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Good Neighbours or Distant Friends?

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Abstract

Agencification has extended and intensified the delegation problem. It has created new (administrative) principals, who are confronted with even more uncertainty as agents operate at arm's length. Trust is suggested as a new mode of governance. Based on the literature seven hypotheses are deduced on conditions that politicians can use to build trust: autonomy; contacts; policy involvement; and involvement in the design of monitoring devices. These hypotheses are tested using survey data on 219 Dutch executive agencies. Contrary to the expectations, executive agencies with low degrees of autonomy have a more trusting relationship with their parent ministry than agencies with high autonomy. Proximity and frequent interactions appear more important to trust than autonomy. Monitoring is not always perceived as a sign of distrust. These findings raise new questions on how principals can reduce the delegation problem and control executive agencies.

Key words

Autonomy, delegation, executive agencies, quasi-autonomous government, trust

GOOD NEIGHBOURS OR DISTANT FRIENDS?

Trust between Dutch ministries and their executive agencies

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INTRODUCTION

Traditionally, the delegation problem refers to the uncertainty that *politicians* face regarding the way in which *bureaucrats* will execute the policy decisions made by the politicians (Weingast 1984; Bawn 1995; Spence 1997; Torenvlied 2000; Bendor *et al.* 2001). Because of the information asymmetry between politicians (principal) and bureaucrats (agent), policy implementation may lead to other outcomes than intended. Politicians are faced with the question of how much discretion should be delegated to bureaucrats and how policy implementation can be controlled.

From the 1980s on, policy execution has been transferred from government bureaucracy to a variety of executive agencies at arm's length of the Government (OECD 2002; Pollitt and Bouckaert 2004; Pollitt and Talbot 2004). We will refer to this process as agencification (Pollitt *et al.* 2004) and argue that the rise of agencification has extended and intensified the delegation problem. There are three arguments for this proposition. First, the (semi)-autonomous nature of the new executive agents implies that they can decide independently on how they operate regarding internal management as well as the actual implementation of policies. The larger discretionary authority amplifies the risk of 'bureaucratic' drift. Second, the new executive agents operate at arm's length of the Government, reducing possibilities for (direct) control and accountability through standard monitoring devices. And third, agencification has introduced a new principal-agent relationship: voters (principal) elect politicians (agent) to act on their behalf, politicians (principal) charge bureaucrats (agent) with the implementation of their decisions and bureaucrats (principal) delegate this task to the new executive agents. This 'cascade' of principals and agents (van Thiel 2001) extends the original delegation problem as bureaucrats have become the new (administrative) principal and intensifies it because policy implementation occurs outside the central government bureaucracy.

How can the administrative principal control the new executive agents? The literature presents various solutions such as complete contracts, monitoring devices and administrative procedures to keep agents in check (McCubbins *et al.* 1987, 1989; Kiewiet and McCubbins 1991; Epstein and O'Halloran 1999).¹ However, many traditional instruments no longer apply after agencification as there is no hierarchical relationship (any more). Moreover, these solutions lead to high monitoring costs. Alternative market mechanisms like contractualization and competition cannot always be used effectively either, because many executive agents are monopolists or operate in a quasi-market.

Several authors have suggested that *trust* could be the optimal steering mode in relationships akin to those between principals and the new executive agents, particularly hybrid forms (Bachmann and Zaheer 2006: 3). See, for example, Grey and Garsten (2001) on post-bureaucratic organizations; Bachmann (2001) on trans-organizational relations; Das and Teng (2001) on strategic alliances and Edelenbos and Klijn (2007) on complex decision-making networks. Although trust is a complex variable and difficult

to steer, we think that it is important to investigate its potential applicability to solve the 'extended' delegation problem.

This article will first discuss the issues of agencification, the extended delegation problem and the potential role of trust. Based on this discussion we will formulate a number of hypotheses and test them. Our central question will be: under which conditions can parent ministries use trust to steer or control executive agencies? A theoretical expose will show that trust can be used to achieve compliance and reduce the principal's uncertainty about agency performance. But first we will explain more about agencification.

AGENCIFICATION AND DELEGATION

Agencification is known under many different labels such as decentralization, delegation (*sic!*) to non-majoritarian institutions, modernization of the State, and quangocratization (Feigenbaum *et al.* 1999; van Thiel 2001; OECD 2002; Pollitt and Bouckaert 2004; Braun and Gilardi 2006). These different labels refer to the same process: the creation of (semi)-autonomous organizations, for example by hiving off ministerial units, which are then charged with a public task or the implementation of a policy. The exact legal type or form may differ as does the way in which the organization is financed and equipped.² For example, in the UK there were 882 non-departmental public bodies (NDPBs) in 2006, and over 100 Next Steps Agencies in 2007 (source: Cabinet Office). In The Netherlands there are now forty contract agencies and 630 autonomous administrative bodies called ZBOs (sources: Home Office, Ministry of Finance). Each country has its own varieties, like for example Australian Statutory Corporations, Irish national and local agencies, French Autonomous Administrative Authorities, Italian Public Establishments and Scandinavian agencies and state corporations (OECD 2002; Christensen and Laegreid 2003; Wettenhall 2003; Pollitt and Talbot 2004; Allix and van Thiel 2005; McGauran *et al.* 2005).

