

Public management of hybrid organizations: governance of quasi-autonomous executive agencies

Walter J. M. Kickert*

Erasmus University, Dept. of Public Administration, PO Box 1738, 3000 DR Rotterdam, The Netherlands

Received 21 May 1999; received in revised form 17 January 2001; accepted 10 June 2001

Abstract

This article presents the results of case analyses of eleven executive agencies from four Dutch ministerial departments: Education and Sciences; Agriculture, Nature and Fisheries; Transport and Public Works; and, Justice. These agencies are all so-called hybrid organizations; that is, they are somewhere between pure government agencies on one hand and commercial firms on the other. Such organizations make up the bulk of the public sphere in many Western European countries. Public management theorists must understand and explain the governance of this increasingly important class of hybrid organizations. © 2002 Elsevier Science Inc. All rights reserved.

Many mainstream management and organization theorists claim that their proposals are equally applicable to both the public and private sectors. Most public officials deny the validity of this claim, however, and insist that mainstream management and organization research is concerned almost exclusively with private firms (Allison, 1980; Kickert, 1997). This issue is central to the debate between new public managers, who tend to believe that market-oriented models and businesslike management are well suited to democratic governments and consistent with the needs of a well-run government agency, and traditionalists, who generally reject these ideas (Terry, 1998; Lynn, 1998). This article takes an intermediate position and argues for an in-between public and private management theory approach.

The public sector is densely populated with hybrid organizations, that is, organizations that exist in the intersection of two distinct spheres—the public and the private (Rainey, 1991; Veld, 1995). In Western Europe, for example, many public tasks—education, health

* Corresponding author.

E-mail address: kickert@fsw.eur.nl (W.J.M. Kickert).

care, housing, and the like—are carried out by judicially “private” organizations, the intermediary layer of social, voluntary, nonprofit organizations. These kinds of organizations, which fit neither in the strictly public realm of state action nor in the strictly private realm of commercial relationships, are essential to the functioning of many modern societies (Anheier et al., 1997; Salamon & Anheier, 1997).

In recent decades, the importance of an intermediate realm has been greatly increased by the retreat of the welfare state. Many Western governments have moved away from direct delivery of a variety of public services. They have privatized or otherwise divested themselves of these functions, in some cases transforming the agencies that performed them into hybrid organizations. These organizations are expected to function like businesses: to be efficient, customer driven, and client oriented. Yet, they perform tasks that are inherently public. In other words, they are supposed to act as if they were situated in the private sphere, while at the same time remain within the public sphere. The tension provoked by this in-between situation often leads to the avoidance of ambiguous organization types.

The agencies that we investigated and report on here are all examples of hybrid organizations. Of course, hybrid organizations cover a broad spectrum: from pure government agencies on one end to commercial firms on the other. Ownership and financing are two of the ways in which organizations differ; products and markets are equally important sources of organizational difference. Also, organizations utilize an array of different management approaches and practices. We chose to concentrate on organizations relatively close to the public side of each of these continua. We did not study privately owned or voluntarily financed nonprofit organizations, for example. We also ruled out state-owned enterprises that make commercial products and sell them in commercial markets. The organizations we studied are all publicly owned, and most are still largely subject to ministerial control. They are all government financed, and they all perform inherently public tasks (although a few also do some work on the side for third parties, thereby participating in commercial markets). As subjects of management research, these organizations seem to be the ones that are most likely to reveal the conflicts that may be found in the twilight zone between the private and public sectors. They want to behave as if they were situated in the commercial business sector but, as will be shown, they cannot escape their origins.

1. Quasi-autonomous executive agencies

The new public management (NPM) reform trend, which seems to affect almost the entire Western world, can be characterized in various ways. Three characteristics are usually mentioned: the introduction of business management techniques, customer orientation, and competitive market-like mechanisms. As for the management techniques, various reforms have appeared such as product orientation, cost orientation, output budgeting, performance indicators, purchaser-provider relations, contract management, concern-division model, and so forth. Here the focus will be on a particular type of NPM reform: the introduction of a concern-division model in which a ministerial core department retains policymaking responsibilities and establishes a purchaser-provider relationship with executive organizations which perform services on the basis of a management contract. The British experience with

Table 1
Forms of Devolution of Executive Organizations

Privatization. The two center-right governments of the 1980s pursued privatization. Goals included reduction of the public sector, revitalization of the private market sector, and generation of revenue from the sale of government assets. Privatization assumed different forms: hiring off public tasks, transforming a public agency into a private organization, contracting out projects etc. In comparison to Great Britain under Thatcher, privatization in the Netherlands was not very extensive. Most of the state-owned enterprises that were privatized in Britain (gas, oil, aviation, etc.) were already in the private sector in the Netherlands.

Independent administrative bodies. A *zelfstandig bestuursorgaan* (ZBO) is a Dutch QUANGO. ZBOs are created by ministerial order. This form of devolution was rediscovered at the end of the 1980s.

