

**AUTONOMY AND REGULATION OF STATE AGENCIES:  
REINFORCEMENT, INDIFFERENCE OR COMPENSATION?**

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## **ABSTRACT**

This paper analyses the relationships between the autonomy of and the regulation of state agencies in Norway, Ireland and Flanders (Belgium). The empirical basis is broad surveys of public sector organizations carried out in 2002-2004. Three hypotheses on these relationships are formulated and examined, indicating different patterns: reinforcement, indifference and compensation. The reinforcement hypothesis, saying that agencies with a high level of autonomy will have a low level of regulation while agencies with a low level of autonomy will have a high level of regulation, does not get any support. On the other hand, the compensation hypothesis, saying that agencies with a high level of autonomy will also have a high level of regulation while agencies with a low level of autonomy will have a low level of regulation, gets some support in the case of HRM autonomy, and more specifically for Norway. In general, however, the indifference hypothesis, saying that agencies with a high level of autonomy will show a similar variance in level of regulation as agencies with a low level of autonomy seems to be the most adequate. The hypotheses are also linked to prevalent administrative doctrines, and the empirical findings indicate how relevant they are.

## INTRODUCTION

Some recent country-specific studies on the relationships between the autonomy of state agencies and how they are regulated and controlled (e.g. Christensen and Læg Reid 2007, Verschuere 2007) have taken what Pollitt et al. (2004) call the 'practitioner model of agencification' as the point of departure. This model is said to consist of three elements: 1) structural disaggregation, or agencies being formally at arm's length from the parent (core) ministry, 2) autonomization, or agencies having some degrees of freedom in making discretionary decisions themselves, and 3) contractualization, or a shift from hierarchical control of agencies to control of agencies through (quasi-)contracts based on performance. Like in the comparative study by Pollitt et al. (2004), the balance between autonomy and control expected from the model is found to be quite rare.

The 'practitioner model of agencification' is based on certain administrative doctrines, prescribing specific forms of autonomy of and regulation and control of state agencies (Pollitt et al. 2004: 33-34). Alternative doctrines emphasize other forms of autonomy of and/or regulation and control of agencies from parent ministries. Some doctrines also indicate particular patterns of relationships between autonomy of and regulation and control of agencies. In general, three hypotheses on these relationships may be formulated, representing different types of patterns:

- 1) *Patterns of reinforcement*: agencies with a high level of autonomy will have a low level of regulation and control, while agencies with a low level of autonomy will have a high level of regulation and control.
- 2) *Patterns of indifference*: agencies with a high level of autonomy will show a similar variance in level of regulation and control as agencies with a low level of autonomy.
- 3) *Patterns of compensation*: agencies with a high level of autonomy will also have a high level of regulation and control, while agencies with a low level of autonomy will also have a low level of regulation and control.

Taking the autonomy of structurally disaggregated state agencies from their parent ministry as the point of departure, the first pattern implies that a low level of regulation and control may be said to reinforce the effects of a high level of

autonomy. For the second pattern, if only autonomy is emphasized, the level of regulation and control will not be of interest. On the other hand, the third pattern implies that a high level of regulation and control may be said to compensate the effects of a high level of autonomy. Likewise, taking the regulation and control of structurally disaggregated state agencies from their parent ministry as the point of departure, in the first pattern a low level of autonomy will reinforce the effects of a high level of regulation and control, the second pattern is expected if only regulation and control is emphasized, while in the third pattern a low level of autonomy will compensate for a low level of regulation and control. Since autonomy as well as regulation and control may take different forms, the actual patterns may be quite complex.

In this paper we will examine the relationships between the autonomy of and the regulation and control of state agencies in Norway, Ireland and Flanders (Belgium). The empirical basis is broad surveys of public sector organizations carried out in 2002-2004. All three surveys include similar questions on how the organizations perceive different forms of autonomy, regulation and control. The main research question concerns the relationships between the autonomy of and the regulation and control of agencies, overall as well as within each state. How and to what extent do the three hypotheses on reinforcement, indifference and compensation get support?

We will first clarify some central concepts like agency, autonomy, regulation and control. Second, we will indicate whether and how prevalent administrative doctrines may be linked to the three hypotheses. Third, we will briefly describe the database and the methodology. Fourth, we will present the empirical results. Fifth, we will discuss whether and how the hypotheses and doctrines are relevant. Finally, we will make some concluding comments on our findings and interpretations.

## **CENTRAL CONCEPTS: AGENCIES, AUTONOMY, REGULATION AND CONTROL**

There are various descriptions internationally of *agencies* as non-departmental public bodies, hybrids, quangos, fringe bodies, non-majoritarian institutions, quasi-autonomous public organizations, and distributed public governance (see e.g.

Wettenhall 2005, Christensen and Lægreid 2006a, Roness 2007). How an agency is defined and what it does vary considerably across national and organizational cultures, legal systems, and political systems (Smullen 2004). We will focus on those public sector organizations which have the following features (cf. Pollitt et al. 2004, Talbot 2004): 1) They are public law bodies, 2) They are structurally disaggregated from other organizations or from units within core ministries, 3) they have some capacity for autonomous decision making with regard to management or policy, 4) they are formally under at least some control of ministers and ministries, 5) they have some expectation of continuity over time, and 6) they have some resources (financial and personnel) on their own. Some sets of public sector organizations are excluded from our understanding of agencies: a) companies and corporations with a commercial focus which have to closely observe the laws regulating private companies or which are registered under company law as a company, b) governmental foundations, trusts and charities.

The concept of *autonomy* is also used frequently, and in different ways, in studies of public sector organizations (cf. Christensen 2001, Verhoest et al. 2004a, Verschuere 2007). Our point of departure is autonomy as the level of decision-making competencies of the agencies. Thus, autonomy is about discretion, or the extent to which the agency can decide itself about matters it finds important. Autonomy as decision-making power can be split up in two kinds, based on two different scopes of discretion. When agencies have some decision-making competencies delegated from superior bodies concerning the choice and use of inputs they have some degree of managerial autonomy. This includes autonomy with regard to human resource management (e.g. salary, promotion and evaluation of personnel) and financial management (e.g. taking loans, setting tariffs and shifting budgets between years). The scope of autonomous decision-making capacity may also vary because of the structuring of the primary production processes of the agency and the policies themselves. Policy autonomy includes the extent to which the agencies can choose the policy instruments.