There is a multitude of motives for agencification (for overviews see Pollitt and Bouckaert 2004; van Thiel 2004). These motives can be summarized into the two 'logics of delegation' as coined by Majone (2001; see also Gilardi 2002; Elgie and McMenamin 2005; Bertelli 2006). The first logic is referred to as the credibility of policy commitment. Delegating a public task to an agent will increase the credibility of the principal's policy commitment, as there will be fewer possibilities for (political) interference and lower risks of partiality or partisanship. This is expected to improve the impartiality and expert quality of policy execution. Less interference also implies less liability or accountability for the principal, which is appealing to principals, politicians and bureaucrats alike, as they can shift the blame in case of ill performance.

The second logic concerns an expected reduction of decision-making costs. By making use of expert executive agents, policies will be executed more efficiently. This second logic is cited most often as a motive for agencification (Pollitt *et al.* 2001, 2004).

Agencification originates from the New Public Management wave of reforms. In line with NPM, executive agencies are allowed to operate in a more business-like fashion, for example by using an accrual accounting system or having less restrictions regarding personnel policy. This is expected to make them operate more efficiently than traditional bureaucracy. In exchange for autonomy, executive agencies will be held accountable for their performance by principals and customers, which is expected to increase agencies' commitment and motivation and hence performance. The terms and indicators for accountability are specified in agency statutes and contracts.

Following these two logics, agencification is expected to improve (the quality of) policy execution and reduce the principal's uncertainty about the outcomes – which lies at the heart of the delegation problem. However, rather than solving the (initial) delegation problem, we argue that agencification has extended and intensified it.

DELEGATION AND TRUST

When a principal delegates a certain task or authority to an agent, she is confronted with a number of problems that arise from the fact that she cannot entirely control or monitor the behaviour of the agent (information asymmetry). As a result, she can never be entirely sure that she has selected the best agent (problem of adverse selection) or that the agent will put his best effort to work for her welfare (problem of moral hazard). The principal can devise controlling and monitoring mechanisms but will always remain uncertain about the agent's objectives and performance (Pratt and Zeckhauser 1985; Miller 2005).

Most of the literature focuses on the agent's behaviour (Waterman and Meier 1998; Miller 2005). However, there are also situations in which the *principal's* behaviour can be potentially detrimental, most notably (1) when the efficient production of socially beneficial (collective) goods is dependent upon the principal's abstinence of interventions in the production, or (2) when a principal has to exercise self-restraint to renege upon the initially set contract.

The classical cases are derived from fiscal and monetary policymaking in eighteenth-century France and England (North and Weingast 1989). Under absolutist rule, private investors had every reason to believe that their return on investments in the ruler's economy could be seized by the ruler, leaving them with nothing. The Kings' position – above the law – confronted him with the awkward situation, that to be trusted by his subjects-investors, he had to assure his subjects that he would not renege on the conditions under which they would lend money. This situation is comparable to the need for credible commitment mentioned above and is highly salient in the functioning of modern day central banking (Cukierman 1992). Autonomous central banks are a solution to the credibility problem; the delegation of the authority to make choices with regard to monetary policymaking to an institution whose decisions are irrevocable by

any other authority generates the necessary conditions for private parties to invest without fear that politicians will spoil the market and endanger their investments.

The problem with the principal's behaviour lies in the role of politics. Delegation is a political act that can be performed by successive and periodically changing political coalitions in democracies. New coalitions may want to exercise their newly gained political authority in different ways than their predecessors (Moe 1995). Moreover, ruling political coalitions may change their perceptions during their rule and alter their stance towards prevailing issues. Politics is the realm of uncertainty and preferences may prove not so stable after all (Shepsle 1992). Such changes affect the credibility of ruling coalitions among constituents and interest groups (Miller 2005), and – in our view – also among executive agencies.

Agencification was meant to contribute to the principal's credibility. However, the history of agencification in Western European countries shows that it has hardly lived up to the expectations (Hood 2002; Pollitt and Bouckaert 2004). For example, principals have kept on interfering with policy implementation – political and administrative principals alike – and not only in high profile cases (incidents) but also following political changes such as elections, new policy programmes or budget cuts. This kind of ex-post haggling (Binderkrantz and Christensen 2009) makes principals unreliable, leading to distrust by executive agencies.