Quasi-autonomous Agencies. In 1993, the Ministries of Finance and Home Affairs created a more flexible model for an executive organization existing within a ministerial department, called an agency (*agentschap*). The distinction between personnel and material budget was removed, and organizational structure was introduced, along with a system of multi-year contracts, and a cost-benefit system (accrual accounting).

Next Steps agencies is undoubtedly the best known example of this kind of development. After a moderate start in 1987 (Jenkins et al., 1987), an enormous number of Next Steps agencies have been established. More than three quarters of the total number of British civil servants now work in Next Steps agencies.

An increase in the managerial autonomy of executive agencies within ministerial departments is a remarkable trend in Western Europe (Kickert & Jorgensen, 1995), a trend that has been followed in the Netherlands since the early 1990s. This study focuses on governance in eleven quasi-autonomous executive agencies from four ministerial departments: Education and Sciences; Agriculture, Nature, and Fisheries; Transport and Public Works; and, Justice (Kickert et al., 1998).

The Dutch quasi-autonomous executive agency model was inaugurated in the 1990s, following a decade of small scale experimentation with privatization, self-management, independent administrative bodies, and so forth. Fiscal retrenchment was the primary goal of the great efficiency operation, but managerial modernization was an important subgoal. This subgoal resulted in a variety of proposals for the devolution (in Dutch: *verzelfstandiging*) of public organizations. The proposals—based on the assumption that effectiveness, efficiency, and service quality could be improved by separating policy formulation from its implementation, by increasing managerial autonomy, and by distancing administration from politics—led eventually to the formulation of the agency model. (See Table 1).

One result of the creation of quasi-autonomous executive agencies is that more attention is now given to the role of the core departments in developing policy. The proponents of reform claim not only that service delivery can be improved by distancing it from politics, but also that policy formulation can be improved by distancing it from administration.

The relationship between quasi-autonomous executive agencies and core departments has turned out to be a complicated one. Dutch ministerial departments have recognized that this relationship is crucial to their overall performance and that improving it depends on developing an effective system of governance. The core departments must find a way to get quasi-autonomous agencies to pursue their policy goals by using unfamiliar incentive mechanisms and administrative controls—mechanisms that, for the most part, were designed

with private rather than public purposes in mind. Moreover, they must do so without eliminating the benefits of flexibility and self-direction that independence was supposed to confer upon the service-providing agencies. This has not been an easy job. It is made more challenging by outside influences, such as the political context created by relations with politicians, other intra- and interdepartmental relationships, an agency's role as provider of goods and services to clients, and its relations with other (competing) providers of similar services, not to mention its responsibility to uphold the principles of Rechtsstaat (legal state) and democratic government: social justice, accountability, legality, legitimacy, proper administration, and so forth.

It might be noted that Britain's Next Steps initiative has led to similar tensions. The (Fraser Report, 1991), "Making the Most of Next Steps," addressed the relation between core departments and Next Steps agencies. The (Trosa Report, 1994), which evaluated the implementation of the recommendations of the Fraser Report, paid special attention to this issue and concluded that the problem still remained to be solved.

1.1. Steering at a distance

What can core departments do to guide quasi-autonomous executive agencies, to steer them at a distance or at arm's length? The levers of control potentially at their disposal include the following:

- Management, organization and personnel: appointing governing boards and executive officers of the agency, specifying their tasks and responsibilities.
- Financing: relying on various internal or transfer pricing mechanisms, output budgeting, performance based accounting.
- Information, account and control: performance measurement, requiring reports on service efforts and accomplishments including asset utilization, and other accounting measures.

Generally speaking, greater devolution of authority and responsibility to executive agencies is associated with increased reporting and accountability. It is necessary for core departments to make it clear exactly who is accountable and about what, so that agencies will know what information should be gathered. The type of performance information to be gathered depends upon the tasks performed by the agency.

1.2. Types of executive agencies

According to the theory that organizational structure is related to the primary tasks of the organization, three types of executive agencies can be distinguished:

- Mass or series production organizations. The Information Control Group (IBG) and LASER are examples. They issue subsidies, grants, and other payments to large numbers of recipients. The Immigration and Naturalization Office (IND) is another. It issues large numbers of residence permits to asylum seekers.
- Professional service organizations. They perform tasks that require high levels of

Table 2

Mass Production Organizations

| |
|--|
| <p>Information Control Group (IBG): located at Groningen, budget 187 million guilders, personnel 1,400. In 1969 the student loan office was moved to Groningen. Following the chaotic introduction of the Study Finance Act in 1987, its administration was drastically restructured. In 1994 it was transformed into a full-fledged independent executive agency, a ZBO. IBG's core task is the implementation of the student finance act. IBG also performs tasks such as reimbursing educational expenses, collecting tuition fees, processing applications, selecting and placing students, and recognizing foreign degrees.</p> <p>LASER: head office at ministry, budget 700 million guilders, personnel 480. LASER is a relatively new agency (1996) concerned with rural areas and agriculture. It pays subsidies, allocates credits, and issues marketing orders and permits. It is responsible for a large number of regulatory programs: European Union (55 percent), Ministry of Agriculture (27 percent), provincial and local (11 percent), and other (7 percent). LASER processes about 550,000 applications from 120 thousand customers each year.</p> |
|--|

professionalism, for example, scientific research, construction and maintenance of roads and waterways, criminal prosecution, and so forth. These kinds of organizations are usually characterized by a lack of hierarchical control.

