

State Development Companies and their cooperation with Spatial Planning

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Abstract

The paper is based on my doctoral thesis with the title „History and tasks of state development companies and their potential of cooperation with spatial planning“. It is based on the thought that spatial planning, and regional planning in particular, may cooperate with partners who can complete its competencies. State development companies owned by the federal states of Germany are partners who are suitable for cooperation. The challenge to cooperate derives from the aspect, that spatial planning, and again regional planning in particular, is subject to various criticisms since the 1970s. Those criticisms look for example at the effectiveness on addresses, the flexibility of its activity when changes occur in its environment as well as public opinion about spatial planning.

The addresses of spatial planning, but even other institutions, express their expectations as follows:

- increase of flexibility and efficiency;
- improved transparency in regard with goals and activities of spatial planning;
- cooperative action together with addresses as well as people and enterprises depending on planning decisions;
- general orientation of spatial planning institutions on action and realization of plans.

A first thought when considering the study may be about the reasons for spatial planning to cooperate with state development companies in order to make its plans a reality. The investigations confirmed the principal ability of those enterprises for cooperation with spatial planning. That is, because they fulfil traditionally, but to a differing extent, planning tasks on local and regional level. By that way, those companies have built up over decades their competency in planning. One can assume, that spatial planning institutions can and should make use of those experiences. In comparison to spatial planning, state development companies collected experiences in realization of formal and informal plans which one can not find in spatial planning authorities.

A general tendency of those companies is their orientation on achieving profits. Cost coverage has always been their topic, but to achieve profits for the owners is relatively new. As a result of the study can be noted that making money on behalf of the public owners should be avoided. The reason is that the goal of profit making needs a selection of projects according to their profitability. Cost coverage, but not money making, is at the best to reach by having a broad range of public shareholders.

In regard to cooperation between spatial planning and state development companies, four prerequisites were identified:

- conception of those enterprises as an instrument to manage regional development,
- orientation of their activities not on the priority of money-making on behalf of the owners,
- delivery of resources for realization of projects by the owners, and
- institutions of the public sector remain as major shareholders.

For future research, there are two basic conclusions to draw from the presented research project. The first point concerns studies about public sector enterprises. The second point is about the organization of cooperation between state development companies and spatial planning.

Scientific concern with public sector companies has in the past hardly discussed their function as an instrument of spatial development. Possible topics for research concern are:

- influence in such companies by shareholders and other institutions,
- their ability to fulfil the cooperation compared to other instruments (for example cooperation with private sector companies or delivery of public goods by authorities themselves), and
- their interaction with other parts of the public sector (for example town planning and environmental authorities).

But there are even further questions about cooperation between state development companies and spatial planning. Especially the position of spatial planning on that kind of cooperation needs to be explored. That could not be investigated in the study. Additionally, one should analyze the options for structural organization of such cooperation. The study (and this paper) present one suggestion for such a structure. However, the study dealt not with the question whether there are other institutional solutions for cooperation and which institutions need to be assigned which competencies.

Introduction

The present political framework are not in favour for sustainable approaches to manage spatial development. There are primarily the following problems:

- continuing trend of fragmentation in society,
- increasing separation of lifestyles,
- economic view on many segments of society, and
- increasing rejection of state regulation.

Spatial planning is part of state administration and even of the states' regulation. Due to the problems of administering the state, even spatial planning needs to adapt its activities to the present framework. Already in the 1970s, changes in the economic framework gave reason to rethink spatial planning's options for managing spatial development as well as its limitations.

The criticisms to the system of spatial planning in Germany highlight the following points:

a) View on spatial planning in public opinion:

Generally, spatial planning enjoys a low value in public opinion, in the media and in political institutions. Spatial planning in general, and regional planning in particular, is often criticized as „hindrance planning“. The integration of spatial planning into federal state administration and its relation to public sector addresses contributes to its hardly existing perception in the public. Planning is perceived as being a part of state bureaucracy.

b) Construction for implementation of plans:

The spatial planning system in Germany consists of various layers with differing planning instruments and procedures. Additionally, it is very complex. Decisions to create, to change and to abolish planning documents demand a relatively long period. Short-term reaction on actual developments and trends proves as difficult within this planning system. The implementation of planning documents, that means to make plans a reality, is left to the addresses of plans. Spatial planning on the federal state and regional level has only few options to motivate entrepreneurs, private households, and even local authorities „to behave according to their plans“. One reason is, that planners are unable to stimulate them financially.

c) Coordination of public sector administration:

Due to its integrating and coordinating role, spatial planning is confronted with experiences extensive demands for discussion, horizontally as well as vertically. Due to a certain autonomy of sector planning (for example transportation planning), spatial planning is quickly perceived as a concurrency or limitation of autonomy.