Before we clarify the concept of regulation, we discuss the more encompassing concept of control. Regulation is one form of control. *Control* refers to the mechanisms and the instruments that are used by the controlling actor in order to influence the decisions and the behaviour of the controlled actor with the aim of fulfilling the objectives of the controlling actor. Control relationships can be unilateral

or mutually-reciprocal, and vertical, horizontal or diagonal (Verschuere et al. 2006). Control as a concept has a particular relationship with the concept of autonomy (Verhoest et al. 2004a): Control focuses upon the constraints which the ministers/ministries can develop to influence the actual use of these decision-making competencies in order to influence the decisions made. In cybernetics, the control system contains three subsystems: an ex ante subsystem of planning and target setting; an ex nunc measurement and monitoring subsystem and an ex post subsystem of evaluation, rewards and sanctions and feedback (Kaufmann, Majone and Ostrom 1986). These three subsystems get another focus and content in the case of the three fundamental forms of control, referring to the basic mechanisms of social interaction (hierarchy, market and networks), which are discerned in the literature on (management) control, policy analysis, and governance (cf. Lindblom 1977, Dunsire 1978, Ouchi 1979, Kaufmann, Majone and Ostrom 1986, Thompson et al. 1991, Peters 1998, Verhoest 2005a): First, one can control another actor through authority, 'duress', by orders, rules, procedures or standards, or put shortly, by means based on hierarchical forms. One specific form is structural control by which the superior bodies may influence the agencies' decisions through hierarchical and accountability lines towards the agency head or through the governing board. Market-like forms of control emphasize exchange, based on demand, offer and price. Included is financial control by influencing the agencies' decisions by changing the level of budget granted to the agency, the composition of its incomes, and changing the level of risk-turnover, as well as control by putting the agency into competition with other organizations. Network-based forms of control refer to social mechanisms based on cooperation and solidarity. Control is done by persuasion, reputation, informal contacts and by establishing common values, common problem definitions and objectives. In this context, control can be done by e.g. enhancing the creation of cooperation networks of which the agency is a part.

*Accountability* is an ambiguous concept, but in the context of governance it may be closely related to steering and control (cf. Flinders 2001, Mulgan 2003). One actor is accountable to another for achieving objectives, fulfilling tasks or respecting norms, which are set and/or controlled by the second actor. In this paper we are interested in upwards or vertical accountability of agencies towards ministers and ministries (cf. Verschuere et al. 2006).

Regulation is also an ambiguous concept that can be used in different ways (cf. Baldwin, Scott and Hood 1998, Jordana and Levi-Faur 2004, Christensen and Læg Reid 2006a). In its broadest definition, regulation equals ‘all forms of social control or influence’; or in a somewhat more focused definition ‘all state actions designed to influence industrial or social behaviour’ (Baldwin and Cave 1999: 2). In our view, regulation is a specific form of control, instead of encompassing all forms of control. Our point of departure is a rather narrow definition of regulation, i.e. regulation as: a) goal formulation, rule-making and standard-setting; b) monitoring, information-gathering, scrutiny, inspection, audit, and evaluation; and c) enforcement, behaviour-modification, and the application of rewards and sanctions (cf. Hood, Rothstein and Baldwin 2001). In this definition, regulation is referring to a very specific form of control by authority, by which behaviour is monitored, evaluated and eventually sanctioned on the basis of preset rules or standards.

Regulation as a form of government intervention has attracted renewed scholarly interest in the context of liberalization of public services, in which a strange mix of deregulation and reregulation is visible (Jordana and Levi-Faur 2004). However, our focus in this paper is on regulation *inside* government, or how superior bodies use different rule- or regulation-based tools to control agencies (Hood et al. 1999). Thus, regulation (inside government) is connected to control of agencies by setting rules or standards. Regulation processes inside government may differ in their emphasis on the phase in the control cycle (inputs and processes vs. results and performance). But mostly these features come in pairs. Therefore basically two forms of regulation towards agencies are discernible. In the case of *ex ante* regulation of input and processes, the emphasis is on the ‘before-the-fact’ formulation of detailed rules, standard operating procedures and approval requirements (or nullification rights) that give direction to the agency so that the desired objective (from the viewpoint of the ministers/ministries) will be achieved. The intention is ‘to minimize risks and to increase certainty of performance processes before they begin’ (Wirth 1986). Ramamurti (cited in Mardjana 1993) talks about ‘quantity of control’, meaning the extent to which internal processes are controlled. Input regulation or control (Heyman 1988) can range from extensive control like centralization of financial transactions, to moderate control like centrally prescribed procedures for financial transactions, to low control by e.g. regulating the general principles to which the financial procedures and transactions by the agency must comply. The criteria on

which an agency is controlled and on the basis of which it has to account for its actions when regulated ex ante on inputs and processes, are legality, defined here as compliance to rules and standards, fairness, integrity, and procedural correctness (Verhoest 2005a, Verschuere et al. 2006).

By contrast, by regulation of results (outputs and effects, or quality), the superior body or regulator checks whether the intended set of organizational goals and result targets have been achieved by the agency and whether there is a need for corrective future actions, by the means of 'after-the-fact' controls (Thompson 1993), such as ex post monitoring and evaluation. Accountability here is focused on achieved results and performance, which can be formulated as efficiency, effectiveness, quality, value for money and responsiveness.

Both forms of regulation optimally include the application of rewards and sanctions as part of the control cycle. These rewards and sanctions can take several forms: e.g. wage increase or decrease for personnel, increased or decreased resource allocation, and greater or reduced discretion. The last tool is an example of how control of agencies may be connected to autonomy, if autonomy is seen as the exemption on constraints on the actual use of decision-making competencies (cf. Verhoest et al. 2004a, Verschuere 2007).

## **DOCTRINES AND THEORIES ON RELATIONSHIPS**

In their comprehensive discussion of administrative doctrines, Hood and Jackson (1991) also include several partly conflicting doctrines on control over operations (e.g. control by input, control by process and control by output). Autonomy is not mentioned explicitly, but may be seen as part of doctrines for handling cases (e.g. decide by rule and rote vs. decide by discretion) and of doctrines of authority (e.g. use differentiated ranks with single-person responsibility, and use collegial or board authority). They do not, however, discuss relationships and tradeoffs between autonomy and control.

In this section we elaborate these relationships and focus more in particular on different possible patterns of autonomy and regulation of agencies. We describe public administration doctrines which prescribe specific patterns, where some doctrines may be based on normative or empirical theories. In the remaining sections