In the Netherlands, agencification became popular from the early 1980s on (de Vries and Yesilkagit 1999; van Thiel 2001). Many ministerial units were hived off and a statutory basis granted them full autonomy from political oversight. In the mid-1990s, the political opinion towards executive agencies changed radically, following a critical report by the Netherlands Court of Audit on the lack of accountability requirements and opportunities for ministerial control. The Government responded by imposing new guidelines and developing charter legislation, in an effort to restore the 'primacy of politics'. The principal thus reneged upon the terms of delegation – not by altering the formal basis of delegation but by altering the working relationship, for example by increasing the number and nature of reporting requirements (Yesilkagit 2004). This left a bitter taste with the executive agencies and a general sense of distrust.

TRUST AND EXECUTIVE AGENCIES

There are many definitions of trust (for an overview see, for example, van de Ven and Ring 2006). Most share the idea that trust refers to having positive expectations about the competence and reliability of others, and the willingness to behave according to those expectations without having any guarantee that the other party will indeed act as expected ('take a risk', Das and Teng 2001). Most literature deals with trust in interpersonal relationships, but trust can also exist between organizations (Janowicz and Noorderhaven 2006; Schoorman *et al.* 2007; Seppänen *et al.* 2007).

Authors differ in explaining how trust is developed (see, for example, Kramer's 1999 review). For some, trust is a calculation; it is the sum of previous experiences with the other party (Nooteboom 2002). For others, trust is a state of mind; people are by nature trusting or distrusting (cf. Bachmann and Zaheer 2006). And for yet others, trust is the result of a mixture of economic and social factors, like shared norms and standards of behaviour combined with a safety net of (incomplete) contracts and legal rules (Bachmann 2001). All authors agree however that it is easier to destroy trust, than to create it. Most importantly, trust is a *reciprocal* matter; giving trust is rewarded with trust, giving distrust is sanctioned with distrust (Schoorman *et al.* 2007). Trust is built up over time, and through interactions between actors (individuals and organizations). It is one of the few commodities whose value increases with use (Dasgupta 1998).

Trust is attributed many benefits. It will reduce the risks perceived by the principal about the agent's behaviour, leading to a reduced need to monitor or control agency performance (Das and Teng 2001; Nooteboom 2002). Trust also reduces transaction costs and lubricates relations and co-operation as it can compensate for incomplete contracts (Nooteboom 2002; van de Ven and Ring 2006). And finally trust is expected to enhance the commitment, motivation and performance of the agent (Kramer 1999; Koivumaki and Mamia 2006).³

So, in theory trust can be used to solve the delegation problem. But how can principals achieve this in practice? Based on the literature, we will formulate a number of hypotheses. At this point we need to clarify a methodological problem first. The data which we will use to test these hypotheses are censored; we only have data on the level of trust that agencies have in their parent ministry – which in the Dutch context constitutes the administrative principal. Because of the reciprocal nature of trust, we will assume that agencies will reward parent ministries that use trust to steer them with higher levels of trust. Therefore, a high degree of agency trust is indicative of the principal's use of trust to steer the agency. Our hypotheses will refer to the conditions under which principals can use trust to steer agencies, which is then reflected in a higher level of agency trust.

Our first hypothesis is the *autonomy*-hypothesis. The principal can show its credibility by granting agencies certain degrees of autonomy. The gift of autonomy will be perceived by the agency as a sign of trust, and reciprocated.

H1: As parent ministries grant higher levels of formal autonomy to agencies, these agencies will have more trust in their principal.

Second, as noted before trust may grow over time as a result of frequent interactions. This is particularly valid when these interactions have been positive (van de Ven and Ring 2006). Through frequent interactions, principals and agents can develop a common understanding and create a framework within which their interactions take place and are shaped in the long run (Berger and Luckmann 1967; Yesilkagit 2004).

These contacts may be formal and informal, as we will show later on. Our second hypothesis is referred to as the *contact-hypothesis*.

H2: As parent ministries and agencies have more frequent contacts, agencies have more trust in their principal.

Of course, the number of contacts may vary with the age of the organizations. Older organizations will have had more contacts with their principal⁴ and should therefore be expected to have more trust. The *age-hypothesis* is as follows:

H3: The older an executive agency is, the higher its level of trust in its principal will be.

A fourth way in which politicians can show their trust in an executive agency is by acknowledging its expertise. As we have explained before, one of the motives for agencification (and delegation) is to leave policy execution to expert agents (van Thiel 2004). This is expected to increase both the efficiency and quality of policy execution. In practice, it has turned out to be not so easy to demarcate the boundary between policy making and policy execution. In particular, much of the knowledge needed to formulate new policies is now only present inside the executive agencies (Spence 1997). This can be conceived of as a new form of information asymmetry, hindering the principal to develop effective policies. Therefore, parent ministries that involve agencies into policymaking can thus display their trust, acknowledge the agencies' expertise and show willingness to be open to input by the agency. This attitude ('taking a risk') is an important element of trust, as was shown above. We can now formulate the *involvement-hypothesis*:

H4: Parent ministries that involve agencies more in processes of policy formulation, will be reciprocated by higher levels of trust by the agency.