Those problems and the debate in that context were at around 1990 recognized by the ministers of the federal states responsible for spatial planning. In 1992 they took on the *Guidelines for Regional Planning*. That document orientates spatial planning not only to prepare middle and long term programmes and plans. Moreover, planning is to be motivated to coordinate and to moderate complex spatial developments by projects and activity. Thought behind that is to give motivation to develop the structures of space and settlements in Germany.

In that context, it is worth to think about cooperation between spatial planning and institutions which can complete each other with spatial planning. Such partners should fulfil the following preconditions:

- act in public interest,
- have proven competency in spatial development,
- act with flexibility, and
- are backed by political decision makers.

Such partners are the state development companies, which can manage spatial development in cooperation with spatial planning. However, what is the special feature of those companies? What distinguishes them from other enterprises?

State development companies have been found in the 1920s by the German state (*by that time: Deutsches Reich*) and the federal states as their instrument to provide low income households with affordable housing. They were given the mandate to develop housing projects for their own, manage housing, keep it as their property and manage housing projects for other institutions, such as savings banks.

Step by step, activities of state development companies grew beyond housing projects. Their owners and their clients (for example local authorities) entrusted them with tasks in town and spatial planning. Over decades, they collected experiences which make them an interesting partner for spatial planning.

State development companies are administering tasks in all areas relevant to cooperation with federal state and regional planning authorities. That resulted from an analysis of literature and interviews with representatives of those businesses. The activities of the companies are in the fields of housing construction, urban redevelopment, location development, infrastructure, real estate management and participation in cooperative processes.

History of state development companies

As a result of the surveys there are five stages to be carried out in the history of state development companies since they have been founded. The stage of foundation did actually last from 1918 to 1925. Housing companies have been founded as state-run institutions which were to troubleshoot the housing shortage. In order to provide a broad basis for activities according to the tasks not only the „Reich“ and states took a stake in these companies but also the provinces, administrative districts, local authorities, cooperative building associations, businesses and insurances. Housing companies had to take care of both supervision of building projects as well as the sourcing and provision of building materials, real estates and funding.

In the following stage of consolidation, which lasted from 1926 to 1940, businesses succeeded in overcoming an initially widespread negative approach of the building industry, trades, local authorities and constructors. This success resulted from an effort of those housing companies to support and promote employment and the building industry. In the course, the tasks of the companies were augmented. They projected buildings of standardized types, conceptualized planning documents and they cooperated with the state planning of the countries and provinces, which started to develop at that time.

Second World War was a substantial cut in the history of state development companies. The business activity decreased. Projects were chosen according to their importance for the preparation and realization of the war. After the war only companies in the western states of Germany resumed their activity. Restructuring was carried out where states banded together respectively demarcation of federal state borders had to be done. Activities were focussed on the objective of reconstruction.

There was a stage of consolidation and growth of homesteads and state development companies following from 1958 up to the late 1980s. Joint capital of companies, turnover and the number of employees remarkably increased. A considerable contribution to subsidised housing and urban redevelopment was achieved. Concerning fundamental projects, such as the development of new locations for habitation, they have cooperated with regional authorities for land use planning. At the same time there was a shift of the focus of activities taking place, which resulted in a change from the original task of supervising the building industry to activities concerning letting and servicing estates.

Since Germany had been reunified there have fundamental changes in the state developing companies taken place. The stock of flats in the western German states which was regarded as meeting the demand as well as the stock in the newly-formed German states in the eastern part, which was questioned in 1997, did actually call the activities of businesses in public

interest into question. That is why there was a (partly) privatisation taking place in several federal states. In addition to that, there was a change of tasks as well as an increase in self-responsibility simultaneously taking place. As a result, the companies adjusted their organisation and objectives acknowledgeable for those businesses. Regarding the clients there was turn towards private costumers considerable. Concerning state development companies in the eastern part of Germany there is a more remarkable occurrence of activities within the scope of adjustment policy to be found compared to the companies in the western federal states. The according activities may be strengthened and extended as well as the communication with the institutions of spatial planning.

It is to be found, that state development companies have proven to be an excellent instrument for encouraging housing and urban development. However, privatisation of those companies as well as a redefinition of tasks and business objectives may limit cooperation with spatial planning. These companies are flexible organisations, which may address themselves to new occupations exceeding their ancestral tasks.

