A romantic scene of a couple walking away from the camera on a sandy beach at sunset. They are holding hands and their silhouettes are reflected on the wet sand. The sky is a soft, warm orange and yellow. In the foreground, a large, white seashell lies on the sand.

Happily ever after? Building long term relationships between ministries and agencies

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Agencies: a 'simple' definition

- Agencies are organizations that:
 - Carry out a public task (service delivery, policy implementation, regulation, etc.)
 - At arms' length of the government
 - Are semi-autonomous
- Legal forms, way of financing, and accountability arrangements may differ per (type of) agency



Three agency categories

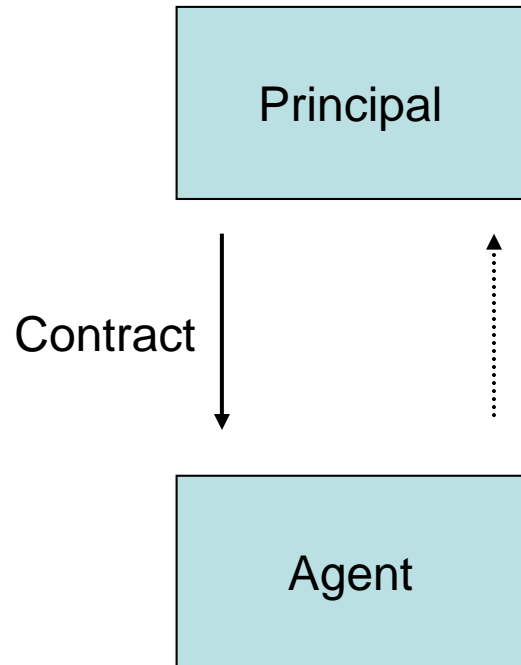
	Definition	Examples
1	Semi-autonomous organization, unit or body without <i>legal independence</i> but with some managerial autonomy	Examples: Next Steps Agencies (UK), contract/executive agencies (NL, B, AUS, IRL), state agencies (Nordic countries), Italian <i>Agenzia</i> , service agency (A), state institutions (EST), central bureaus (HUN), direct agencies (GER)
2	Legally independent organization/body (based on <i>statutes</i>) with managerial autonomy, either based on public or private law	Examples: Public establishments (IT, POR), ZBO (NL), NDPB (UK), parastatal bodies (B), statutory bodies or authorities (not corporations: A, EST, AUS, IRL, POR), indirect agencies (GER)
3	Private or private law based organization, established by or on behalf of the government, like a foundation or corporation, company or enterprise (government owns majority or all stock)	Examples: commercial companies, state-owned companies (SOC) or enterprises (SOE), and government foundations

Control of agencies

- In most countries steering/control is exercised by parent ministry:
 - Drawing up a ‘contract’ stipulating output, budget and accountability requirements
 - Exchange of information about performance (financial and otherwise) and policy issues
 - Frequent reporting to enable ministerial accountability



