Summary of Neo-institutional economics, management control and autonomization of governmental organizations

1. Introduction

Since the beginning of the 1980s the role of government has been discussed in the Netherlands and several other Western countries. In the Netherlands this discussion has led to severe changes in the structures and activities of several governmental organizations, particularly since 1985. Deregulation has been introduced, which has meant that, generally speaking, certain laws and rules have become less detailed or totally abolished.

Moreover, there has been a tendency to introduce new organizational structures in governmental organizations. These new organizational structures could mean that certain tasks are relinquished, or that the way of organizing activities is changed. A general characteristic of these changes in organizational structures, which can take different forms and/or differ in specific details, is that governmental organizations are now governed in a less centralized way. The general concept of autonomization will be used in this paper to denote the different forms of decentralization.

In general, autonomization of public organizations means that the political top management's direct control of certain tasks or activities will be diminished. External autonomization implies that, legally speaking, an independent organization comes into existence; and the politicians' responsibilities for the organization are diminished. In the case of internal autonomization the organization remains part of its parent organization, although it gains more freedom to conduct its own business. The political top management retains formal responsibility for the activities of the internally autonomized organization. Internal autonomization includes various forms of what is traditionally termed decentralization or divisionalization. Forms of external autonomization include, for example, privatization, contractorization (contracting-out) and the founding of a public corporation. So, autonomization comprises diverging forms of decentralization and internal and external contracting, of which privatization may be seen as the most extreme opposite of centralized governance. Generally speaking, a stronger form of autonomization means that the organization is subject to more direct influences of the market and/or is governed in a more "businesslike" way; i.e. in such a way that the principles and techniques of business administration play a more important role. This may also make the relationship with (what used to be) the parent organization more businesslike, inducing clearer agreements about prices, quantities and quality of goods and services.

2. Research questions and research method
The introduction of these new organizational structures/forms can be considered an endeavour to maintain management control over governmental organizations. Management control is the whole range of means and activities through which political and civic managers try to ensure that an organization successfully adapts to changes in its environment, so that its continuity is safeguarded. This research project focuses on two elements, in particular, that may play an important role in management control (and that also might influence each other); i.e. changes in organizational structure (that is to say: the different forms of autonomization) and changes in the financial and economic management of the autonomized organization.

Autonomization could be regarded as a change in governance structures or, more broadly, as a change in institutional structures or institutions. Generally speaking, neo-institutional economic theories see a striving for efficiency - or in stronger terms: the necessity for organizations to be efficient in order to survive - as the main reason for changes in organizational structure.

The three following research questions were formulated:

1. Is it possible to construct a theoretical concept, based on neo-institutional economics, to explain the management control and more specifically the autonomization of (parts of) governmental organizations?
2. In the Dutch context what elements play a role in the choice of a particular form of management control and autonomization of governmental organizations?
3. What changes occur in financial and economic management practices when governmental organizations are autonomized?

These questions could be studied from, for example, the perspective of political science, sociology, or economics, or a combination of all these perspectives. Although non-economic aspects might also play an important role, the research problem is studied mainly from an economic point of view in this book. The main aim of this study is to gain an insight into the internal organizational processes and the effects of the autonomization of governmental organizations.

The problem to be addressed is very complicated because the factors that may play a role are not at all clear. The phenomenon researched and its context cannot be separated clearly, causes and consequences cannot be separated easily, etc. Hence, the form of research that was chosen was case research. Case research was conducted for this study in six (parts of) governmental organizations which were autonomized to different degrees. In one case, autonomization had not been realized at the time of the research, because of serious delays. However, the information about the process of preparing for autonomization was sufficiently extensive and interesting in this case to justify its inclusion.

Following this general introduction to the background of the research project and the research method used, the remaining parts of this summary contain a brief description of the contents of each of the chapters of this book.
3. Short presentation of the contents of the chapters 1-8

Chapter 1 is a general introduction to the research problem. This chapter formulates the research problem and the research questions.