Present situation of cooperation of spatial planning and state development companies

All the time, especially during the empirical phase with interviewing representatives of the state development companies, a differentiated picture emerged about the actual situation of cooperation between state development companies and spatial planning. There are cases of irregular consultations as well as examples for institutionalized cooperation. Additionally, there are differences in the content of cooperation.

The majority of state development companies does not care about frequent contacts to spatial planning. The reasons are varying. Some companies do not realize any motivation due to the fact that they focus on projects which can be expected to be profitable. Examples for that are development companies of the federal states of Lower Saxony and North-Rhine – Westphalia. Another hindering on the way to cooperation may exist in reservations on the side of spatial planning and federal state government and authorities. Such reservations may be based on calculations about a balance of competencies. However, most of the state development companies are willing to work together with planning institutions and wish to deepen existing approaches.

In general, cooperation of state development companies and spatial planning happens on the basis of selected projects. That is, development companies approach regional planning when they realize projects having spatial influence on a regional level. An example is the development of a factory outlet center in Wertheim (Baden-Wuerttemberg).

There is cooperation with the institutions of national and regional spatial planning. They are following a case-by-case strategy. However, a regular or even institutionalised cooperation does not occur, except the subsidiaries of the development company of the federal state of Thuringia. To deepen and extend existing communication, nevertheless, is regarded as necessary by several companies. The companies owned by the state banks show only marginal interest in cooperation with planning authorities. It is to be found that according to the expected gains articulated by the owners there is a retreat from planning activities taking place. The stated reason for that is the currently impossible realisation of predetermined and default annual rates of return in that business area.

A special case of cooperation between a state development company and spatial planning is the federal state of Thuringia. That company has three regional subsidiaries in which it keeps part of the shares. Other parts of the shares are held by the counties of the relevant region.

The three subsidiaries were established in 1993 and 1994 in order to fulfil the mandate of the company to improve the economic conditions in the federal state of Thuringia. Especially the participation of all the counties forming a planning region proved as important to ensure the activities of the state development company in that federal state.

The allocation of the shareholders and thereby the scope of activity coincides with the planning regions of the federal state of Thuringia. What is important for the cooperation of the subsidiary with its relevant regional planning is the advisory committee in which the planning assembly is a member. Within that body, representatives of regional planning communicate with other institutions.

A conclusion is that spatial planning and state development companies generally only cooperate if there is a need to do so. With the exception of those companies who aim to a profile in real estate development both planning and companies are prepared to closer cooperation.

Preconditions for cooperation

Some basic conditions need to be fulfilled if a cooperation of spatial planning and state development company is to be started. Both partners must be satisfied with those basics of cooperation.

Basically, both partners must realize an added value out of their cooperation. That is, everyone must achieve better results for itself in comparison to individual and independent action.

A second precondition of joint action is joint interest. Each institution has its own interests. Some of them must coincide with those of the partner institution. These joint interests are the focus for cooperation. Examples for such interests may be open space development or safeguarding of future transportation routes.

Furthermore, the timely framework is a precondition for cooperative behaviour. Trust in each other is to build up, goals and content as well as the procedures to realization need to be negotiated.

There is even a risk of cooperation. Partners aim to make planning documents or selected projects a reality. However, particularly at the beginning of the process no one may estimate whether the expected results will really be achieved. There may be various reasons if those results prove to be out of reach. Examples are a change in interests of the cooperating partners during the process, a change in foundations of cooperation or the unexpected behaviour of third parties.

Additionally, it seems to be important to whom the results of cooperation can be assigned. Third parties or the inhabitants of a region have a share in reaching and utilizing the goals. All the persons and institutions participating in the process can be expected to claim their share in realization of goals, not only the cooperating state development company and regional planning.

However, one question arises that should not be underestimated. This question is about the financial basis of cooperation. It regards the resources for the cooperative process as well as a certain problem that is to be solved by cooperation. Concern with the aspect of financing leads to the position, that it is not to solve only between a state development company and regional planning. Moreover, financial decisions are required on the side of the regional authorities and the owners of a state development company. Evidence for that position was found in the results of empirical phase of the project.

Finally, if all institutions involved in the process decide in favour of cooperation between federal state or regional planning, it is to make clear how to organize and to structure it. In fact, cooperation needs an institutional solution to manage it.