- Inspection and enforcement organizations. They monitor and enforce compliance with regulatory rules and standards.

This study examines only the first two of the three groups. Because regulatory agencies raise serious administrative problems not shared with other organizational types, for reasons of limited time and resources they were omitted from consideration. (See Tables 2 and 3).

2. Managing mass production organizations: the limits of businesslike management

This section is concerned with executive agencies that look like mass-production firms—organizations that deliver a limited array of services to a large number of clients. Given their task profiles, one might expect them to adopt standard business practices and procedures, as indeed they all do to a degree. The main reason for changing the structure of these organizations was to encourage them to act more like businesses. The idea was to create contractual relationships between purchaser-departments and provider-agencies, in which product and price were fully specified and ownership relations clarified. It turned out that making these changes in production organizations created tension between their public purposes and private practices, as will be illustrated with specific examples.

2.1. Contract management

A management contract is the central mechanism through which government departments seek to control administrative agencies. Top officials in the departments negotiate contracts with an agency's CEO specifying: 1) Outputs: the goods or services to be delivered during a certain period; 2) Context: the current conditions (legislation, policy, etc.); and, 3) Inputs: the available means (finances, personnel, material, housing etc.).

Table 3
Professional Organizations

| | |
|--|---|
| Agricultural Research Agency (DLO): head office Wageningen, budget 416 million guilders, personnel 3,000. | Research, information, and education are central to the Netherlands' agricultural policy. For more than a century, government sponsored research has been one of the main reasons for the country's success in world markets, transforming agriculture into a high value-added sector of the Dutch economy. In 1989 several agricultural research centers were merged to form DLO. It performs three kinds of services: (1) fundamental research, (2) applied research programs and contract research projects, and (3) technology transfer. DLO is guided at a distance by the Ministry of Agriculture. At the ministry, research questions and problems are collected and synthesized into a strategic research plan for DLO. Recently the decision was made to privatize DLO by converting it into a nonprofit foundation. |
| State Water Works (RWS): head office at The Hague, budget 5 billion guilders, personnel 9,700. The RWS, now 200 years old, plays a critical role in the Netherlands. It (1) guards against floods, (2) maintains flow and water quality, (3) enables, controls and guides mobility, and (4) promotes traffic safety. Many of its projects are classic examples of collective goods: polders, dikes, waterways, bridges, and highways. RWS distinguishes the following working categories in its budget: administration and maintenance (32 percent), services (3 percent), construction and investments (39 percent), subsidies (22 percent), information (2 percent), and policy preparation and research (2 percent). RWS has 10 regional departments and 6 special departments. Decentralization, privatization, and budget cuts have reduced personnel from 12,900 in 1984 to 9,700 currently. Traffic and transportation, formerly seen as nonpolitical technical issues, have become politically hot issues in recent years. | |
| Public Prosecution (OM): head office at The Hague, budget 977 million guilders, personnel 2,000. The OM is one of the pillars of the Dutch <i>Rechtsstaat</i> and has a special position in the government. Although it is subject to ministerial control, as part of the constitutionally independent judiciary it is necessarily autonomous to a certain degree. Its work includes law enforcement, detection of penal offenses, and execution of judicial decisions. The OM is divided into 19 districts, parallel to the judicial system. Each district has a head prosecutor. The intention is to delegate management responsibilities to district heads. The Board of Attorneys General is responsible for the overall leadership of the OM. | |

Under the terms of a contract, agencies are theoretically free to manage their own affairs. What happens within the black box is determined by an agency's management. Successful fulfillment of the contract yields rewards for the agency, failure results in penalties.

Experimentation in the early 1980s revealed some practical difficulties with implementing this contractual ideal. Agencies were not allowed to take measures that outran the terms of their contracts. Hiring additional personnel was not permitted, for example. The contract period was another constraint on autonomy. In addition, civil service rules limited the ability of agency management to utilize incentives.

2.2. Cost control

Unlike most commercial firms, the executive agencies we investigated are operating in the nearly complete absence of market determined prices, which means that purchasers must understand and control costs directly. Because the Netherlands lacks a commercial education finance market, the relationship of the Ministry of Education to the Information Control Group (IBG) is one of bilateral monopoly. Unless the government decides to let commercial banks offer student loans at commercial rates, only IBG is able to provide these services. To determine whether the IBG's costs are reasonable, the ministry must confirm the cost-finding

Table 4

EU Interference with LASER

Consider the following hypothetical situation. The EU adopts a set of policy norms, rules, and regulations. Due to the principle of subsidiarity, the EU leaves their implementation to member states without preconditions. EU auditors then find that certain Mediterranean members interpret policy rules rather loosely. Because EU agricultural policies involve the transfer of large sums of money, EU authorities have a strong incentive to issue additional rules aimed at preventing waste, fraud, and abuse. Of course, these rules would apply to all member states. If it happened that administrative practices in the Netherlands violated the new EU rules, the Dutch agriculture ministry would either have to make changes in its procedures or refund millions of euros back to Brussels. In this instance, LASER's nominal independence would be quite beside the point.