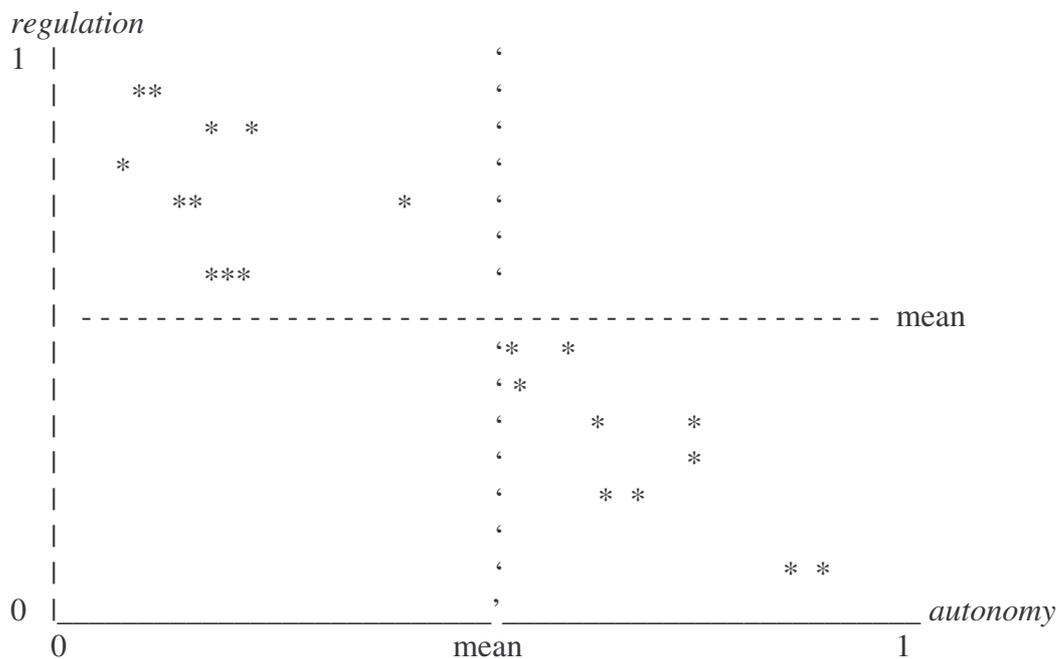
of the paper, we will study whether the practice of relationships between an agency and its superior bodies in general, and in each state in particular, reflect one or more of these patterns. This empirical query will help to investigate whether the practice of agency autonomy and regulation in the three states is influenced by specific doctrines, or at least reflects the spirit of these doctrines. Moreover, analysing the autonomy-regulation patterns in practice helps us to further clarify the conceptions of autonomy and regulation in the field of public sector organisations, and their mutual relation.

*Patterns of reinforcement*

First, let us investigate what doctrines and theories support the pattern of reinforcement. Graphically, the pattern of reinforcement would look like the plots shown in Figure 1: agencies with low levels of autonomy are subjected to high levels of regulation, and the other way around.

Figure 1. The reinforcement pattern of autonomy and regulation of agencies:

An example.



The most dominant doctrines that would support the pattern of reinforcement are based on the theory of bureaucracy combined with open system and managerialist theories.

Although nowadays such assertions may sound rather outdated, the theory of bureaucracy, as elaborated by Max Weber (1947), consider a highly integrated, hierarchically structured organization, based on strict procedural regulations and role specialization, as an efficient organizational form. Moreover, the integration of units in the unified hierarchical chain of command and the imposition of common procedures ensure an optimal coordination with other parts of the bureaucratic organization. When adhering to this doctrine, politicians and bureaucrats would opt for agencies - if they would be chosen as organizational form anyway - which are still quite strictly regulated through rules and procedures, which are common for core government organizations. They may have some discretion within frames set by superior bodies, but overall the extent of autonomy would be rather low. Common regulations and procedures concerning staff, financial transactions, or primary production processes may ensure internal mobility, compatibility, and economies of scale, avoid fraud and guarantee equity for citizens and avoid unallowable policy differences across regions.

However, open system, contingency and managerialist theories nuance this optimism about weberian bureaucracies, as they perceive organizations to be successful if they are able to respond rapidly to changes in their environment. In this perspective, bureaucratic organizations are optimal in a stable and simple environment. But in order to be responsive to a highly volatile and complex environment, open system theory advocates strongly decentralized organizational forms, in which units have sufficient discretion and autonomy to alter their internal processes to fit external environmental changes (Kastelein 1990). In this view, a strictly regulated monolithical bureaucracy is inefficient, because its units lack the potential for flexible reactive powers, and centralization of decision-making powers at the senior levels causes an information overload, bottlenecks and delays. Similarly, the management literature emphasize the catchphrase 'let the managers manage' (cf. Kettl 2000) and would advocate agencies (and their leaders) which are given a high level of discretion and flexibility in deciding how to obtain their goals. Similarly, the doctrines of 'free markets', liberalization and privatization of property rights advocate deregulation of public services in order to strengthen market-based allocation, resulting in higher efficiency and innovation (Niskanen 1979, Savas 2000). In this perspective, freeing public sector organizations of red tape regulations and granting them high levels of autonomy are to be combined with more property rights for

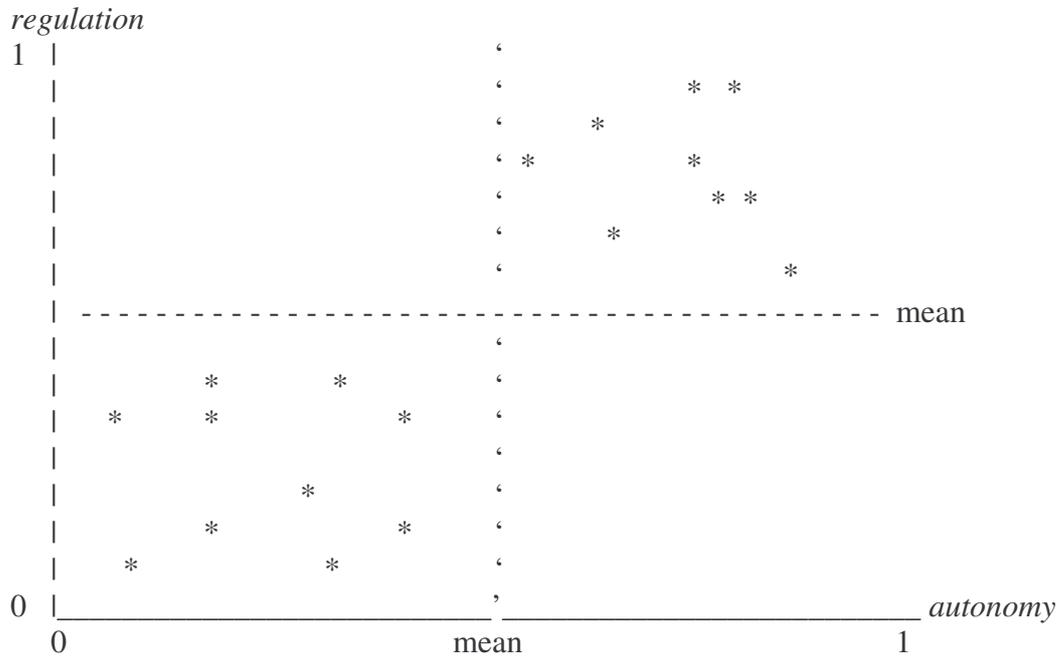
agency leaders (including ‘usus’, ‘usus fructus’ and ‘usus abusus’, cf. Furubotn and Pejovich 1974, Künneke 1993) and increased competition. Politicians following these doctrines when creating public sector organizations will opt to allocate tasks to highly autonomous agencies, which excel in flexibility, and which are loosely regulated.

