to successful reform implementation. Although the reform strategy involved various elements that aimed address implementation barriers and to reduce stakeholder resistance to change, these elements were mostly related to various financial incentives and perhaps more emphasis should have been put on creating a shared understanding of the future local government system and coalition building among key stakeholders, especially local government leaders. A shared understanding of reform purposes and means among those who are affected by the upcoming changes, would enable a smoother implementation process

In accordance with the theoretical literature, the Estonian case study also proved the important role of public sector context in the reform implementation. Findings showed that the reform implementation was affected by changes in the governing coalition. On the one hand, this was related to the expectations that the former opposition party will make significant changes to the ongoing reform process. On the other hand, changes in the governing coalition eventually also influenced decisions whether to merge some concrete municipalities. The findings also showed that political ambitions and calculations of various politicians became more relevant during the simultaneous presidential election campaign.

This thesis provided some insight to the reform process by focusing on the strategic management of the reform. Given the limited number of interviews that were conducted, it would probably be insightful for future research to analyse the reform implementation from local government perspective and to study what were the factors that influenced the merger negotiations between various municipalities that eventually resulted in merger or on the contrary, the decision to quit negotiations. However, this would also require a more representative sample of interviewees.

SUMMARY IN ESTONIAN

HALDUSTERRITORIAALSE REFORMI ELLUVIIMINE STRATEEGILISE JUHTIMISE VAATENURGAST: EESTI NÄIDE

Anna-Liisa Pärnalaas

20. sajandi teisest poolest alates on paljudes Euroopa riikides viidud läbi kohaliku omavalitsuse reforme, mis on tihti olnud suunatud omavalitsussüsteemi killustatuse vähendamisele, mida omakorda nähakse takistusena kohalike omavalitsuste efektiivsele toimimisele. Omavalitsuste liitmine on sageli ajendatud ootustest, et suuremad haldusüksused on võimelised pakkuma kvaliteetsemaid avalikke teenuseid, tegema seda efektiivsemalt ning pakkuma ametnikele spetsialiseerumise võimalust. Kuid lisaks eelpool mainitule on teoreetilises kirjanduses ka küllaltki palju vastandlikke seisukohti, mis toovad esile omavalitsuste liitmisega kaasnevaid negatiivseid aspekte ning rõhutavad, et n-ö ideaalset omavalitsuse suurust ei ole olemas. Käesolevas magistritöös ei anta aga hinnangut poliitilisele otsusele kohalikke omavalitsusi liita, vaid uuritakse reformi elluviimist pärast seda, kui poliitiline otsus on juba tehtud.

Teoreetiline kirjandus näitab, et kuigi territoriaalseid reforme on viidud läbi paljudes Euroopa riikides, on nende elluviimiseks valitud strateegiad ja lähenemised olnud riigiti erinevad. Näiteks on omavalitsuste liitmiseks võimalik kasutada nii ülevalt-alla strateegiaid, alt-üles strateegiaid kui ka eri elementidest koosnevaid strateegiaid. Territoriaalseid reforme käsitlevas teoreetilises kirjanduses on ka leitud, et valitud strateegiast oleneb suurel määral reformi elluviimine. Näiteks võib strateegia kutsuda esile erinevaid konflikte, mis võib omakorda tuua kaasa vajaduse teha muutusi esialgses reformi strateegias ning see tähendab, et reformi elluviimise protsess ei pruugi olla lineaarne.

Sarnaselt paljudele teistele Euroopa riikidele viidi ka Eestis hiljuti läbi haldusterritoriaalne reform. Omavalitsussüsteemi reformimise vajalikkusest on Eestis räägitud juba aastakümneid ning selle aja jooksul on tuldud välja erinevate reformikavadega, mis aga ei leidnud enne 2016. aastat vajalikku toetust. 2016. aasta juunis võttis Riigikogu vastu haldusreformi seaduse, mis nägi ette Eesti haldusterritoriaalse korralduse muutmise läbi valdade ja linnade liitmise, eesmärgiga toetada seeläbi kohalike omavalitsuste haldussuutlikkuse kasvu ja võimekust kvaliteetsete avalike teenuste pakkumisel ning piirkonna arengueelduste kasutamisel. Reformi tulemusena vähenes kohalike omavalitsuste arv 213-lt 79-le.

Käesoleva magistritöö eesmärk oli uurida haldusterritoriaalse reformi elluviimiseks kasutatud strateegiat ning selle mõju reformi elluviimisele. Kuna reformist on käesoleva magistritöö kirjutamise hetkest möödas üsna vähe aega, siis on ka vähe allikaid, mis annaksid ülevaate reformi elluviimisega seonduvast. Magistritöö üks eesmärk on panustada selle tühimiku täitmisesse, analüüsides haldusterritoriaalse reformi elluviimist strateegilise juhtimise vaatenurgast. Magistritöö koosneb kolmest peamisest osast – teoreetiline raamistik, empiiriline juhtuminalüüs ning järeldused. Töö teoreetiline raamistik käsitleb esmalt strateegilisele juhtimisele keskenduvat teoreetilist kirjandust, tuues sisse erinevad lähenemised strateegia mõtestamisel ning seejärel olulisemad aspektid strateegilise planeerimise ja elluviimise protsessis. Lisaks käsitletakse avaliku sektori strateegilise juhtimise eripära. Teoreetilise raamistiku teises osas antakse ülevaade territoriaalsete reformide olemusest ja trendidest ning erinevatest reformi elluviimise strateegiatest. Teoreetilise osa lõpus pannakse territoriaalsete reformide elluviimine strateegilise juhtimise konteksti.