Since 1996, the EU has in fact introduced a number of rules for the national administrative organizations that implement agricultural regulations. As a result, LASER's payment practices have had to be EU certified, which has required the installation of a new accounting system and a centralized information system. It also has to meet strict compliance standards or else pay the penalties that Brussels imposes in the case of violations. This is a case in which an executive agency has been forced to reverse the decentralization that formed the basis of its (1995) reorganization.

practices employed by the agency and verify the accuracy of the accounts upon which they are based. The ministry's central finance department (in Dutch ministries usually called FEZ) is responsible for performing this function.

The idea that it is necessary for the purchaser (the Governing Board of a ministry) to make a judgment about the cost calculations of the service provider (an executive agency) is not always regarded as self-evident. To what extent should the financial department (FEZ) meddle in the internal affairs of the agency? In order to arrive at a sound judgment about costs, knowledge is needed about business processes, the organization, overhead costs, and so forth. Carried to an extreme, this kind of scrutiny can leave agency managers with very little sense of autonomy. This outcome is somewhat paradoxical: devolution was supposed to guarantee that an agency would be fully free, given the conditions of a management contract, to arrange its own business affairs and working processes. Yet purchasers have continued to demand a say in these matters.

2.3. *Far-reaching interference*

The question of how far the influence of the ministry should go becomes more complicated when the ministry itself is acting on behalf of a higher authority. For example, LASER's main customer is the European Union (EU), since the majority of its programs derive from EU agricultural rules and policies. (See Table 4).

2.4. *Program versus administrative budget*

In Dutch administrative practice, the overhead costs of administering a program are distinguished from direct program costs. Ministerial policy directors are responsible for determining the cost of a particular program. The responsibility for the administrative

overhead costs involved in executing the program usually rests with the ministry's central finance department (FEZ).

At first sight, the distinction between program and administrative costs seems to make sense. On a second look, however, questions arise. One evident disadvantage is that it eliminates incentives for more efficient administration. The ministerial policy makers are interested in the successful execution of policies. Better execution often means higher administrative costs. But those costs are solely the concern of FEZ. Negotiations take place between policy makers in the ministry and the executive agency's managers about program levels and characteristics. The agency then calculates its administrative overhead costs and presents the bill to FEZ. As a consequence, the executive agency may not have an incentive to arrive at a clear understanding of its direct costs per unit or how its activities affect costs. A negotiation with FEZ about administrative costs will usually be a process of pushing and pulling. FEZ tends to be more concerned with lowering overhead rates than with understanding them. This usually results in a bargained compromise. Why, then, invest time and energy in a systematic cost calculation method?

FEZ tends to be uninterested in establishing systematic and clear methods of determining per-unit prices. Apart from the effort required by such an exercise, not to mention the expense (FEZ officials are rarely skilled in cost accounting, so expensive external consultants must be hired to develop cost-estimating principles and transfer pricing mechanisms), any commitment to an agreed upon method would eliminate leeway in future negotiations about overhead costs. Prices would simply be the outcome of a calculation with set parameters.

In summary, the following arguments can be made against treating program and administrative costs differently. It reduces the incentive to develop efficient policy execution. It reduces the incentive for agency managers to learn about production costs, unit costs, and cost drivers. It reduces the incentive for FEZ to commit to standard cost practices.

If policy makers were responsible for both programmatic costs and administrative overhead costs, they would have an incentive to control the overall costs of programs. The lower the administrative costs, the more funds available for program delivery. There are, in fact, many examples of central finance departments allowing the policy makers and the executive agency to keep a part of the funds saved as a result of greater efficiency.

As a practical matter, however, giving policy makers responsibility for both programmatic costs and administrative overhead costs is somewhat problematic. Since policy makers in the ministry tend to know even less about cost accounting and pricing mechanisms than their counterparts in FEZ, it might make more sense to have a central departmental pool of cost accounting experts to evaluate the productive efficiency of executive agencies. It seems logical that this pool would be assigned to FEZ, although cost accounting expertise would be almost equally alien there.

2.5. Accountability

One reason for the importance of effective ministerial supervision of executive agencies is the need for accountability that follows from the principles of democratic government. The idea of ministerial responsibility implies that a minister can be held accountable for each administrative act taking place under his or her authority. Agency independence might be

useful from a managerial point of view, but it is practically meaningless in legal terms. Devolution changes nothing with respect to the ultimate authority and responsibility of the minister. While a management contract implies a binding agreement between equals, quasi-autonomous executive agencies remain subordinate to ministerial departments. Legal experts often prefer devolution to take the form of independent administrative bodies (ZBOs). Then at least things are clear.