Finally, principals can show and induce trust by involving executive agencies in the design of their control and accountability arrangements. Control and accountability are necessary as the principal has to account for agency performance to parliament. As executive agencies are autonomous in many respects, the hierarchical and unilateral imposition of control and monitoring devices is no longer possible. New control and steering arrangements have to be developed to take the autonomy of executive agencies into account (van Thiel and Pollitt 2007). To show trust, principals could develop these new monitoring devices together with executive agencies (Davis *et al.* 1997).

Under the influence of NPM new instruments have been implemented to manage and control executive agencies. Typical examples include performance indicators, benchmarking, accrual accounting, quality management and HRM techniques (Pollitt and Bouckaert 2004). We will focus on two instruments here: performance indicators and the frequency of reporting by the agent to the principal. Performance indicators are

used to measure the agent's performance, for example in terms of organizational characteristics such as staff size and financial indicators concerning input (budget), throughput (cost prices, processing time) and output (number of goods/services). By involving the agent in the development of indicators a principal shows that she acknowledges the agent's autonomy and expert knowledge.⁵ We expect the opposite effect however when principals impose large numbers of indicators, or as they require agents to report about their performance more frequently. Such demands can be perceived by the agent as a sign of distrust (Davis *et al.* 1997). This leads to our final three hypotheses.

H5: The more parent ministries involve agencies in the development of performance indicators, the higher the level of agency trust in its principal will be.

H6: The higher the number of performance indicators on which agencies have to report to their parent ministry, the lower the level of agency trust in the principal will be.

H7: The higher the frequency with which an executive agency is required to report to the parent ministry, the lower the level of agency trust in the principal will be.

These seven hypotheses show different ways in which principals can give and induce trust in executive agencies, thereby offering possibilities for control and steering.

DATA AND METHODS

The data for this study were collected using a web survey (May–June 2006).⁶ The questionnaire consisted of fifty questions on different topics such as financial systems, audit and accountability, organizational culture, influence on the development of new policies, position and role of the board, and the use of management techniques like performance indicators, HRM and quality care. The survey is part of an international research project⁷ and was translated for the Dutch context. To safeguard validity and comparability, some formulations of items are mandatory, like for example the measurement of trust.

In total 621 Dutch public sector organizations were invited to participate in the survey, based on inventories from previous research and government documents or websites. The survey was filled out by respondents from 219 organizations (overall response rate 38 per cent).⁸ Most respondents belonged to the top level of the organization: agency directors (46 per cent), secretaries to the board of directors (23 per cent), board members or chairpersons (12 per cent).

Five different types of organizations participated: contract agencies ($N=16$, response rate 44 per cent), independent administrative bodies called ZBOs ($N=84$, response rate 40 per cent), statutory bodies called RWTs ($N=39$, response rate 30 per

cent), so-called Article 134 bodies ($N = 13$, response rate 28 per cent) and government foundations ($N = 67$, response rate 41 per cent). See Appendix 1 for more information about the different types of organizations. Article 134 bodies were excluded from the analysis because of incomparability and low response. Data on the remaining 206 cases were analysed using SPSS 15.0.

The variation in task and size of the organizations is large (see Table 3). Examples are: the Platform of Veterans (foundation), the Tax Service,⁹ the Social Security Bank (ZBO, in charge of payment of child benefits and state pensions), the Patent Office (contract agency), OPTA (ZBO in charge of regulation of telecommunications market), the Prison Service (contract agency) and the Land Registry (ZBO). About one-third ($N = 74$) of the organizations belongs to a cluster, such as universities (RWT), police authorities (ZBO), foundations to support national museums and chambers of commerce (ZBO). Cluster organizations share the same legal statute but may in practice make different use of their autonomy. Therefore, we will consider each organization as an individual case. All thirteen ministries that existed in 2006 are represented in the dataset (Table 1), although some have larger numbers of executive agencies than others.