Chapter 2 contains a short factual description of the development of the economic role of Dutch government in the 20th century, and of some of the societal and political forces that may have influenced that role. This chapter also describes the tendencies towards deregulation and autonomization - and their underlying driving forces - which have developed especially since the early 1980s. Next, the concept of autonomization is clarified in a more formal way. Apart from the central governance of governmental organizations, seven forms of autonomization are distinguished for the Netherlands (corresponding to the main forms that are used in Dutch practice). The total of eight governance forms are termed the 'autonomy spectrum.' At one end of this spectrum is centralized governance, which means that there is hardly any, or no decentralization. The spectrum then ranges from forms of internal decentralization, like a division with limited decentralized control of inputs, or a division run in a businesslike way (with considerable freedom in the use of inputs and the way tasks are performed) to the various forms of external autonomization. The following forms of external autonomization are distinguished: organizations that are run in a businesslike manner (i.e. with complete freedom in the use of inputs and the way tasks are performed and, in addition, a certain freedom in the outputs that are realized; for example a so-called Zelfstandig Bestuursorgaan), public limited liability companies, and such forms as contracting-out and privatisation/relinquishing. In the last case, certain tasks are left completely to the market. The boundaries between the different forms of autonomization are not clearly delineated with regard to all relevant aspects (such as administrative/political, juridical and economic aspects).

Chapter 3 contains an overview of important elements of the neo-institutional economic theory and a few related theories. This overview provides a brief synopsis of the different theories that may be relevant to research into autonomization of governmental organizations. These theories are studied carefully to identify those aspects which might be relevant to explain the autonomization of governmental organizations.

First of all, chapter 3 discusses the economic theory of property rights, transaction costs theory, the theory of information economics and agency theory. These theories can be considered to be basic theories within neo-institutional economics. Each theory pays attention to different elements which might play a role in governing organizations and choosing a certain organizational structure. However, these theories are rather general and abstract in character. In order to develop a theoretical basis, more specifically oriented to the autonomization of governmental organizations, a few derivative theories are also discussed, such as Niskanen's bureaucracy theory, Wilson's theory of bureaucracy, and some of the ideas developed by North with regard to the relationship between the state, the
system of property rights and economic growth. On the basis of this broad framework of neo-institutional economics and related theories, 15 hypotheses are formulated regarding the factors which influence autonomization and the consequences of autonomization. Three categories of hypotheses can be distinguished.

First, three rather general hypotheses may help explain autonomization of governmental organizations at a macro-level. These hypotheses pay attention to such aspects as general trends in society, e.g. more attention paid to efficiency in governmental organizations, or such aspects as general characteristics of human behaviour, e.g. the influence of personal material interests.

A part from the three hypotheses which are concerned with the macro-level, the remaining twelve hypotheses are concerned mainly with different aspects that might play a role at the micro-level of the individual organization that is being autonomized. Seven of the micro-level hypotheses deal with the different factors which may affect the tendency to autonomize certain governmental organizations. These factors, which can be regarded as independent variables, include external effects, agency-, information-, and transaction-costs, uncertainty, measurability of outputs, and the specificity of assets or products. Finally, five hypotheses deal mainly with particular effects of autonomization. Aspects mentioned in these hypotheses are, for example, the effect of autonomization on overhead and monitoring costs, costs per unit of product, and efficiency of the organization.

Chapter 4 contains a brief overview of the elements which might play a role in the management control of organizations. It becomes clear that organizational economics, i.e. neo-institutional economic theory, takes a rather abstract view of an organization and its participants, although less so than neoclassical economics. Organizational theory is much broader and also pays attention to, for example, all kinds of sociological and psychological issues which may actually play a role in the management control of organizations.

Organizational structure is one element of management control; other possible elements are financial and economic management. Chapter 3 has already discussed organizational structure in terms of neo-institutional economics. After the brief overview of various aspects of management control, chapter 4 looks more closely at financial and economic management and the changes that may occur if governmental organizations are autonomized. Chapter 4 describes the elements of financial and economic management which deserve special attention during case research into autonomized organizations. These elements include changes in the financial and economic powers and responsibilities of the management of an autonomized organization, changes in management accounting (i.e. changes in the budget cycle and more generally in planning and control, attention paid to the number of products, costs per unit of product, and the depth of financial and economic reports), and changes in the number of employees with financial and economic tasks and the quality of these employees.