3. Governing professional organizations: beyond businesslike management

In this section we will consider the second category of agencies, professional organizations, which are characterized by a high degree of autonomy. The management of organizations in which professionals have a major influence—standard examples are hospitals, universities, and research institutes—differs from the management of normal production firms in various ways.

In professional organizations, professional priorities usually trump financial or administrative considerations. Because of their special expertise, scientific researchers are given a large degree of autonomy. Public prosecutors vigilantly defend their independence from politics, and public works used to be considered a state within the state. Professional organizations appear to need more businesslike management methods and techniques: scientific research wastes money, the judiciary has an archaic lack of management, and some infrastructure projects far exceed their budgets, but meeting this need is easier said than done. The following examples show that the democratic governance of these highly autonomous professional organizations goes beyond businesslike management (March & Olsen, 1995; Terry, 1998).

In the Netherlands, the underlying motive for transforming professional organizations into agencies paradoxically reflects the wish of the ministerial departments to increase their control over these organizations. For example, the objective behind the devolution of the Agricultural Research Agency (DLO) was a reduction in the relative autonomy of the individual research institutes in order to increase departmental influence on the overall agricultural research program. This strategy has not been entirely successful (see Table 5). Tables 6 and 7 describe the professional autonomy of two other Dutch executive organizations. The public prosecutor's office (OM) illustrates the problem of too much control. Justice ministers have traditionally handled the OM very cautiously due to its special position as part of the judiciary. Judicial independence is fundamental to the separation of powers (*trias politica*), the cornerstone of Western democratic government (see Table 8).

4. The culture of hybrid organizations

Some of the difficulties in governance of quasi-autonomous executive agencies are caused by cultural tensions specific to hybrid organizations (Veld, 1995; 1997). Since hybrid organizations are situated between the public sphere and the private sphere, and the two

Table 5

Steering the Agricultural Research Agency (DLO)

In 1989 the agricultural research directorate was split in two. The Directorate for Science and Technology (DWK), located at the ministry in The Hague, was supposed to formulate departmental science and technology policies. The DLO, headquartered at Wageningen—the seat of the Agricultural University—and consisting of a multitude of research institutes, was supposed to conduct the studies called for by ministerial policies.

In 1992 a new steering strategy was introduced. The idea was that different kinds of research should be treated differently:

- 1) Strategic expertise development should be governed via long term, multi-year contracts. A portion of the agricultural research budget should be freely allocated to DLO for its knowledge infrastructure. DWK should control the other part of the basic research budget and use that control to determine the direction of research.
- 2) Research programs should be governed by mid-range contracts and budgets. DWK should develop the ideas for programs at the ministry, and DLO should develop implementation plans. Programs would be commissioned and budgeted via contract.
- 3) Projects are research projects carried out for third parties and governed by short term contracts specifying required outcomes, resources, schedules, quality controls, etc.

The aim of the 1992 reforms was to get a grip on research organizations that, due to their professional specialist character, had been *de facto* independent in the past. Scientific research is hard to control, and scientists are hard to manage. Many scientists consider professional autonomy a basic requirement for effective research work. The agricultural ministry is still trying to develop a more coherent research program and to exert more influence on the DLO.

spheres have different cultures, values, and norms, conflicts between these value systems frequently arise.

4.1. Public-private dichotomy

Many claim that tension between the two spheres is inevitable, because of their basic differences. Lawyers say there is a fundamental difference between private law and public law. Economists draw an equally clear line between business economics and public finance.

Table 6

The Royal Dutch Meteorological Institute (KNMI)

The KNMI is the national center for weather, climate, and seismological data and research. As a technical-scientific organization, it has long been *de facto* autonomous. The transport and public works ministry subjects KNMI to minimal guidance on policy issues. In fact, like most governments, the government of the Netherlands really doesn't have a weather policy. Governmental policy papers on meteorological affairs are rarely presented and almost never discussed, although KNMI does provide occasional advice to the minister about Dutch participation in international weather satellite programs. Consequently, the interaction between the ministry and KNMI tends to focus on administrative issues. The government's main agreements with KNMI outline its core responsibilities and govern its relations with third parties, primarily the prices KNMI charges for the information it provides to commercial firms, especially Meteo-Consult. Pricing has been a politically sensitive issue due to the 1989 decision of the minister to set a price below the fully distributed average cost. The ministry holds a meeting each year with KNMI about its budget and its annual report.

Table 7

The State Water Works (RWS)

The theoretical distinction between policy formulation and policy implementation clashed dramatically with political-administrative reality in the case of the RWS. Because politicians and policy makers tend to focus their attention entirely on the location of infrastructure projects and show no interest in the initial exploration phase or in the final execution and realization of the projects, the RWS was left free to develop a comprehensive infrastructure plan, which, in the absence of guidance on policy issues, resulted in an overload of the agenda with various regional demands. The RWS was also responsible for implementing the plan.