Dependent variable

Trust was measured by asking the respondents the following question: 'How would you rate the extent of trust between your organization and your parent ministry, on a scale

Table 1: Ministries to which organizations belong ($N = 206$)

<i>Ministry</i>	<i>Frequency</i>	<i>Percentage</i>
Cabinet of Prime Minister	1	0.5
Foreign Affairs	4	1.9
Home Office	19	9.2
Finance	4	1.9
Defence	13	6.3
Economic Affairs	29	14.1
Justice	15	7.3
Agriculture, Fishery and Food	19	9.2
Education, Science and Culture	63	30.6
Social Affairs and Employment	4	1.9
Traffic and Waterways	8	3.9
Housing Planning and Environment	16	7.8
Health Welfare and Sports	11	5.3
<i>Total</i>	<i>206</i>	<i>100.0</i>

from 1 (no trust) to 10 (high degree of trust)?' This literal translation from the international survey item is admittedly a coarse measure of a subtle concept such as trust. Most measurements of trust relate to buyer–seller relationships (Seppänen *et al.* 2007) and include different concepts such as reliability, competence and goodwill. Moreover, trust is highly contingent upon interpersonal relationships (Schoorman *et al.* 2007). Respondents' perceptions may therefore have affected their answer – even though they were asked not to give their personal opinions in the survey but answer on behalf of the organization. This is an accepted method for measuring inter-organizational trust (Janowicz and Noorderhaven 2006: 270). Moreover, trust will change as incumbent principals are replaced by new ones. So, our findings reflect only trust at the time of measurement (van de Ven and Ring 2006).

To get at the deeper interpersonal dimensions of trust, triangulation with elite interviews and/or observations would have been necessary. Due to time and resource constraints we could not verify the responses using such techniques. Still, the respondents who answered the questionnaire (see earlier) are in a suitable position to give an estimate of the quality of the relationship with the parent ministry. Therefore, within the aforementioned constraints, we will use the respondents' answers.

Independent variables

Table 2 provides an overview of the operationalizations of the independent and control variables used in the analysis (see Table 3 for descriptives):

- *Formal autonomy* is measured by the legal status of agencies. Contract agencies have the least degrees of freedom as they have no legal independence (1), while government foundations are most independent as they are based on private law (4).
- *Frequencies of contacts* were measured by asking respondents how often their organization had contacts with the parent ministry, at top and work floor level, about policy and financial matters. Unfortunately, these questions suffered more from non-response than other items. Therefore we aggregated types of contacts (policy + finance) at all levels (top + work floor) and created two new variables: formal contacts (official meetings) and informal contacts (phone calls, email correspondence, informal meetings). Answer possibilities ranged from only once a year (1) to at least once a week (7).
- The *age* of an organization was measured by subtracting the year of establishment of the agency from 2006, the year of the survey.
- *Involvement in policy formulation* was measured by three indicators. First we asked the respondent to which extent the organization can choose the target groups of the policy that the agency carries out. Answer categories varied from 1 ('the parent department takes every decision, separate from the organization') to 5

Table 2: List of variables and expected effects

<i>Variables</i>	<i>Indicators</i>	<i>Measurement</i>	<i>Exp. sign</i>
<i>Dependent variable</i>			
Trust	Ordinal (1–10)	1 = no trust ... 10 = ‘a very high degree of trust’	
<i>Independent variables</i>			
Formal autonomy	Type of organization	1 = contract agency, 2 = independent administrative body, 3 = legal entity with statutory task, 4 = government foundation	+
Frequency of contacts	1. formal contacts	Ad 1. number of formal contacts given period	+
	2. informal contacts	Ad 2. number of informal contacts given period	+
	3. age	Ad 3. 2006–date of establishment	+
Monitoring	1. number of PIs	Ad 1. 1–5: ‘no indicators’ ... ‘> 40 indicators’	–
	2. influence formulation PIs	Ad 2. 1–5: parent department formulates PIs ... we formulate PIs ourselves	+
	3. reporting on performance	Ad 3. 1–6: ‘no reporting’ ... one or more often per month’	–
Involvement in policymaking	1. choice of target group	Ad 1. 1–5: parent department chooses ... organizations chooses	+
	2. initiation new policies	Ad 2. 1–5: not at all involved ... always involved	+
	3. feasibility tests	Ad 3. 1–3: ‘seldom/never’ ... ‘very often’	+
<i>Control variables</i>			
Size of budget	Annual budget 2006	Euros	
Size of personnel	Personnel 2006	FTE	
Policy area		Parent department of organization	
Cluster		Cluster to which organization belongs	

Note: PIs = performance indicators.

(‘we take all decisions ourselves, without consulting the parent department’). The second indicator is the extent to which the agency is involved in the development of new policies. The answers could vary from 1 (‘not at all’) to 5 (‘always, because we often initiate new policies ourselves’). And the third indicator relates to the frequency with which the agency carries out so-called feasibility tests; an ex ante evaluation of a new policy proposal. Respondents could answer 1 (‘seldom/never’), 2 (‘sometimes’) or 3 (‘very often’).

- For the hypotheses on *monitoring devices* three measurements were used. The number of performance indicators was classified into five categories, ranging from none (1), less than 10 (2), 10–19 (3), 20–40 (4) and more than 40 (5). Second, respondents were asked about their level of influence on the formulation of performance indicators, ranging between 1 (‘the parent ministry decides, without consulting the agency’) to 5 (‘we formulate indicators

ourselves'). And the third measurement, the frequency of reporting, could vary from 1 ('never') to 6 ('one or several times a month').