Another more recent doctrine that would justify the choice for low autonomy/high regulation agencies and high autonomy/low regulation would be the doctrine on horizontalization of control. According to this doctrine, which is being strongly debated in the Netherlands for example, the dominant controlling actor shifts from the government to other stakeholders when moving from low autonomy agencies to high autonomy agencies. Agencies which are further away from central political authorities (i.e. more autonomy) should be controlled with regard to strategic issues by their customers, interest groups and other stakeholders, and governments should limit themselves to the regulation of the way these horizontal control-arrangements are being shaped and the minimal criteria they have to meet in their operation (Handvest Publieke Verantwoording 2000, Algemene Rekenkamer 2002, 2003, Schillemans and Bovens 2004, Yesilkagit 2004). By the means of peer review, customer advisory committees, visitation and certification, representation in governing boards, these stakeholders take up part of the controlling role of government in the case of high autonomy agencies. In the case of high autonomy agencies governments can also use other and better ways of controlling agencies (or even alternatives for control), which are more based on social mechanisms and networks, like informal contacts and networks, interpersonal trust, the interplay of organizational reputation and legitimacy, public sector values, professional cultures and shared norms (Lane and Bachmann 1998, Carpenter 2001, Verhoest 2005a, 2005b, Aucoin 2006, Pollitt 2006, Verhoest et al. 2007).

#### *Pattern of compensation*

The pattern of compensation would graphically look like Figure 2: agencies with high levels of autonomy are subjected to high levels of regulation, while agencies with low levels of autonomy face low levels of regulation by superior bodies.

Figure 2. The compensation pattern of autonomy and regulation of agencies:  
An example.



This pattern finds a strong doctrinal basis in New Public Management (Hood 1995) and affiliated theoretical frameworks. The NPM argument boils down to two conditions for efficient and effective behavior of public managers, combining insights of the managerialist approach and the public choice approach (Aucoin 1990, Christensen and Lægreid 2001, Norman 2003). Firstly, ‘*Let public managers manage*’, by giving them enough managerial autonomy to develop new ways of processing and handling their business. Managerial autonomy enables and facilitates efficient behaviour, but does not induce public managers in itself to efficiency. Therefore, pressure is needed. Thus, the second condition is to ‘*Make public managers manage*’ by putting managerial and market-like pressures on them (OECD 1997, Kettl 2000). Pressure can be created internally in the public sector by means of harsh performance standards in performance contracts with superior bodies, to which the public organization is held accountable and to which sanctions or rewards are linked. Sanctions and rewards function as drivers for performance and, as a condition for performance, for innovation because public organization and their managers are assumed to be self-interested actors (Schick 1996, Boorsma and Halachmi 1998). This is referred to in this paper as ‘*result regulation*’.

The NPM doctrine is firmly grounded in the principal-agent theory. This theory considers agents to perform maximally efficient if they have autonomy that allow them to specialize on the one hand, and they are controlled strongly by the principal through results monitoring, bonding and risk-turnover on the other hand. This control is needed to minimize agency problems, like opportunistic behaviour (moral hazard and adverse selection), stemming from goal incongruence and information asymmetry (Pratt and Zeckhauser 1991). This refers to the so-called paradox of autonomization in which autonomization of public agencies may imply stricter central regulation (Kickert 1998, Smullen et al. 2001). This paradox of autonomization is essentially about a reduction of extensive input regulation and process regulation, combined with a stricter regulation on performance (Bouckaert and Verhoest 1999, cf. 'centralised-decentralisation' Hoggett 1996: 18).

According to this doctrine, high levels of autonomy have to be counterbalanced by a high level of regulation through accountability on results and use of rewards and sanctions. Organizations which have lower levels of autonomy and which are closer to government would need less result regulation, for the potentiality of information asymmetry and opportunistic behaviour is much less in these cases.

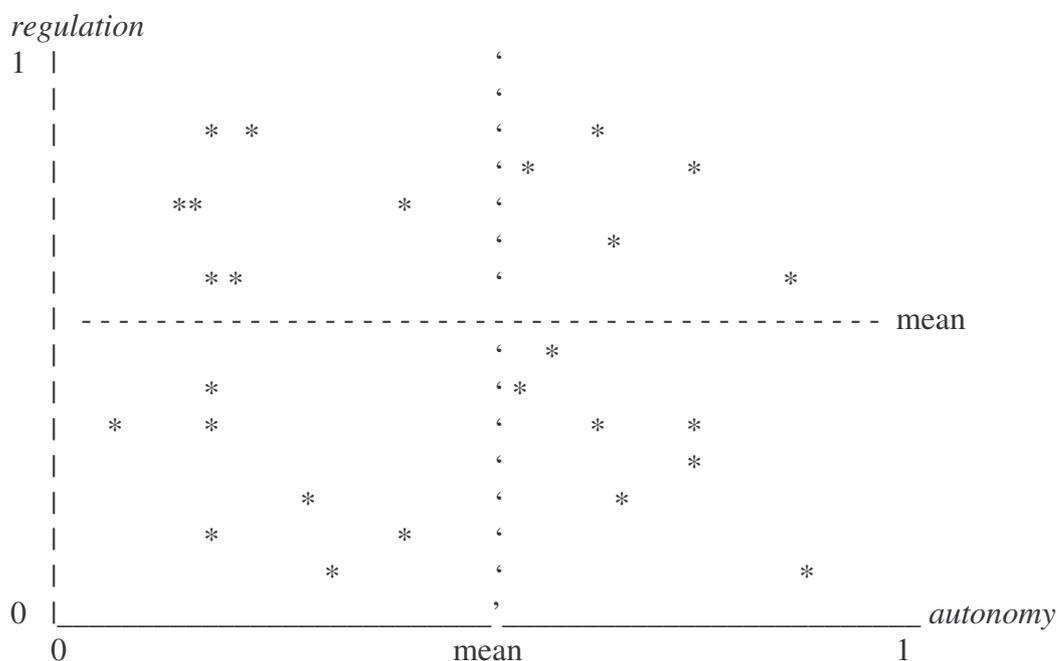
#### *Pattern of indifference*

In the case of the pattern of indifference there are no clear positive or negative relationships between autonomy and regulation of agencies. Graphically the pattern of indifference would look like Figure 3 on the next page.

It is quite hard to imagine a general doctrine combining autonomy and regulation that would support this kind of pattern. It rather refers to a non-doctrine of 'none size fits all' where decisions are taken on an ad hoc basis, denouncing the use of overall blueprints.

Figure 3. The indifference pattern of autonomy and regulation of agencies:

An example.



## DATABASE AND METHODOLOGY

This study is based on data from quite similar surveys addressed to public sector organizations in Flanders (2002-2003), Norway (2004) and Ireland (2004). The top managers were asked to fill in a web-based questionnaire containing several types of questions, including on the different forms of autonomy and regulation of agencies mentioned above. The types of organizations covered in the three surveys were somewhat different, but in all three states all non-commercial public sector organizations outside core ministries, reporting to a ministry and not restricted to certain parts of the state were included. These are the organizations we here define as state agencies.

The overall response rates in the surveys were, respectively, 59 % in Flanders, 70 % in Norway and 43 % in Ireland. The general impression is that the samples are quite representative for the total populations. The information from these surveys on some of the variables was integrated in a joint database, which contains 335

organizations. Of those, 226 are what we here have defined as state agencies (46 in Flanders, 103 in Norway and 77 in Ireland). The analyses were performed on this restricted sample of 226 organizations. Even if the formal-legal types of organizations vary within and across states, their basic characteristics should be similar enough to make comparisons meaningful.