Organisation of cooperation

A basic decision has been made to start a formal cooperation of spatial planning and state development company. Now they need an institutional solution to coordinate their cooperation process. According to SCHARPF there are various mechanisms available for coordination of the process:

a) market:

The decision in favour of a certain partner is the result of a selection process. The selection decision is based on certain criteria of delivery of goods, such as price, time or experience. For example, a state development company may win an offering for public tender to plan or to realize a regional project. By that way, a company can become the partner of regional planning. However, it may even become to a competition between development company and spatial planning because they offer the same product to a region. Regional management can be such a product. The results of the empirical phase in the study have proved that this competition instead of partnership is possible.

b) hierarchy:

In a hierarchy, one partner subordinates to another partner. The reason for subordination is a benefit which is expected by the subordinating partner. A decision maker who wants to coordinate a person or institution by hierarchy must solve both a motivation and information problem. However, the mere existence of managing competency by law is not sufficient anymore. The reason is in the more and more varying options to shrink from managing intentions of governmental institutions. In the case of cooperation between spatial planning and development company, one can not expect to manage cooperation by hierarchy.

c) community and solidarity:

In this case, institutions or persons come together because they share values, have joint features or interests, face the same problems or act in the same region. It is also possible that one institution or person recognizes the demand to help another one. The reason may again be in joint interest.

d) networks:

They are closely related to coordination via community and solidarity. Networks are different from community and solidarity in their endeavour to achieve goals which are agreed by every part of the network. Examples for such goals may be increased regional wealth or sustainable development. Even those who are involved in a network come to-

gether because of joint interests or shared values. A partnership of spatial planning and development agency has the character of a network.

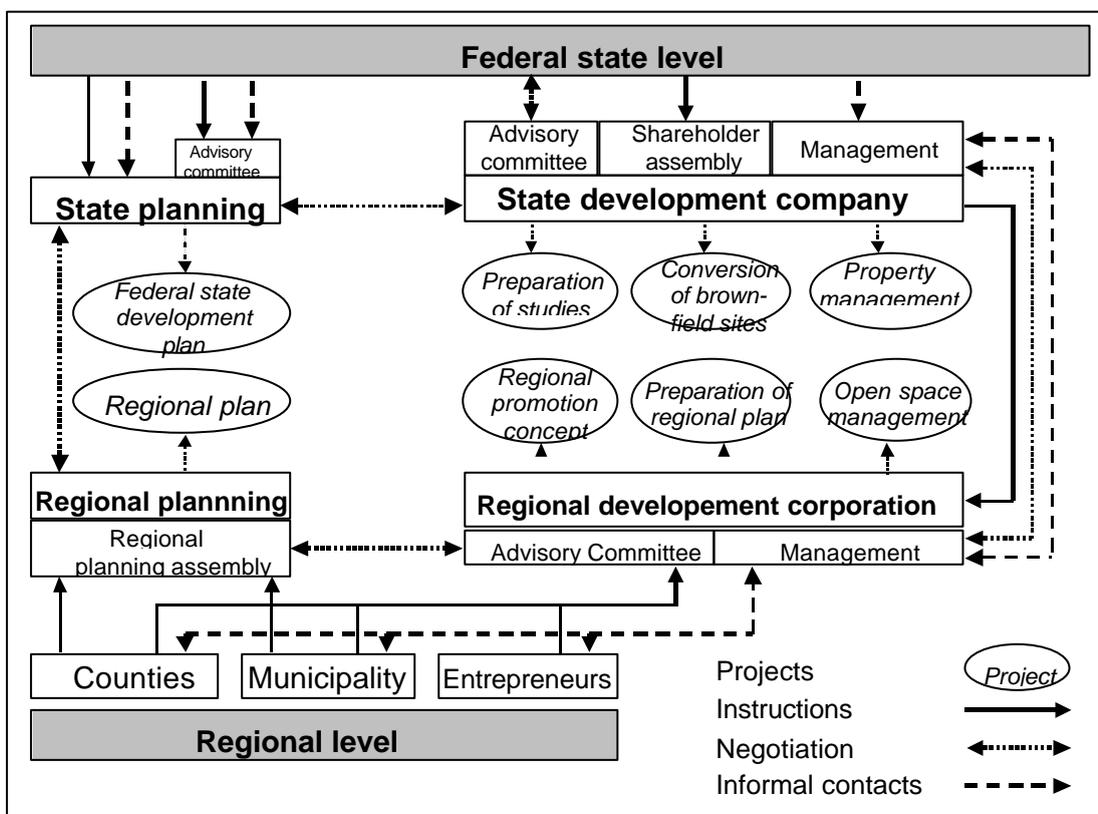
Besides the mechanisms of coordination explained here, there are further instruments to manage coordination and cooperation. These instruments are different from each other in their degree of commitment and problem solving capacity:

- consultations: may vary according to content and frequency,
- agreements: comparable to consultations, but result in obligatory expressions for activities following thereafter,
- contracts,
- institutional solutions: partners establish a jointly owned and managed institution which fulfils their cooperation.