Major tensions in the ministry were caused by bad expenditure control. Some projects went over budget, requiring equally worthwhile projects to be put off. Other projects fell behind schedule and under budget due to procedural delays. Left to its own devices, RWS tended to divert the surplus funds from these projects to other destinations. Of course, this meant that when procedural delays were finally overcome, funds were no longer available to carry out the delayed projects. Eventually the public works and transport ministry stepped in to resume active supervision of project spending, which forced the policy makers in the ministry and the policy implementers in RWS to cooperate more closely.

Although intermediate forms of goods—between private market goods and collective public goods—do exist, that is, quasi-collective goods, the economic laws that govern the behavior of the market differ from those that govern the public sector. Accordingly, it can be argued that organizations must be either public or private; there is no in between.

This line of reasoning leads to the conclusion that the boundaries of organizations should be drawn to exclude all functions and activities not properly identified with the sphere to

Table 8

Steering the Public Prosecutor's Office (OM)

The OM belongs to a constitutionally independent judiciary, but it is also an organization that is subject to ministerial control. Social and political developments put pressure on the OM to change in various ways. The growth of criminality, for example, makes crime fighting a priority for politicians, which increases the pressure on the OM to focus on fighting crime. In 1994, the Ministry of Justice was reorganized into a core department concerned with policy formulation and a group of quasi-autonomous executive agencies (the immigration office, prisons, and the OM) linked to the core by contract. The agencies were granted management authority and responsibility—in the OM case, the Board of Attorneys General. Management responsibility was to be further decentralized to the district level.

This reorganization was meant to improve the functioning of the OM, to transform its rather archaic management into a transparent, effective, and efficient organization. The OM has consistently resisted ministerial attempts to influence its direction. New ways of controlling the OM were created by increasing its accountability to the ministry.

When the allocation of authority and responsibility within an organization is considered from an administrative or economic perspective, a certain degree of central guidance and policy control seems to be almost a matter of necessity. That is not how the highly educated, autonomous professionals in the OM view their world, however. Principles such as due process, the division of powers, an independent judiciary, and constitutional rights play a prominent role in their decisions (Hart, 1994).

As a result, ministerial attempts to steer the OM have created considerable friction. OM professionals have interpreted the ministry's efforts as a threat to judicial neutrality, the basic rights of the citizenry, and the integrity of democratic government (*Rechtsstaat*) itself. Fundamental differences exist between those who see the law as a guarantor of rights and those who see the law as an instrument in the hands of the ministers—like planning or financing (Schuyt 1985).

which an organization is primarily attached. Private goods should be provided by private firms, public goods provided by public agencies, and never the twain shall meet. For example, the recent report of the Dutch governmental working group on market and government states that executive public agencies should be forbidden to perform activities of a commercial nature (although they allowed a few specific exceptions to this general rule). The working group also concludes that organizations that enter commercial markets should meet the same competitive conditions as the private firms in those markets (Cohen, 1997).

M. Simon, a Dutch organization consultant, is also intolerant of blurry boundaries. He makes a distinction between market organizations and task organizations (1989; 1995). If an organization performs a task commissioned by another superior unit, it is a task organization. The managers of task organizations take assignments from superiors—principals or policy makers—and receive the financial wherewithal necessary for task fulfillment from the same source. Often their assignments involve tasks performed on behalf of third parties. An executive government agency is, therefore, a prototypical example of a task organization: it receives an assignment to perform certain tasks from a policymaking department, which also provides a budget. In contrast, market organizations have no superiors that give them orders and budgets. They offer services to clients who pay to have tasks accomplished. Payment is negotiated as part of the transaction—the price paid depends on the market for the services or goods delivered. Because the dependency relations are fundamentally different between the two kinds of organizations, the twilight zone of ambiguous or mixed forms leads to various pathologies: confusion due to the mixing of bookkeeping systems, lucrative market activities displacing publicly commissioned tasks, and so forth. The basic problem is the collision of values, norms and frames of reference. Norms and values in a task organization are fundamentally different from norms like free supply and demand, risk taking, and continuity.

Jane Jacobs (1993) makes the most dramatic case for the existence of two colliding cultures. From her point of view, all human work falls into two distinct categories: taking and trading. Taking encompasses benign practices (foraging), aggressive practices (hunting, conquering for pillage, tribute, or territorial expansion), and territorial administration. Virtues necessary to the realm of taking constitute the Guardian Moral Syndrome. They include obedience, hierarchy, honor, and largesse. Trading, on the other hand, relies on the Commercial Moral Syndrome (industriousness, efficiency, thrift, the shunning of force, openness to strangers, inventiveness, and dissent). The commercial syndrome and the guardian syndrome constitute incompatible systems of norms and values.

4.2. *Public-private continuum*

In contrast, R.J. in 't Veld, a leading Dutch scholar of Public Administration, takes a more positive position on hybrid organizations (1995; 1997). He doubts that the public-private dichotomy is valid and proposes instead a continuum with various intermediate organizational forms, some of which are functional and some of which are pathological. He claims that skepticism about hybrid organizations is often caused by an understandable desire to avoid the latter. But in so doing, skeptics have sacrificed the opportunity to add value through organizational synergy. According to Veld, this can happen when new tasks and activities

that are complementary to existing tasks, preferably as joint products of the same processes, are added to an organization's portfolio. Scholars at public universities, for example, perform consultancy work and other socially useful services for clients as well as teaching and doing research.