To control for variations in personnel and budget size, we grouped the organizations into five categories. To control for parent ministry and cluster we used dummies for the largest categories of each variable.

RESULTS

We used OLS regression analysis to test the seven hypotheses.¹⁰ There were some problems with multi-collinearity, in particular between the two contact variables (formal/informal), and between contacting and reporting variables. Therefore we tested different models, using stepwise multiple regression.¹¹ The results are reported in Table 4. Please note that, having applied stepwise regression, only the final and statistically significant results are presented. Model 1 is the base model without control variables. Model 2 controls for budget size, staff size and cluster dummies. A model controlling for parent ministries produced the same results as model 2.

Out of the seven hypothesized effects, three have turned out to be statistically significantly related to the level of agency trust: the number of formal contacts (H2), the frequency of reporting (H7) and the number of performance indicators (H6). Some of these effects are opposite to what we expected. Two hypotheses are corroborated: hypothesis 2 (more contacts lead to more trust) and hypothesis 6 (more performance

Table 3: Descriptive statistics of variables

<i>Variables</i>	<i>N</i>	<i>Min.</i>	<i>Max.</i>	<i>Mean</i>	<i>SD</i>
Agency trust	117	1	10	7.10	1.578
Type of organization	206	1	4	2.76	0.996
Frequency of formal contacts	65	1.00	7.00	4.31	1.298
Frequency of informal contacts	58	2.50	7.00	5.03	1.197
Age	165	0	202	25.35	37.323
Number of performance indicators	126	1	5	2.40	1.036
Agency influence on formulation of PIs	117	2	5	4.10	0.885
Frequency of agency reporting	127	1	6	3.47	1.320
Policy autonomy: choice of target group	115	1	6	4.34	1.395
Involvement in development of new policy	122	1	5	3.40	1.217
Feasibility test	120	1	3	1.60	0.760
Size of staff (fte)	123	2	28,400	779	2,713
Budget (euro)	140	0	28.5m	269k	2.4m

Table 4: Effect of formal autonomy, contact frequencies, monitoring and policy involvement on agency's trust (z-scores, entry method: stepwise), $N = 206$

	<i>B (Std error)</i>	
	<i>Model 1</i>	<i>Model 2</i>
Formal contacts	0.75** (0.19)	
Reporting on performance (frequency)		0.94** (0.24)
Number of performance indicators	-0.40* (0.17)	-0.39** (0.19)
Constant	6.97** (0.19)	6.60** (0.21)
R-square	0.306	0.378
<i>F</i> (d.f.)	8.592** (41)	10.259** (31)

Notes: Only the outcomes for the final step are shown.

Sig. levels: ** $p > 0.01$; * $p > 0.05$.

indicators lead to less trust). However, hypothesis 7 is refuted; the higher the frequency of reporting by an agent, the *higher* its trust will be whereas we expected *lower* levels of trust. This could perhaps be explained if we assume that executive agents perceive reporting as another form of formal contact rather than a monitoring device. Based on the current data we cannot make such inferences though; that would require new research.

Our analyses so far relate to all executive agencies in our sample. It would however be plausible to expect differences between the different types of agents as they have been delegated different levels of formal autonomy and thus have to adhere to different legal requirements. Therefore we have carried out an analysis of variance (anova). See Table 5 for the results.

Table 5 shows that the type of agent with the least degrees of autonomy (contract agencies) has the highest level of trust, contradicting hypothesis 1. This type of agent also has the highest number of contacts (corroborating H2), is involved most often in the development of new policies (corroborating H4) but also has the least influence on the monitoring devices (highest frequency of reporting, highest number of performance indicators, least influence on performance indicators; refuting hypotheses 5, 6 and 7). This pattern is only partially replicated for the other types of agents. ZBOs and RWTs have more autonomy but less trust (refuting H1), less contacts (corroborating H2) and a lower frequency of reporting (corroborating H7), more influence on the formulation of a lower number of performance indicators (refuting H5 but corroborating H6) but not necessarily less influence on policymaking (mixed findings regarding H4). Moreover, they are on average older (refuting H3).