A theoretical perspective



Information asymmetry:
-Moral hazard
-Adverse selection

Solutions:
-Monitoring
-Incentives



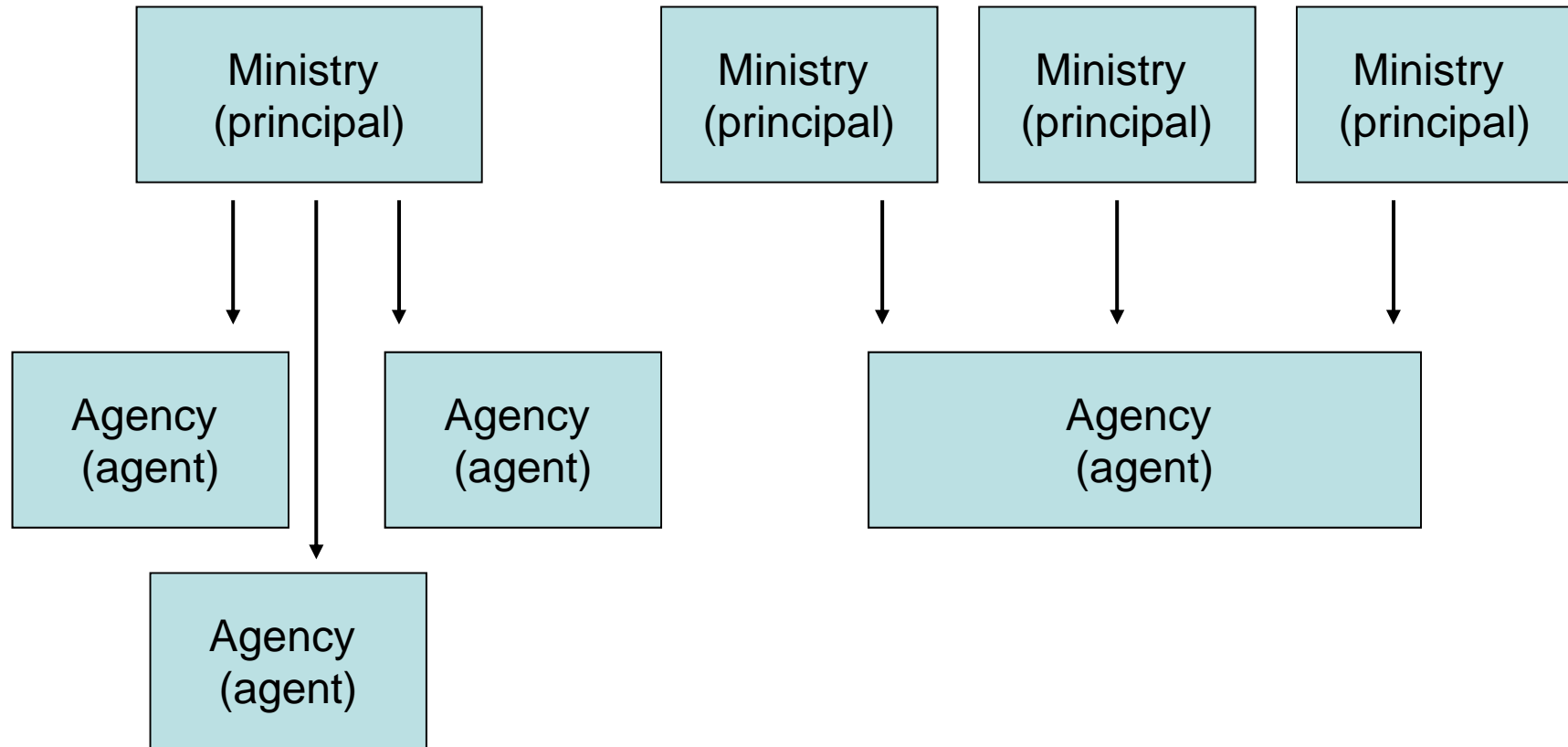
Principal-agent theory in a nutshell

- Principal hires agent to carry out a specific task. Contract specifies A's performance and remuneration (budget).
- P and A pursue goals; P wants high performance and low price, while A wants high price for low performance
- A has more information about A's performance than P (information asymmetry)
- Two risks:
 - Adverse selection: P cannot select the best A because of lack of knowledge
 - Moral hazard: A can perform suboptimally (shirking) without being sanctioned
- Solutions: monitoring and incentives

Problems in theory

- Fit of P-A model is not without problems:
 - Assumptions of rational behaviour and complete information
 - Assumption of incongruent objectives (public sector ethos?)
 - Multiple principals and multiple agents

Multiple principals and agents



Problems in theory

- Fit of P-A model is not without problems:
 - Assumptions of rational behaviour and complete information
 - Assumption of incongruent objectives (public sector ethos?)
 - Multiple principals and multiple agents
 - Principals can also be opportunistic; reneging on the terms of the contract due to changing political preferences

Problems in practice

- Ministries lack knowledge and capacity to:
 - Control agencies
 - Making new (effective) policies
- Hierarchical monitoring is no longer possible → need for new instruments, but which ones?
- Horizontalization of relationships; agencies become detached and more independent (see e.g. peer reviews, transnational networks)
- Evaluation reports show distrust and conflicts, especially over principals' opportunism



Research findings

- Question:
 - How to build good relationships between ministries and agencies?
- Measurements:
 - Agency trust in parent ministry = good relationship (dependent variable)
 - Conditions for trust like autonomy, contacts, monitoring and involvement (= independent variables)
- Hypotheses tested on NL dataset (N=206)

Hypotheses

Conditions for more trust/better relationship	Prediction
More autonomy	+
More contacts	+
Agencies become older	+
Agencies involved in policy-making	+
Agencies involved in design of performance indicators	+
More performance indicators	-
Higher frequency of reporting	-

Findings

Conditions for more trust/better relationships	Result
+ More autonomy	No effect
+ More contacts	Corroborated
+ Agencies become older	No effect
+ Agencies involved in policy-making	Partly corroborated
+ Agencies involved in design of performance indicators	No effect
- More performance indicators	Corroborated
- Higher frequency of reporting	Reversed

Conclusions

- Autonomy is not decisive to trust between ministry and agency → frequent contacts and proximity are more important
- Control does not always lead to distrust (except for high numbers of performance indicators) → trade-off between autonomy and control
- Involvement in policy-making contributes to a good relationship → mutual recognition of expertise

Recommendations



- How to build a good relationship between ministries and agencies?
 - Stay in touch; between letting go and being involved
 - Involve agencies in policy-making
 - Impose control, but with moderation (focus on ex post and/or output, agency involvement in design)
 - Develop new monitoring instruments that fit with horizontal relationships
 - Refrain from opportunism - both ministries and agencies