The distinction between the private and public sectors has, of course, been investigated extensively. It was noticed long ago that this is not a dichotomy but a continuum (Dahl & Lindblom, 1953). Gary Wamsley & Zald Mayer (1973) pointed out two kinds of differences: ownership (state or private) and financing (budget or market). Barry Bozeman (1987), for example, looked at the governance of a variety of public, private, and intermediate organizations from the standpoint of their subordination to political authority and economic authority. He concluded that all organizations are subject to political influence and government control, thus all organizations are public to a degree. In his review of the public-private question, (Hal Rainey, 1991) observed that organizations differ not in a single aspect, but several: ownership, financial authority, kind of good produced, prospective or retrospective funding, political influence, legislative charter, regulatory arrangements, accounting and administrative controls, and so forth.

5. Conclusions

Devolution is one of the main reform trends in the Dutch public sector. By trend we mean something significant—not merely the latest in a long line of management fads. Still, the concept is bandied about The Hague somewhat carelessly. Some treat it as the universal cure for all management problems, whether or not it is really relevant to a particular situation. Most of the reforms and reorganizations in the Dutch public services in recent years have flown this flag, although not always sincerely. In some cases, devolution has been treated as a flag of convenience. In a few cases, it has even been used as a false flag to camouflage something else entirely.

Devolution is an incomplete description of a complex phenomenon. It turns out that it is not only about increasing the autonomy of agencies. In fact, devolution can sometimes lead to diminished autonomy for an agency. A number of the new quasi-autonomous executive agencies have found that, as a result of their new status, ministerial control of their policy direction is stronger than before, although, in general, what has changed is not the quantity of management but its quality. The change in the way ministries steer agencies, from direct supervision to arm's length control, has made governance relationships more explicit and more transparent.

5.1. *Governance explicit and transparent*

Devolution is supposed to promote businesslike management and operations. This implies clarity about quality and quantity of services delivered, costs and prices, assignment of property rights, and so forth. Devolution has, in fact, generally led to increased product specification and improved per-unit pricing, financial administration, governance relations, and so forth.

In the Netherlands, some fiscal and legal authorities have questioned the value of devolution. The former note that the accrual accounting system and cost-benefit systems are possible under the normal budgetary and financial accountability regime. The latter note that arm's length control via management contract is a legal fiction because ministerial responsibility remains untouched. Consequently, both groups conclude that devolution is largely symbolic in nature.

Supposing this is true, would the old regime have produced the improvement of management that occurred after the symbolic change? Devolution surely is not incidental to the observed phenomenon of more explicit and clearer management. Many advocates of devolution claim that the era of hierarchical, top-down systems is over. If so, we must seek to understand management at a distance, including new forms of relationship between the policy-formulating ministerial core departments and the policy-implementing executive agencies.

5.2. *Beyond businesslike management*

Our exploration of new forms of governance started with agencies that most closely resemble ordinary production firms. We expected that the usual concepts and theories about management and organization of mass and series production firms would be applicable here. That proved to be an oversimplification, because the mass-production organizations we investigated do not operate in commercial markets with competitive prices. In the Netherlands as in many other European countries, activities such as granting asylum, regulating agriculture, running prisons, and issuing student loans are not activities performed by private companies. It is only in places like Great Britain and the United States, where other political norms prevail, that private firms can carry out some of these tasks.

We also looked at professional agencies, which have a higher degree of autonomy than other government agencies. According to the principle of academic freedom, scientific researchers must be free from political influence. According to the principle of division of powers (*trias politica*), the judiciary must be independent from the other branches of government. The governance of these sorts of agencies is particularly challenging. In addition to administrative issues, substantive policy issues must be addressed as well. Questions arise not only about organization and structure, but also about values and culture.

5.3. *Hybrid organizations*

Hybrid organizations are situated between the public and private spheres. On one hand, they are supposed to function like customer oriented and efficient firms. On the other hand, they carry out intrinsically public tasks. The nonprofits, the QUANGOs, and the independent social welfare agencies, as well as the quasi-autonomous executive agencies are all hybrid organizations. This hybrid third sector is important to the Netherlands and will remain so. Calls for a strict separation between the public and private spheres reflect an unwillingness to face reality. It is far better to try to understand hybrid organizations than to try to deny them out of existence.

We have found that the straightforward application of private sector management strategies to hybrid organizations takes insufficient account of the differences between the private and public spheres. This illustrates the well-known dictum that public and private management are fundamentally alike in all unimportant respects (Allison, 1980). Along with the differences and conflicts between the two spheres that were observed in this investigation, a conflict between democratic governance in practice and public management theory also came to light. From a theoretical viewpoint, the study of the management of hybrid organizations might well be more interesting than that of pure public sector organizations. From a practical viewpoint, what matters is that the public sphere in many Western European countries and elsewhere encompasses an increasing number of hybrid organizations. The development of a public sector oriented theory of management had better focus on hybrid organizations if it is to be of any use at all.