All of those instruments can be adopted for cooperation of spatial planning and development company. It is also possible or even required to use them in combination. For example, an institutional solution has to be based on a contract and is accompanied by informal contacts.

Proposal for an institutional solution

The following picture outlines an example how to structure cooperation of spatial planning and state development company.



Structural scheme of a federal development company with regional subsidiaries
 Source: own draft

Basically, there are several options for the institutional structure. For example, a state development company can work together only with federal state planning or only with regional planning. Instead of establishing regional subsidiaries, the company can opt for regional working groups or regional departments which are in duty for a certain region. However, an argument in favour of a regional development company as a regional subsidiary of a state development company is the relative independency of such a regional company. Moreover, counties and local authorities can secure better influence on a company in comparison to the regional department of a state development company.

An institutional solution that is to be selected for cooperation should fulfil the following criteria:

- competences for influencing and decision making for all bodies involved, particularly for counties and local authorities;
- information flow between federal state government, counties, local authorities, spatial planning, development company and other participating institutions and persons;
- proximity to the region and its decision makers;
- availability of manpower according to demand;
- availability of financial resources to ensure realization of projects;
- firm realization of decisions made by the partners involved;
- flexibility according to current problems and development trends;
- transparency of decision making and realization.

In the proposal outlined here, cooperation on the federal state level is carried out by the state development company and the federal state planning. Flow of information is firmly secured by means of an advisory committee. This body has the function of consultancy for federal state planning and state development company. The influence of the federal state on the company is via the board of directors (if such a board exists) or the assembly of shareholders. Both groups, board of directors and shareholder assembly, fulfil controlling functions. In relation to the company management, they have extensive competencies to control and to instruct. It may be of advantage to allocate federal state planning and state development company to the same ministry of the federal state government. On the other hand, for example, if federal state planning is allocated to the ministry of the environment and state development company allocated to the ministry of finance, conflicts between those ministries may be contested via spatial planning and development company.

Content and goals of cooperation are to negotiate between the partners spatial planning and state development company. In any way it is necessary to fix details in a contract. An outstanding component of such a contract could consist in preparing a new edition of the state development programme. Preparation of the plan can be the task of federal state planning, while implementation of projects derived from the plan is the task of the state development company.

The cooperation of federal state planning and state development company is complemented by cooperation on regional level. To ensure a broad regional basis, a regional development company can integrate further shareholders, not only counties and local authorities. Examples for additional shareholders are regional savings banks and private enterprises. It is worthwhile both for perception in public opinion and for presenting results of cooperation to organize a regional conference once in a year with a broad regional representation.

Finally, one has to mention the necessity to set the financial basis for fulfilling the cooperation. An enterprise like a state development company can mobilize financial resources to a

certain extent. But a state development company depends on subsidiaries by the owners if it is to fulfil its function as an instrument of spatial development. Otherwise, cooperation would be limited to projects which are to realize with a profit.

Summary

One goal of the research project was to find out what tendencies determine the future of state development agencies. As a result research result, several tendencies could be identified:

- privatization of whole companies or parts of their shares,
- increasing entrepreneurial action which involves risk and responsibility,
- globalization, which means work on projects that are located outside Germany,
- aim to achieve profits at the benefit of the public owners,
- function as a strategic instrument of the public owners, ie. the relevant federal state.

The tendencies highlighted here are not newly emerged, neither will they reach their meaning only in the future. On the opposite, those tendencies have emerged since the 1980s and accelerated after the political changes of 1990.

Proceeding from the goal to find out about cooperation of spatial planning and state development companies, those tendencies may be not in favour for cooperation. That is especially true for the tendencies of privatization and profitability, because they influence directly the activities of the companies.

An institutional solution to establish cooperation of spatial planning and state development companies in Germany should consider two levels, that means the federal state and the region. Such an approach gives consideration to the cooperation of federal state planning and the complementary state development company as well as between the company's regional subsidiaries and regional planning. Such a solution takes into account several criteria, for example flow of information between every person involved, proximity to the region as a space for action and flexibility for actual problem constellations.

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