All in all, our findings show a much more complicated picture than expected. Trust is indeed positively related to contacts (and perhaps involvement in policymaking) but not to formal autonomy. Although the regression analysis revealed no statistically

Table 5: Variance analysis of differences in autonomy, trust, monitoring and policy involvement between different types of executive agencies ($N=206$)

	<i>Contract agency</i>	<i>ZBO</i>	<i>RWT</i>	<i>Government foundations</i>	<i>F-score</i>
Choice of target group (1–5)	3.6 ($N=11$)	4.4 ($N=50$)	4.5 ($N=21$)	4.4 ($N=33$)	1.858
Feasibility test (1–3)	2.0 ($N=10$)	1.8 ($N=55$)	1.4 ($N=21$)	1.3 ($N=34$)	6.046**
Involved in policymaking (1–5)	3.3 ($N=11$)	3.7 ($N=54$)	3.0 ($N=20$)	3.2 ($N=37$)	2.458*
Number of performance indicators (five intervals)	2.9 ($N=12$)	2.4 ($N=52$)	2.7 ($N=22$)	2.0 ($N=39$)	3.654*
Influence on indicator formulation (1–5)	3.9 ($N=12$)	3.9 ($N=50$)	4.6 ($N=21$)	4.1 ($N=34$)	4.516**
Frequency of reporting on performance (1–6)	4.8 ($N=12$)	3.6 ($N=56$)	2.8 ($N=22$)	3.3 ($N=37$)	7.687**
Formal contacts (1–7)	5.7 ($N=8$)	4.3 ($N=32$)	3.7 ($N=11$)	4.2 ($N=14$)	4.901**
Informal contacts (1–7)	6.4 ($N=8$)	5.0 ($N=26$)	4.2 ($N=12$)	5.1 ($N=12$)	5.928**
Average age (in years)	19.8 ($N=12$)	31.5 ($N=68$)	29.8 ($N=30$)	16.5 ($N=55$)	1.486
Trust (1–10)	7.8 ($N=12$)	7.2 ($N=55$)	6.2 ($N=19$)	7.2 ($N=31$)	3.629**

Sig. levels: ** $p > 0.01$; * $p > 0.05$.

significant effects, Table 5 suggests that the principal's gift of autonomy is not reciprocated with agency trust. Moreover, some elements of monitoring (reporting) are positively related to trust while others (performance indicators) are negatively related to trust, whereas we expected an overall negative relationship. Apparently, monitoring is not always perceived by the agent as a sign of distrust.

DISCUSSION AND CONCLUSIONS

This article set out to investigate the potential applicability of trust to solve the extended delegation problem resulting from agencification. Seven hypotheses were tested about conditions that were expected to express trust given by a principal to an executive agent, inducing the agent to reciprocate trust and comply with the principal's demands. The findings tell a mixed story.

First of all, autonomy is not decisive to agency trust. In fact, it is the agents with the least degrees of autonomy that report the highest levels of trust. Combined with the importance of many contacts and high frequencies of reporting, a new picture emerges in which *proximity to the principal* is more important to agency trust than autonomy. Proximity is reflected in having many contacts, including reporting on performance, and perhaps also in being involved in policy development – although the findings on this

latter variable were not statistically significant for all executive agencies. A high frequency of contacts could be perceived by the agent as an acknowledgement of its expertise and the willingness of the principal to rely or depend on the agent. Proximity would thus build trust.

The proximity of contract agencies is enhanced by their origin (former ministerial unit) and their lack of legal independence. A large number of ZBOs, almost all RWTS and all government foundations have roots in the private sector and are therefore much less familiar with the parent ministry. Van Thiel and van de Wal (2010) support this line of reasoning by showing that contract agencies have a higher degree of (organizational) value congruence with their parent ministry than ZBOs. Das and Teng (2001: 263) state that value congruence can be used as a type of 'social control' to reduce the divergence between organizations' objectives. Such social control increases mutual understanding and breeds trust – contrary to formal control which is considered detrimental to trust.

A more elaborate distinction between types of control could also contribute to a better understanding of our second conclusion: monitoring is not always perceived as a sign of distrust. As expected a high number of performance indicators is overall negatively related to trust (except perhaps for ZBOs), but a high frequency of reporting on agency performance is not. This could be explained by supposing that performance indicators are a form of formal control and reporting frequency is a form of social control (Das and Teng 2001). However, the type of agent with the highest number of indicators is also the type of agent with the highest level of trust. Apparently there are multiple trade-offs or feedback mechanisms between monitoring and other conditions that influence agency trust (Bijlsma-Frankema and Costa 2005). This would imply a more complex theoretical model than ours. Such a model could also include the effect of trust on agency performance, something we have not tested in this study. Our study should therefore be considered as a first step towards building a more complex model.

Our findings imply many new avenues for research. As a first step, a more sophisticated measurement of trust should be designed, using different (quantitative and qualitative) research methods. Different concepts like goodwill, benevolence, taking risk and competence should all be distinguished (Seppänen *et al.* 2007), as well as a distinction between strategic and operational trust (Janowicz and Noorderhaven 2006). As mentioned before, our approach was quite crude and did not take the subtle and interpersonal characteristics of trust into account. As a result, our findings should be considered preliminary and limited to our sample, date of research and to the Dutch case (but see Pollitt *et al.* 2004, on agency–ministry relationships in other countries).