Acknowledgments

This article is an English summary of the book *Aansturing van Verzelfstandigde Overheidsdiensten* (Governing Quasi-autonomous Agencies) (Kickert et al., 1998), written in collaboration with A. Bestebreuer (working at the Ministry of Finance, and in 1996 working part-time at the Department of Public Administration, Erasmus University, Rotterdam, with financial support from The Netherlands Research School of Public Administration), A. Hoekstra (during 1995 and 1996 research assistant at the Department of Public Administration, Erasmus University, Rotterdam, with financial support from the Ministry of Agriculture, Nature and Fishery), A.J.M. Verhey (now consultant at Berenschot, then at Public Administration Consultancy (BESTAD) in The Hague), and Professor Dr. R.J. in 't Veld (professor at Utrecht and Amsterdam University, Rector of SIOO at Utrecht, Dean of The Netherlands School of Government and partner of Public Administration Consultancy (BESTAD) at The Hague).

A German version has been published in the journal *Verwaltung und Management* [5(4): 212–215] and [5(5): 304–311], edited by Professor Reinerman at Speyer Hochschule für Verwaltungswissenschaften.

References

- Allison, G. T. (1983). Public and private management: are they fundamentally alike in all unimportant aspects? In: R. T. Golembiewski & F. Gibson, *Readings in public administration* (pp. 1–19). Boston: Houghton Mifflin.
- Anheier, H. K., Priller, E., Seibel, W., & Zimmer, A. (1997). *Der dritte sektor in Deutschland (The third sector in Germany)*. Berlin: Edition Sigma.
- Bozeman, B. (1987). *All organizations are public*. San Francisco: Jossey-Bass.
- Cohen Commission. (1997). *“MDW-werkgroep markt en overheid” (Market and state)*. Netherlands: The Hague.
- Dahl, R. A., & Lindblom, C. E. (1953). *Politics, economics and welfare*. New York: Harper & Row.
- Fraser, A. (1991). *Making the most of next steps*. London: HMSO.
- Hart, A. C. 't. (1994). *Openbaar ministerie en rechtshandhaving (Public prosecution and law enforcement)*. Arnhem, Netherlands: Gouda Quint.

- Jacobs, J. (1993). *Systems of survival. A dialogue on the moral foundations of commerce and politics*. London: Random House.
- Jenkins, K., Caines, K., & Jackson, A. (1987). *Improving management in government: the next steps*. London: HMSO.
- Kickert, W. J. M. (1997). Public management in the United States and Europe. In: W. J. M. Kickert, *Public management and administrative reforms in Western Europe*. (pp. 15–39). Cheltenham, UK: Edward Elgar.
- Kickert, W. J. M., Bestebreuer, A., Hoekstra, A., in't Veld, R. J., & Verhey, A. J. M. (1998). *Aansturing van verzelfstandigde overheidsdiensten (Governance of independent agencies)*. Alphen, Netherlands: Samsom.
- Kickert, W. J. M., & Jorgensen, T. Beck (1995). *International Review of Administrative Sciences* 61(4):499–586.
- Lynn, L. E. (1998). A critical analysis of the new public management. *International Public Management Journal* 1(1):107–123.
- March, J. G., & Olsen, J. P. (1995). *Democratic governance*. New York: Free Press.
- Rainey, H. G. (1991). *Understanding and managing public organizations*. San Francisco: Jossey-Bass.
- Salamon, L. M., & Anheier, H. K. (Eds.) (1997). *Defining the nonprofit sector*. Manchester, UK: Manchester University Press.
- Schuylt, C. J. M. (1985). Sturing in het recht (“governance in law”). In: M. A. P. Bovens, & W. J. Witteveen, *Het schip van staat. Beschouwingen over recht, staat en sturing (The Ship of State)*. (pp. 113–124). Zwolle, Netherlands: Tjeenk Willink.
- Simon, M. (1989). *De strategische functietypologie (Strategic function typology)*. Deventer, Netherlands: Kluwer.
- Simon, M. (1995). Taakorganisaties, marktorganisaties en de twilight zone (Task organizations, market organizations and the twilight zone). In: M. Noordegraaf, A. B. Ringeling & F. J. M. Zwetsloot, *De ambtenaar als publiek ondernemer (The civil servant as public entrepreneur)*. (pp. 96–103). Bussum, Netherlands: Coutinho.
- Terry, L. D. (1998). Symposium on leadership, democracy and the new public management. *Public Administration Review*, 58 (3), 189–239.
- Trosa, S. (1994). *Next steps, moving on*. London: HMSO.
- in 't Veld, R. J. (1995). *Spelen met vuur. Over hybride organisaties (About hybrid organizations)*. The Hague, Netherlands: VUGA
- in 't Veld, R. J. (1997). *Noorderlicht. Over scheiding en samenballing (about division and merging)*. The Hague, Netherlands: VUGA.
- Wamsley, G. L., & Zald, M. N. (1973). *The political economy of public organizations*. Lexington, UK: Heath.