Magistritöö empiirilise osa näol on tegemist kvalitatiivse juhtumianalüüsiga. Andmete kogumiseks on kasutatud dokumendianalüüsi ja poolstruktureeritud intervjuusid, mis viidi läbi Rahandusministeeriumi, Eesti Linnade ja Valdade Liidu ning valitud kohalike omavalitsuste esindajatega. Kokku viidi magistritöö raames läbi kaheksa intervjuud, mille eesmärk oli koguda informatsiooni reformi elluviimise kohta ning koondada seejuures erinevate osapoolte nägemusi reformi protsessist. Töö empiirilises osas antakse esmalt põgus ülevaate Eesti omavalitsussüsteemist ning seejärel magistritöös kasutatavast uurimisstrateegiast. Sellele järgneb reformi strateegia ning elluviimise analüüs.

Empiirilise osa peamiste järeldustena toob autor välja, et reformi elluviimiseks kasutatud strateegias ei toimunud reformi protsessi jooksul suuri muutusi. Teoreetilisele kirjandusele

toetudes võib väita, et Eestis kasutati haldusterritoriaalse reformi elluviimiseks eri elementidest koosnevat strateegiat, mis sisaldas endas nii alt-üles reformi elemente kui ka selgelt ülevalt-alla elemente. Reformi elluviimise analüüsist selgus, et otsus kasutada reformi elluviimiseks ülevalt-alla elemente, tõi ootuspäraselt kaasa arvestatava hulga kohalike omavalitsuste vastuseisu, kuid võimaldas viia reform ellu üsna lühikese ajaperioodi jooksul. Kuigi üldjoontes olid kohalike omavalitsuste esindajad seisukohal, et omavalitsussüsteemi reformimine on vajalik, siis küsimusi tekitas eeskätt reformi läbiviimine vastavalt 5000 elaniku kriteeriumile ning tihe ajakava. Kuigi reformi strateegias oli mitmesuguseid elemente, mille eesmärk oli vähendada osapoolte vastuseisu, oli nende näol eelkõige tegemist finantsmeetmetega ning tunduvalt vähem pandi rõhku koostöövaimu loomisele ning reformi eesmärkide ja meetmete kommunikeerimisele. Kuigi üldjoontes viidi reform läbi haldusreformi seaduses sätestatud tingimustele, siis lisaks valitud strateegiale mõjutasid reformi elluviimist ka mitmesugused avaliku sektori kontekstist tulenevad muutujad, eeskätt muutused valitsuskoalitsioonis, samaaegselt toimunud presidendivalimiste kampaania ning sellest tulenevad poliitilised ambitsioonid.

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APPENDICES

Appendix 1. List of interviews

All interviews were conducted by the author.

Interview A – Representative from the Ministry of Finance. Audio recording. 3 April 2018.

Interview B – Representative from the Ministry of Finance. Audio recording. 25 April 2018.

Interview C – Representative from The Association of Estonian Cities and Rural Municipalities (AECM). Audio recording. 6 April 2018.

Interview D – Representative from Luunja Municipality Audio recording. 6 April 2018.

Interview E – Representative from Järva Municipality. Conducted via Skype. Audio recording. 9 April 2018.

Interview F – Representative from Lääne-Harju Municipality. Conducted via Skype. Audio recording. 13 April 2018.

Interview G – Representative from Kastre Municipality. Conducted via Skype. Audio recording. 16 April 2018.

Interview H – Representative from Saaremaa Municipality. Conducted via Skype. Audio recording. 2 May 2018.

Appendix 2. Semi-structured interview topics and questions

1. In your opinion, was the vision regarding the necessity for local government reform shared among key stakeholders? What about reform objectives?

2. In your opinion, was the reform timeframe sufficient to implement the reform scheme?

3. To what extent were the financial incentives discussed or addressed during the merger negotiations? How would you estimate the impact of financial incentives?

4. The reform strategy included social guarantees for the heads of local governments. In your opinion, what was the impact of social guarantees in the reform process?

5. How would you assess the communication aspect in the reform process? Was it persistent during the reform?

6. How would you estimate the political influences in the reform process? Were there any sharp differences in the approaches before and after the changes in the ruling coalition?

7. What would you bring out as strengths in the chosen reform strategy? What about weaknesses?

8. Is there anything else you would like to add?