The questions on different forms of autonomy and regulation in the three surveys were quite similar. However, in some instances different categorizations of answers were used across the surveys. For these variables, the values were recoded and standardized, ranging from 0 for instances of no or low autonomy (or regulation) to 1 for instances of full or high autonomy (or regulation). For variables with intermediate values, proportional intervals were used (i.e. 0.5 for variables having three values in total, and 0.33 and 0.67 for variables having four values in total). To assess the form of relationships we use the symmetrical statistical measure Pearson's R, ranging from -1 to +1. In our case, a high and statistically significant negative value indicates that the reinforcement hypothesis will be confirmed, a low and not statistically significant value is in line with the indifference hypothesis, while a high and statistically significant positive value indicates that the compensation hypothesis will be confirmed.

## **EMPIRICAL RESULTS**

In this section we will first clarify how we have operationalized the relevant dimensions of autonomy and regulation, and present the univariate distributions on these dimensions. We will then describe the actual relationships between autonomy and regulation, sorted by the main types of autonomy.

### *Operationalization and extent of autonomy and regulation*

As noted above, we define autonomy as the extent to which the agency can decide itself about matters it finds important, and distinguish between managerial autonomy (human resource management autonomy and financial management autonomy) and policy autonomy. Several questions in the surveys covered these dimensions. For *human resource management*, discretion on salaries, promotion and evaluation of personnel were included. Here, the extent of autonomy is lowest on salaries and

highest on evaluation. Overall, 41 % of the agencies report that they to a large or some extent can make decisions independently of the parent ministry on the general conditions for the level of salaries (i.e. high autonomy), 10 % can increase the wages for a single employee but not affect the general conditions (i.e. intermediate autonomy), while 50 % can neither increase the wages for a single employee nor affect the general conditions to any extent (i.e. low autonomy). Compared to this, 71 % of the agencies report that they to a large or some extent can make decisions independently of the parent ministry on the general criteria for evaluating personnel (high autonomy), 17 % can evaluate a single employee but not affect the general criteria (intermediate autonomy), while 12 % can neither evaluate a single employee nor affect the general criteria to any extent (low autonomy). Similarly, 62 % of the agencies report that they to a large or some extent can make decisions independently of the parent ministry on the general criteria for promotion of personnel (i.e. high autonomy), 14 % can promote a single employee but not affect the general criteria (i.e. intermediate autonomy), while 24 % can neither promote a single employee nor affect the general criteria to any extent (i.e. low autonomy).

For *financial autonomy*, discretion on taking out loans, setting tariffs and shifting budgets between years were included. Here, the extent of autonomy is lowest on taking out loans: 78 % report that they are not allowed to do this to any extent (low autonomy), 20 % can do it within limits set by the parent ministry (intermediate autonomy), and only 2 % are allowed to do it without limits set by the parent ministry (high autonomy). Compared to this, 39 % report that they are not allowed to set tariffs to any extent (low autonomy), 40 % can do it within limits set by the parent ministry (intermediate autonomy), while 21 % can do it without limits set by the parent ministry (high autonomy). While 51 % are not allowed to shift the budgets from one year to another to any extent (low autonomy), 49 % can do this to some or a large extent (high autonomy).

Only one question on *policy autonomy* was included in all three surveys: to what extent can the agency choose policy instruments like use of resources and input factors? Overall, only 1 % report that the parent ministry makes most of the decisions, independently of the agency (low autonomy), 7 % that the parent ministry makes most of the decisions after having consulted the agency, 52 % that the agency makes most of the decisions itself in correspondence with conditions set by the parent ministry or after having consulted with the ministry, while 40 % of the agencies make most of the

decisions themselves, where the parent ministry is only partially involved in the decision making processes and sets few restrictions (high autonomy).

For regulation our main distinction is between upwards accountability and use of rewards and sanctions. Upwards *accountability* to the parent ministry and other superior bodies may be of two kinds: whether the top manager is accountable for the results of the agency, and whether the top manager is accountable on legality (i.e. compliance with rules and regulations or enforcement and compliance to laws, rules, precepts and guidelines). For both forms of accountability the extent of regulation is quite high: overall, 82 % of the agencies report accountability on results and 84 % accountability on legality. Combining the two forms we find that 77 % report accountability on both (high regulation), 13 % on either results or legality (intermediate regulation) and 11 % on none of them (low regulation).

*Rewards and sanctions* may be used on different aspects of an agency. Here, we include rewards through wage increase or bonus for personnel (and sanctions through wage decrease or bonus reduction for personnel), rewards through increased resource allocation (and sanctions through reduced resource allocation), and rewards through more discretionary freedom (and sanctions through reduced discretionary freedom).

Overall, 59 % of the agencies report no rewards or sanctions of any kind (low regulation), 24 % say that there are either rewards or sanctions of at least one kind (intermediate regulation), while 16 % have both rewards and sanctions of at least one kind (high regulation). Rewards and sanctions related to wages and bonuses were least common: overall, 89 % of the agencies reported that there were no rewards and sanctions to any extent on this aspect, 8 % had either rewards or sanctions, while 4 % had both rewards and sanctions to some extent. For resource allocation, the corresponding figures were, respectively, 80 %, 11 % and 8 %, while for discretionary freedom they were 79 %, 16 % and 5 %.

#### *Human resource management autonomy and regulation*

We first examine the relationships between human resource management autonomy and regulation for all agencies, and then check whether and to what extent the same patterns emerge for agencies within each of the three states.

Table 1 Relationships between human resource management and regulation.  
All states. Pearson's R.

Regulation	Human resource management autonomy		
	Salary	Promotion	Evaluation
Vertical accountability	0.08	0.24**	0.28**
Results	0.07	0.23**	0.26**
Legality	0.06	0.19**	0.23**
Rewards and sanctions	0.06	0.04	0.11
Wages	-0.15*	-0.18**	-0.21**
Resources	0.21*	0.12	0.18**
Discretion	0.01	0.10	0.17**
N = 100 % (average)	205	206	207

\*\* significant at the 0.01 level, \* significant at the 0.05 level (2-tailed)

As shown in Table 1 there are several statistically significant and positive correlations between the three dimensions of HRM autonomy and regulation, and particularly for autonomy on promotion and evaluation. With regard to regulation through vertical accountability, the more autonomous the agencies are on promotion and evaluation of personnel, the more regulated they tend to be. This also goes for accountability on results as well as on legality. These findings seem to support the compensation thesis in the case of some aspects of HRM autonomy. However, when looking at the state-specific samples, these patterns are not mirrored in all three states (see Table A1 in Appendix). In Norway, the positive correlations between autonomy on promotion and evaluation of personnel and regulation through vertical accountability are even higher than for the total sample. But in Ireland, the only statistically significant correlation is between autonomy on promotion of personnel and regulation through vertical accountability. For Flanders, we find no significant positive correlations between human resource management autonomy and vertical accountability at all.

