

# Great Expectations of Autonomous Agencies

## *Summary*

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Since the 1980s, many ministries around the world have been disaggregated into smaller units or semi-autonomous agencies. Creating a semi-autonomous agency involves granting structural autonomy to a public organization. Examples of these agencies range from independent market authorities to hospitals and railway operators. Privatization, that is the selling off of public organizations, lies beyond the scope of this definition.

The creation of these agencies gave rise to great expectations: they should deliver better services at lower cost, yield more satisfied citizens, be accountable for their performance, and boast satisfied staff. The question that this study answers is: are the effects of creating semi-autonomous agencies in line with prior expectations?

Despite the widespread proliferation of such semi-autonomous agencies in the Western world and beyond, we know little about the effects of these changes. Academic studies provide but contradictory and context-dependent answers. A cross-country comparative study was conducted to evaluate the more general effects of the presence of semi-autonomous agencies on several aspects of the public sector.

The current study discusses the effects of agency creation on public sector performance, citizen satisfaction, accountability, and staff satisfaction.

### **Expectations**

In the first part of the study, I analyze the *expected* effects of agencification. The effects that politicians and academics expect from delegation in general, and agency creation in particular, are analyzed through a systematic review of 250 journal articles on delegation. This analysis yields three main categories of expected effects. These include economic benefits, political benefits, and organizational benefits.

Increased performance is the most frequently described reason for agency creation. Performance should increase through competition and by giving freedom to managers to apply business instruments to increase efficiency and effectiveness.

Political effects are those effects that alter the relationship between public service providers and their environment: citizens and their parent ministry. The first political reason for agency creation is that satisfaction with the government is expected to increase. The argument is rooted in responsiveness theory: a better representation of citizens' interests is expected as a result of delivery of public services closer to citizens. A second political reason to delegate tasks to a semi-autonomous agency is that these

organizations can be equipped with better accountability arrangements, such as audits and sanctions. Many international organizations, such as the IMF and the World Bank, used this argument to push governments to delegate (or privatize) public services.

The expected organizational effects involve the relation between the organization and its employees. The argument follows a logic inherited from goal-setting theory. Single-purpose organizations are better at recruiting and selecting staff that fits with the organization than general-purpose ministries. Through a better person-organization fit, organizational commitment, motivation, and productivity are expected to increase.

### **Public Sector Performance**

Countries such as Lithuania, Sweden, and Romania have a public sector in which more than 90% of the examined tasks are delegated to semi-autonomous agencies. In comparison, countries like Hungary, Ireland, and Switzerland delegated fewer tasks to semi-autonomous agencies (about 40-60 percent of examined tasks). These data provide a measure to indicate the proportion of public services carried out by semi-autonomous agencies – the degree of agencification. To measure the effect of agency creation on public sector performance, this study compared degrees of agencification to public sector performance data in 20 European countries. Various institutions, such as The World Bank, the IMD Business School, the Netherlands Institute for social research (SCP), and the World Economic Forum (WEF), collected the performance data. They all collect data on public sector performance, yet they take on distinct perspectives.

The effects of agencification and the control variables on public sector performance are systematically tested in repeated analyses. Six models are estimated with different indicators for public sector performance, based on different indicators. In every model, the same four predictors are used: the degree of agencification, resources, regulatory burden and the degree of marketization. These repeated analyses provide a robust and valid image of the association between level of agencification and public sector performance. The analysis yielded a consistent negative correlation between the degree of agencification and government efficiency in all tested models. More resources, less perceived regulation and more market contribute to public sector performance in a positive direction, as hypothesized based on the New Public Management (NPM) logic. Agencification, on the other hand, is negatively related to performance.

Together, these results lead to the conclusion that market provision of public services might lead to better performance and more efficiency, but that agency creation does not have similar effects. It should be noted that in some sectors, there might be a positive correlation between level of agencification and public sector performance. Services in these sectors were often delegated to semi-autonomous agencies before the 1990s. These sectors include prisons, universities and public prosecutors. In sum, however, the economic claims underlying agencification programs are largely refuted.

### **Citizen Satisfaction**

The focus of the study into effects of agency creation on government-citizen relationships concentrated on citizen satisfaction. The literature also mentions increasing trust in government as a potential effect, but nowhere is the causal mechanism sufficiently specified to test this claim empirically. The effect of public service delivery through semi-autonomous agencies on citizen satisfaction is based on responsiveness theory and can be tested. To do so, I focused on two core tasks of government in 15 Western countries: policing and tax collection. In some of the countries in the study, the police is organized as a semi-autonomous agency, such as in Denmark, Estonia, and Finland. In other countries, like in Belgium and Switzerland, policing is the responsibility of a ministry. The same goes for tax authorities, which are part of a ministry in, for example, the Netherlands and Finland, while tax is collected through a semi-autonomous agency in, for example Spain and Sweden.

The European Social Survey provided data on citizen satisfaction with tax authorities, the police, and government in general. A statistical analysis showed no differences in satisfaction between citizens who

were served by a semi-autonomous agency or by a ministerial unit. But there was a difference among citizens who were dissatisfied with their tax authorities. In those countries where citizens pay their taxes to a semi-autonomous agency, dissatisfied citizens were more satisfied with government than in the countries where the tax authorities are part of the ministry. In other words, when a semi-autonomous agency is providing a service, it will deflect a part of the blame for bad performance, for which the government would otherwise be blamed. The creation of a semi-autonomous agency provides a working political strategy to avoid blame for bad performance. There is no evidence, however, for higher satisfaction among service users.