Second, more elaborate hypotheses should be developed about possible trade-offs between autonomy and control. If anything, our research has shown that there are no simple, straightforward relationships between trust, autonomy and monitoring – the core concepts of the (extended) delegation problem. Topics for further research should include the 'proximity thesis' and the consequences of the principal's moral hazard on agency performance and compliance.

Based on the current findings, it is too early to accept or dismiss the potential use of trust as an alternative steering instrument for executive agencies. However, it has become clear that trust requires a two-way relationship (reciprocity), and striking a balance between trust (letting go, taking a risk) and control (contacts, proximity).

NOTES

- 1 Please note that not all relationships between principals and agents may be vexed by the delegation, or agency, problem. In some cases, they may share the same preferences and form allies. In others, information asymmetries may be non-existent, not relevant, or be in favour of the principal rather than the agent (Wood and Waterman 1991; Bendor *et al.* 2001).
- 2 Different governments may use similar labels like 'agency' but there are many differences in practice (see, for example, Greve *et al.* 1999; Pollitt *et al.* 2001, 2007; Christensen and Laegreid 2007).
- 3 Trust can have disadvantages as well (Gargiulo and Ertug 2006). Most importantly, trust can be betrayed by underperformance. Too much trust can lead to inertia for example because parties neglect each other ('blind trust'), or no longer stimulate each other to behave in a certain way.
- 4 Although it should be also pointed out that it is not uncommon for agencies to move from one ministry to another. Therefore, age is a proxy for the duration of the agency–ministry relationship.
- 5 Moreover, when agents are involved in the development of their own performance indicators, the indicators will be more valid (as agents are the expert) and more effective because there is (1) more support for the implementation of indicators and (2) less inclination to display moral hazard or so-called perverse effects (van Thiel and Leeuw 2002).
- 6 We used a web-based survey for efficiency reasons (Fricker and Schonlau 2002; Wright 2005). The survey was only accessible with a login code that was mentioned in the invitation letter that was sent to the population (by post). Only nine respondents preferred the postal version (4 per cent). The use of an online tool was not mentioned as a reason for not participating. The software used to create the survey is called Q-design and has been developed by RISBO at Erasmus University Rotterdam. The questionnaire remained open until the deadline; multiple respondents could access and fill out the questions, or alter their answers during this time period – allowing for more accurate answers. Respondents were not forced to complete questions.
- 7 By end of 2010, the survey will have been carried out in eighteen countries, including Belgium, Norway, Ireland, Italy, Germany, Denmark, Sweden, Lithuania, Portugal, Hong Kong, Australia, Austria, Estonia, Romania and Switzerland. The research network is funded by COST/EU (see www.soc.kuleuven.be/io/cost).
- 8 A non-response study was carried out. In total, thirty-six non-respondents informed us about their reasons for not partaking in the survey: 53 per cent said to have no time to fill out the survey; 25 per cent stated that their organization did not fit the definition of organizations in this study; the remaining respondents gave other reasons.
- 9 The Tax Service is legally speaking still part of the Ministry of Finance but was invited to participate in the survey because of its (de facto) strong autonomous position.
- 10 Several other different regression analysis techniques were tried, including multi-nominal and logit regression. The low response rate on the contact variables made such analyses ineffective however. OLS with the 'enter' method gave comparable results to the 'stepwise' method reported here.
- 11 See G. D. Garson (n.d.) 'Multiple Regression', from *Statnotes: Topics in Multivariate Analysis*. Available at <http://www2.chass.ncsu.edu/garson/pa765/statnote.htm>.

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Appendix 1

- Contract Agencies (in Dutch: *agentschappen*) have no legal personality and are subject to full ministerial accountability. They are former directorates of ministries. Their autonomy is restricted to managerial decisions, within legal and financial boundaries.
- Independent Administrative Bodies (in Dutch: ZBOs) are almost always legally independent, either based on public or private law. Ministerial accountability for ZBOs is limited, generally to the contract with and supervision of ZBOs.

- Legal Entities with a Statutory Task (in Dutch: RWT) are statutory bodies, appointed by law to carry out a particular public task for which they receive funding from the Government. In practice, most of these bodies are school boards. The survey did not include boards of primary and secondary schools (too high numbers: 2,500 boards). Other examples are museums and university hospitals. There is no clear or uniform description of their level of autonomy and ministerial accountability.
- Government foundations (in Dutch: *overheidsstichtingen*) are foundations established by or on behalf of the Government, and involved in some sort of public task. Foundations have legal personality based on private law, and are managed by a board. They include examples like organizations of military veterans, and supporters of a museum. (Several ZBOs and RWTs are also foundations, but organizations were only listed in one category [with least autonomy]).