With regard to the correlation between HRM autonomy and regulation through rewards and sanctions, the pattern in the total sample is more complex (see Table 1). When analysing the presence of rewards and sanctions in general, we find no significant correlations with the level of human resource management autonomy. Nevertheless, there is a statistically significant positive correlation between autonomy

on evaluation and rewards/sanctions on resources and discretion, and between autonomy on salary and rewards/sanctions on resources, supporting the compensation thesis. However, all three dimensions of human resource management autonomy are negatively correlated with regulation through rewards and sanctions on wages, which would support rather the reinforcement thesis. When looking to the state-specific samples (see Table A1), these findings are partially reflected in case of Flanders, where we find somewhat stronger significant positive correlations between autonomy on salary and rewards/sanctions on resources on the one hand, and between autonomy on evaluation and rewards/sanctions on discretion on the other hand. These findings do not hold for Norway or Ireland, where we find no statistically significant correlations.

Summing up, whereas in case of the total sample the positive correlations of some aspects of HRM autonomy and vertical accountability seem to support the compensation thesis, the correlations between HRM autonomy and rewards/sanctions show much more mixed results. The positive relationships between aspects of human resource management autonomy and regulation through vertical accountability are reflected in the case of Norway, but much less or not at all in the two other states. The differences between the states with regard to regulation through rewards and sanctions are somewhat smaller, with only Flanders reflecting some of the patterns found in the total sample.

#### *Financial management autonomy and regulation*

The relationships between financial management autonomy and regulation for all agencies are summarized in Table 2 on the next page.

The main impression is that the correlations between the three dimensions of financial management autonomy and regulation are non-significant (though positive), for regulation through vertical accountability as well as for regulation through rewards and sanctions. Like for human resource management autonomy most correlations involving financial management autonomy are positive, but in contrast to this other main type these are statistically non-significant.

Table 2 Relationships between financial management autonomy and regulation.  
All states. Pearson's R.

Regulation	Financial management autonomy		
	Taking out loans	Setting tariffs	Shifting budgets
Vertical accountability	0.03	0.11	0.00
Results	0.02	0.10	-0.01
Legality	0.05	0.10	0.01
Rewards and sanctions	-0.02	0.04	0.04
Wages	0.06	-0.09	-0.03
Resources	-0.11	0.08	0.08
Discretion	0.02	0.02	0.00
N = 100 % (average)	209	206	195

\*\* significant at the 0.01 level, \* significant at the 0.05 level (2-tailed)

When controlling for states (see Table A2) we find mainly the same patterns. Even if some of the correlations are a bit stronger in one of the states than for all agencies, none are statistically significant. For the total sample as well as for the state-specific samples, these findings cannot really support the compensation or reinforcement hypothesis with regard to financial management autonomy and regulation.

#### *Policy autonomy and regulation*

For policy autonomy and regulation we have included the correlations with the various dimensions of regulation for all agencies in Table 3 on the next page.

Looking first at the relationships between policy autonomy and regulation for all agencies we find no significant correlations. These non-significant correlations are positive, but weak for regulation through vertical accountability, and negative and even weaker for regulation through rewards and sanctions.

Table 3 Relationships between policy autonomy and regulation. Pearson's R.  
All states

Regulation	Policy autonomy
Vertical accountability	0.09
Results	0.08
Legality	0.09
Rewards and sanctions	-0.02
Wages	-0.01
Resources	-0.01
Discretion	-0.07
N = 100% (average)	200

\*\* significant at the 0.01 level, \* significant at the 0.05 level (2-tailed)

When controlling for state (cf. Table A3) the only statistically significant correlation is the one involving rewards and sanctions on discretion in Norway, which is negative. Moreover, we see that in Norway all, and in Ireland most non-significant correlations are negative, while in Flanders most non-significant correlations are positive. Taking only the significant correlations into account, for both the total sample as for the state-specific samples, these findings cannot really support the compensation or reinforcement hypothesis with regard to policy autonomy and regulation.

## DISCUSSION

In the introduction we formulated three hypotheses, indicating different patterns of relationships between autonomy of and regulation of agencies. Later on, we also linked some of these patterns to certain administrative doctrines. What, then, do the empirical observations tell about the relevance of the hypotheses and doctrines?

### *Support for patterns and doctrines in general*

According to the *reinforcement* hypothesis we would expect that agencies with a high level of autonomy will have a low level of regulation, while agencies with a low level of autonomy will have a high level of regulation. Thus, we should find quite strong statistically significant negative correlations. This is not the case: of the 196 relationships included in the analysis only four have a statistically significant negative Pearson's R. The general conclusion is, then, that the reinforcement hypothesis does not get any substantial support.

According to the *compensation* hypothesis we would expect that agencies with a high level of autonomy will also have a high level of regulation, while agencies with a low level of autonomy will have a low level of regulation. Thus, we should find high and statistically significant positive correlations. This is the case to some extent: 17 relationships have a statistically significant positive Pearson's R, and most of those are moderately strong. The conclusion is, then, that the compensation hypothesis gets some support, but only for certain relationships. The compensation pattern seems to hold in the case of (some softer aspects of) HRM autonomy, combined with vertical accountability and rewards and sanctions on resources and discretion. This is even more so the case for Norway, but only to a limited extent in Ireland and Flanders. In these cases, the NPM doctrine may have provided a framework for allocating autonomy and designing regulation. However, one important observation is that the correlations involving accountability on results are mainly the same as those involving accountability on legality. This would imply that it is difficult to distinguish between some NPM doctrines, favouring result-based accountability, and more traditional bureaucratic control doctrines, favouring accountability on legality, because mostly the two bases for accountability come in pairs. As such high autonomy agencies face both accountability on results and accountability on legality, as if governments want to assure maximum accountability of their CEO's towards superior bodies.

One explanation could be that such agencies are in a state of transition, in which new accountability mechanisms (based on results) are created, while old accountability mechanisms are not yet abolished (Verhoest et al. 2004b). Moreover, several public administration scholars have pointed to the phenomenon by which

administrative reforms bring new instruments and mechanisms on top of persisting old ones, without any fundamental revision (see e.g. Gregory 2006).

Another possibility is that this observation of double accountability for high autonomy agencies points to the reassertion of hierarchy, which is emphasized in the emerging doctrine of 'whole of government' and 'reassertion of the centre'. This post-NPM doctrine is gaining popularity in several OECD countries (6 2004, Bogdanor 2005, Gregory 2006, Halligan 2006). In 'Whole of Government' initiatives like 'Joined-up Government' in the United Kingdom, 'Horizontalism' in Canada, 'Review of the Centre' in New Zealand and similar initiatives in Australia, there is an increased focus on horizontal collaboration and integrated service delivery between public organizations and governmental levels, and mergers of ministries and standardization of agencies are also manifestations of this new trend (Christensen and Lægreid 2006b, Christensen, Lie and Lægreid 2007). An increasing number of scholars argue that this trend is a reaction to the organizational proliferation caused by NPM (Pollitt 2003, Bogdanor 2005, Boston and Eichbaum 2005, Verhoest and Bouckaert 2005, Gregory 2006, Halligan 2006, Christensen, Lie and Lægreid 2007). These reforms are accompanied in many cases with a renewed interest in hierarchical forms of coordination, besides market and network based forms (Christensen, Lie and Lægreid 2007, Verhoest, Verschuere and Bouckaert forthcoming). Halligan (2006) reports for example stronger central agencies and increase of central monitoring of subordinate and autonomous specialized agencies in the case of New Zealand. More emphasis is also put on internal control, all forms of audit, corporate governance regulations and individual codes of conduct, which implies new forms of compliance to rules and standards (besides accountability on results). Linked to that is the concept of neo-weberian model of public administration which is, according to Pollitt and Bouckaert (2004), typical for continental European countries. However, it remains unclear to what extent governments in Norway, Ireland and Flanders are influenced by the post-NPM doctrine or neo-weberian model.