### **Accountability**

Accountability relations between agency and parent ministry form another aspect of the relations between an organization and its environment. In NPM reforms, new accountability instruments – performance indicators, audits, and financial incentives – are expected to replace traditional accountability instruments. In this study, we analyse the shape of accountability arrangements in the context of agencification. To deal with the potential problems that arise from the structural disaggregation of agencies, NPM prescribes a shift from *ex ante* control to *ex post* control and accountability, based on contracts, audits, and financial incentives. In this study, we test which parts of the new *ex post* accountability mechanisms are put in place, and whether these accountability arrangements differ between agencies, operating in several policy areas, at various degrees of disaggregation from political principals, in 6 countries: Finland, Italy, Lithuania, the Netherlands, Portugal, and Romania.

A cluster analysis of the organizations resulted in four types of agencies. In the first type, there is a relatively high contact frequency between ministry and agency, many audits, and financial consequences based on performance. These organizations can be classified as ideal typical New Public Management agencies. This type is mostly found in Italy and among young organizations. The second type has equally many contacts and audits as those in cluster 1, yet without the financial consequences. These types of arrangements are most common and often found in Finland and Lithuania. The third type exhibits an average contact frequency with their parent ministries, and absence of audits and, probably consequently, an absence of financial consequences. This organizational type fits in a classical bureaucratic idea of public organizations, with a soft style of accountability, without hard consequences. These arrangements are common in the Netherlands, Italy, and Romania and among older organizations. The last, and least common form of arrangement involves much less contact with their parent ministry than other agencies, and, perhaps inherently, less audits and financial incentives. These are the agencies that are literally operating at arm's length and are mostly found in Portugal.

Contrasting prior expectations, this study found but a piecemeal introduction of new accountability arrangements in semi-autonomous agencies, even though traditional bureaucratic mechanisms might disappear through the structural disaggregation of public tasks, adequate measures to address these lacunae are not always taken.

### **Staff Satisfaction**

The last dimension of effects highlighted in this project is the effects of agency creation on staff attitudes. I measured the satisfaction among staff in a number of Dutch agencies that were disaggregated from the ministry between 2003 and 2013. One of the organizations was merged with the ministry and ceased to be a semi-autonomous agency. Internetspiegel, a program coordinated by the Netherlands Ministry of Interior Affairs, collected the survey data for this study. Staff satisfaction was measured before and after agency creation or centralization. This strategy facilitates an analysis of trends over time and a comparison of trends with the parent ministry. In addition, I conducted five interviews with HR managers in and around the organizations in question.

The analysis of the survey data resulted in the conclusion that staff became less satisfied with their organization after the disaggregation of their agency. There are two main causes. First, staff was less

satisfied with the result orientation of the organization. Interview respondents noted a possible explanation for this trend: staff experience more pressure to focus on finances; employees have to count billable hours. Second, employees were less positive about their career possibilities as a result of the structural disaggregation of the agency. Formally, they have no obstructions to change jobs between the agency and other parts of the administration, but in practice, mobility tends to be low. Moreover, civil servants tend to hold executive jobs in lower esteem than policy jobs. They regard semi-autonomous agencies as executive organizations with a lower reputation than the ministry, where policy is formulated. Together, these mechanisms cause the satisfaction among staff to decrease after the creation of a semi-autonomous agency. This is, again, contrasting prior expectations.

### **Delphi Study**

As a final stage in this study, the results of the analyses were presented to a group of experts in a Delphi-study. The three goals of this Delphi-study were to facilitate an expert reflection on the results, as well as to formulate new avenues for future research and practical recommendations. In this study, I selected a group of 15 experts from the Netherlands and Belgium. Among them were scientists, agency CEOs, civil servants, and members of advisory councils. These experts reacted in writing on a summary of the study results. I asked the experts whether they recognized the results, and whether they could come up with alternative explanations for the results. They could also provide recommendations for the applications of the study results. In a second round, the participants received a summary of the anonymous reactions. They could adapt their initial response, react to other contributions, and prioritize recommendations.

The participants in the Delphi-study argued about the effects of agency creation of public sector performance and efficiency, and about staff satisfaction. The question whether changes at a micro level could yield results at a macro level gave rise to the main controversy among the participants. The participants recognized the effects of agency creation on citizen satisfaction. The expert input led to an additional research question: what is the threshold of blame that agencies can take, before citizens start to fault politicians? The participants, equally, recognized the effects on agency accountability. A practical recommendation was formulated: semi-autonomous agencies should customize their performance information for each individual (group of) stakeholder(s). Participants did not recognize the study's results on staff satisfaction from their own experience, but they agreed about the importance of organizational identity and organizational branding for staff satisfaction. Some participants wonder whether agency managers took all of the autonomy, and reduced the autonomy for other staff.

### **Conclusions and the Way Forward**

This study led to three general observations. The study shows, first of all, that effects of organizational restructuring cover more than just efficiency and performance. Reforms such as the creation of semi-autonomous agencies affect many other public values. Citizen satisfaction, public accountability, and staff satisfaction are all prone to change. Second, the comparative character of the study facilitated a more abstract understanding of effects at a macro-level. Third, organizational structures can – and sometimes do – matter. Even though the organizations maintain their staff, keep their same mission or task, and even remain at the same geographical position, some things change. And these changes are not only for the better.

This study applied a diversity of theoretical perspectives, and tested these perspectives empirically. As such, this study contributes to our further understanding of the predictive value of these theories in a particular (public) context. In a practical sense, this study shows that the creation of semi-autonomous agencies gave rise to great expectations, and that the agencies have not lived up to them. This study has shown that if we strive for good performance, solid accountability, and happy citizens and employees, then creating semi-autonomous agencies in the way that we have done until now, does not work. The concluding chapter has, however, given inspirations to improve the current performance of existing agencies in such a way that they can, and will live up to their great expectations.