The *indifference* hypothesis is a null hypothesis: agencies with a high level of autonomy will show a similar variance in level of regulation and control as agencies with a low level of autonomy. In most instances we find rather weak and not statistically significant correlations, in line with this hypothesis. However, like other null hypotheses, it is difficult to say that the indifference hypothesis has been

confirmed. Nevertheless, looking to the existing theoretical and empirical literature on agencies, it is not so hard to see this pattern of indifference as a plausible model.

First, the actual autonomy-regulation balance may well depend on agency-specific factors, such as task (e.g. regulatory versus service delivery); type of agency; size; the degree of political salience and policy complexity; capacity, history and traditions in the involved parent ministries and policy fields; or the existing political norms of the day, such as norms on political accountability, at the time of creation of the agency ('t Hart 2002, Gains 2004, Pollitt et al. 2004, Yesilkagit 2004, Elgie 2006, Læg Reid, Roness and Rubecksen 2006, Roness et al. 2007, Verschuere 2007). Hence, the exact pattern of autonomy and regulation may differ quite considerably among agencies: there are no universal straightforward relations between autonomy and regulation for all agencies, but possibly so for subgroups of agencies.

Second, the pattern of indifference does not necessarily mean that compensation or reinforcement doctrines do not play a role at all. It could well be that such doctrines are guiding agency creation decisions, but only in specific circumstances and contexts. For example, the NPM doctrine is said to be most applicable to service delivery organizations, rather than organizations involved in policy design or regulatory issues. Moreover, there may be loose coupling between formal arrangements and actual practice, as emphasized in the literature on institutional environments (Meyer and Rowan 1977, cf. Christensen and Læg Reid 2006a).

Third, it could well be that there is no logical pattern to be found, not even in subgroups of agencies. Taking into account that (1) decisions regarding autonomy and regulation may be based on several or all agency-specific factors which are listed above, as well as (2) the fact that many organizational decisions in parliamentary democracies are the result of negotiations and compromises within coalitions, and (3) political and administrative decision makers are at most bounded rational and their calculative powers are thus limited, then it should not come as a surprise that the allocation of autonomy and regulation to a specific agency is the result of a pure ad hoc case-by-case decision.

#### *Autonomy and regulation: complex interactions*

As noted above, autonomy as well as regulation may take different forms, and the actual relationships between these forms may also vary. Overall, we find quite

complex patterns, where some types of relationships are in line with certain hypotheses to a larger extent than other types. Taking autonomy as the point of departure, when considering all agencies the relationships are stronger for human resource management autonomy than for financial management autonomy and policy autonomy. Particularly with regard to autonomy on promotion and evaluation of personnel, there is a strong positive correlation with the various forms of regulation, as expected from the compensation hypothesis. The main exception is the relationships between human resource management autonomy and rewards and sanctions on wages, where the strong negative correlations are in accordance with the reinforcement hypothesis. Taking regulation as the point of departure, when considering all agencies the relationships are somewhat stronger and to a larger extent positive for regulation through vertical accountability than for regulation through rewards and sanctions. Moreover, while the correlations for accountability on results are mainly the same as those on accountability on legality, the correlations involving the three types of rewards and sanctions differ in several instances.

These findings may lead to several assertions, which may be considered as hypotheses for further research. First, as noted above, (some types of) human resource management autonomy seems to be more prevalent than financial management autonomy, and is also to a somewhat larger extent related to certain forms of regulation in accordance with a pattern of compensation. Will this imply that softer aspects of managerial autonomy to a larger extent have to, or are possible to, be combined with regulation than harder aspects? Moreover, are managerial autonomy interrelated to policy autonomy, and will certain combinations of managerial and policy autonomy be prone to reinforcement or compensation?

Second, regulation by the means of rewards and sanctions seems to be a less prevalent form of agency regulation, compared to vertical accountability. Thus, the vast majority of agencies report vertical accountability (either on legality, on results or on both), whereas about half of the agencies report to be not subjected to any kind of reward and sanctions. This difference is quite easy to understand: Rewards and sanctions are the ultimate phase in the control cycle (ex post after evaluation) and fits into a rather punitive logic of control. In contrast, accountability comes earlier in the control cycle (reporting and monitoring). Moreover, vertical accountability fits any logic of control (punitive, facilitative, or other). Vertical accountability of public managers is a standard element in administrative systems in a parliamentary

democracy (as part of the accountability chain: civil service – ministers – parliament – citizens) (Verschuere et al. 2006). As such rewards and sanctions refer to a more radical, rare form of regulation, which is not fully compatible with regulation through vertical accountability. How and to what extent are vertical accountability and rewards and sanctions interrelated, and what difference does this make for the relationships between autonomy and regulation?

Third, our findings may indicate that wages, resources and discretion to some extent are regarded as alternative tools on rewards and sanctions for reinforcing or compensating the effects of autonomy, particularly for autonomy on evaluation of personnel. What difference do these interrelations make for the relationships between autonomy and regulation? For example, there may be a more straightforward explanation for the negative correlation between HRM autonomy and rewards/sanctions on wages. Agencies with high levels of HRM autonomy are able to formulate their own HR policy, including setting the salary for senior managers independently from interference from above. Parent ministries and other superior bodies don't control wages in such agencies, and cannot use them as tools for sanctions or rewards. Hence, rewards and sanctions on resources and on discretion may be the only possible kinds of sanctions and rewards available to control agencies with high levels of HRM autonomy. In contrast, agencies with low HRM autonomy, particularly on salary, see their HR policy set by superior bodies, including salary schemes. As such, it is easier for a parent ministry to sanction and reward senior agency managers through adjusting their wages in the case of agencies with low HRM autonomy, since superior bodies control the HR policy of these agencies.

#### *Similarities and dissimilarities across states*

We also find some similarities and dissimilarities across states. There are more positive than negative correlations in all three states, and in only one instance we find a statistically significant negative correlation. This indicates that the compensation hypothesis seems to be more adequate than the reinforcement hypothesis in all states, but clearly, in all states most relationships are in line with the indifference hypothesis. We find more statistically significant positive correlations in Norway than in the other two states. This may to some extent be based on the differences in sample size: it is harder to get a statistically significant correlation the smaller the sample is. However, for the relationships between human resource management autonomy and regulation

through vertical accountability even the size of Pearson's R is larger in Norway than in Ireland and Flanders, implying a strong support for the compensation hypothesis for these relationships in Norway.

While there are positive correlations for the relationships between human resource management autonomy and regulation through vertical accountability in all states, they are stronger in Norway than in Ireland and Flanders. Thus, the compensation hypothesis gets a particularly strong support for the relationships between autonomy on promotion and evaluation of personnel and regulation through vertical accountability in Norway. Moreover, the differences across states seem to be largest for policy autonomy, where there is a positive correlation with vertical accountability in Flanders and a negative correlation in Ireland.

These similarities and dissimilarities may to some extent be explained by differences across states in legal traditions (*Rechtstaat* vs. Common Law tradition; cf. Lijphart 1999, Pollitt and Bouckaert 2004) and general cultural traits, like uncertainty avoidance and power distance (Hofstede 2001). Thus, a previous paper comparing the three states found partial support for several hypotheses on the importance of legal and cultural characteristics of the states for the level of perceived autonomy of agencies (Verhoest et al. 2006).

## CONCLUSION

In this paper we have analysed the relationships between the autonomy of and the regulation of agencies in three states, based on data from quite similar surveys. Three hypotheses were examined, representing different patterns of relationships. Summing up, we have found that the reinforcement hypothesis, saying that agencies with a high level of autonomy will have a low level of regulation while agencies with a low level of autonomy will have a high level of regulation, does not get any support. On the other hand, the compensation hypothesis, saying that agencies with a high level of autonomy will also have a high level of regulation while agencies with a low level of autonomy will have a low level of regulation, gets some support in the case of HRM autonomy, and more specifically for Norway. In general, however, the indifference hypothesis, saying that agencies with a high level of autonomy will show a similar

variance in level of regulation as agencies with a low level of autonomy seems to be the most adequate.

Thus, like in studies on the relationships between the autonomy of and the regulation of state agencies in Norway (e.g. Christensen and Lægreid 2007) and Flanders (e.g. Verschuere 2007) we find that the balance expected from 'the practitioner model of agencification' is quite rare. While certain forms of autonomy are positively correlated with certain forms of regulation, as suggested by the compensation hypothesis, there are many differences across forms of autonomy and regulation, as well as across states. Thus, the actual patterns are too complex to fit neatly into specific patterns of relationships.

The hypotheses and patterns of relationships indicating compensation and reinforcement may also be linked to certain administrative doctrines, like those underlying 'the practitioner model of agencification' and NPM in general. While some of the relationships between autonomy and regulation are in line with what would be expected from these doctrines, most of the observed relationships are quite weak. Moreover, for most of the agencies it is difficult to distinguish between different types of doctrines, like NPM doctrines on result-based accountability and more traditional bureaucratic control doctrines on accountability on legality. Thus, the observed patterns may be interpreted in ways similar to what is done in recent discussions on agencies and regulation, emphasizing post-NPM doctrines and agency- and state-specific factors. However, to be able to discuss these developments more fully, one needs studies examining the importance of agency characteristics within and across states as well as studies examining the importance of state characteristics. Here, too, comparative cross-sectional survey-based studies focusing on agency level (e.g. Roness et al. 2007) and on state level (e.g. Verhoest et al. 2006) may supplement longitudinal case studies.

## APPENDIX: Relationships within each of the three states

Table A1 Relationships between human resource management autonomy and regulation. Pearson's R.

### a) Norway

Regulation	Human resource management autonomy		
	Salary	Promotion	Evaluation
Vertical accountability	0.19	0.41**	0.35**
Results	0.15	0.38**	0.26**
Legality	0.17	0.34**	0.36**
Rewards and sanctions	0.13	0.07	0.18
Wages	0.09	0.06	0.05
Resources	0.16	-0.01	0.13
Discretion	-0.02	0.16	0.12
N = 100 % (average)	101	102	102

\*\* significant at the 0.01 level, \* significant at the 0.05 level (2-tailed)

### b) Ireland

Regulation	Human resource management autonomy		
	Salary	Promotion	Evaluation
Vertical accountability	0.08	0.26*	0.14
Results	0.07	0.22	0.15
Legality	0.08	0.22	0.10
Rewards and sanctions	-0.09	0.04	0.17
Wages	-0.06	0.02	0.02
Resources	-0.13	-0.04	0.07
Discretion	-0.02	0.08	0.14
N = 100 % (average)	60	61	61

\*\* significant at the 0.01 level, \* significant at the 0.05 level (2-tailed)

### c) Flanders

Regulation	Human resource management autonomy		
	Salary	Promotion	Evaluation
Vertical accountability	0.10	0.12	0.23
Results	0.12	0.11	0.22
Legality	0.05	0.10	0.17
Rewards and sanctions	0.13	0.13	0.24
Wages	0.03	-0.01	0.00
Resources	0.30*	0.26	0.24
Discretion	-0.03	-0.11	0.31*
N = 100 % (average)	43	43	43

\*\* significant at the 0.01 level, \* significant at the 0.05 level (2-tailed)

Table A2 Relationships between financial management autonomy and regulation.  
Pearson's R.

a) Norway

Regulation	Financial management autonomy		
	Taking out loans	Setting tariffs	Shifting budgets
Vertical accountability	0.07	0.10	-0.01
Results	0.07	0.05	-0.05
Legality	0.06	0.13	0.03
Rewards and sanctions	-0.02	0.03	0.00
Wages	-0.03	-0.16	0.12
Resources	-0.08	0.02	0.05
Discretion	0.05	-0.02	-0.03
N = 100 % (average)	100	98	91

\*\* significant at the 0.01 level, \* significant at the 0.05 level (2-tailed)

b) Ireland

Regulation	Financial management autonomy		
	Taking out loans	Setting tariffs	Shifting budgets
Vertical accountability	0.17	0.11	-0.10
Results	0.14	0.21	-0.08
Legality	0.14	-0.03	-0.09
Rewards and sanctions	-0.09	0.13	0.07
Wages	-0.16	0.04	0.06
Resources	-0.09	0.20	-0.08
Discretion	0.02	0.02	0.04
N = 100 % (average)	64	63	63

\*\* significant at the 0.01 level, \* significant at the 0.05 level (2-tailed)

c) Flanders

Regulation	Financial management autonomy		
	Taking out loans	Setting tariffs	Shifting budgets
Vertical accountability	-0.04	0.09	0.10
Results	-0.07	0.08	0.05
Legality	0.00	0.07	0.12
Rewards and sanctions	0.12	-0.02	0.05
Wages	0.05	-0.13	0.06
Resources	0.11	0.06	0.06
Discretion	0.02	0.08	-0.19
N = 100 % (average)	45	45	41

\*\* significant at the 0.01 level, \* significant at the 0.05 level (2-tailed)

Table A3 Relationships between policy autonomy and regulation. Pearson's R.

Regulation	Policy autonomy		
	Norway	Ireland	Flanders
Vertical accountability	-0.06	-0.21	0.26
Results	-0.05	-0.18	0.20
Legality	-0.06	-0.16	0.26
Rewards and sanctions	-0.08	-0.01	0.14
Wages	-0.03	-0.08	0.18
Resources	-0.01	-0.08	0.08
Discretion	-0.21*	0.05	-0.13
N = 100% (average)	101	57	41

\*\* significant at the 0.01 level, \* significant at the 0.05 level (2-tailed)

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