Chapter 5 forms the connection between the theoretical chapters 1-4 and the subsequent chapters which are based on empirical data. Chapter 5 is concerned with a number of methodological questions and the design of the case studies. It
is made clear that this research project is mainly descriptive and exploratory in character. Hypotheses are formulated, but they will not be tested formally, by statistical means. In this exploratory case research, the relationship between an independent variable (e.g. degree of uncertainty) and a dependent variable (e.g. degree of autonomization) is judged without giving any consideration to the other variables which might affect the value of that dependent variable. Here it is appropriate to point out that most of the variables in question can only be measured qualitatively (e.g. on a nominal scale). Although a term like ‘independent variable’ might give the impression of statistical research, it has to be stressed that the evidence found in the case research was mainly qualitative in character; no statistical techniques were applied. Chapter 5 also explains that an overview of the empirical aspects which play a role in different forms of autonomization must be based on a selection of cases with a reasonable spread of governance forms; in particular, the eight governance forms mentioned above. To get this broad overview, it is also necessary to select cases which facilitate the study of organizations at the three administrative levels of the Netherlands (national, provincial, and municipal). To increase the possibility of getting an impression of the effect of autonomization on efficiency - a very important aspect in neo-institutional economics -, the selection includes organizations which are involved in fairly concrete activities and which produce outputs that can be measured relatively easily (i.e. divisions whose main activity is policy development are excluded, insofar as these divisions, too, are autonomized).

The chapters 6-8 describe the organizations where case research was conducted. A total of six separate cases of autonomization at three organizations were studied. In other words, the total number of case studies amounts to six. The case research was carried out in 1995 and 1996.

The contents of each case description follows a more or less similar pattern. A general description of the organization and its activities is followed by an overview based on internal and external reports and interviews with several employees and managers. This overview describes the process of autonomization and the elements that, according to the various sources, played a role in the process of autonomization and the choice of a particular form of autonomization. Next, developments in the areas of outputs, costs and efficiency are presented, where possible, on the basis of the limited amount of information which was available in most of the organizations. After that, a description is given of the changes in financial and economic management of the autonomized organizations. At the end of each case study, a first attempt is made to contrast the results of the case in question with the 15 hypotheses developed in chapter 3. In all cases, the case study reports were submitted for comments to a number of persons within each organization.

A brief description of the organizations involved in the case studies is given below, but this summary does not contain any specific findings concerning the particular organization.
Chapter 6 describes the results from the research that was conducted at the Informatie Beheer Groep (IB-Groep). The whole organization of the IB-Groep was studied. The IB-Groep's main purpose is to perform tasks for the Ministry of Education, Cultural Affairs and Science. In 1994, the IB-Groep went through a process of external autonomization (after being internally autonomized since 1988). It left the Ministry and was turned into a so-called Zelfstandig Bestuursorgaan (ZBO: independent administrative body). In 1995 the number of employees of the IB-Groep was approximately 1,260 (as expressed in full-time equivalents - ftes). The costs of the IB-Groep in 1995 amounted to well over NLG 180 million. The IB-Groep's activities include:
- financial assistance for students (grants and loans for students aged 18 and over);
- the provision of various educational services (i.e. the collection of school fees and the organization of national school exams).

Chapter 7 is concerned with the municipality of Haarlemmermeer. Three specific parts of the Haarlemmermeer organization were examined, so three separate cases were studied.

Haarlemmermeer is a fast growing municipality in the Western part of the Netherlands with, in 1995, well over 100,000 residents. The municipal organization had approximately 850 employees (ftes) by the end of 1995. The total costs of the municipality of Haarlemmermeer over 1995 amounted to approximately NLG 430 million.

Case research was conducted in three parts of the Haarlemmermeer organization: the division of Public Works and Environment (PW&E), the subdivision of Management of Public Areas (MPA) and the Public Library (PL). PW&E (350 ftes) was autonomized internally in 1991. This division is involved in such activities as refuse collection, refuse disposal, building, environmental licences, and planning the creation and upkeep of parks, roads and canals (and, to a some extent, the actual performance of maintenance tasks).

At the time of the research project, MPA (75 ftes) was a subdivision which was to be autonomized externally, by leaving the PW&E-division. MPA was to become the property of two private contractors as well as the municipality. However, the external autonomization of MPA had not been finalized at the time of the research project, owing to several delays. But it was possible to study the motives and the preparation for this autonomization; there was, of course, no information available about its effects. MPA was to receive an operating and budget guarantee from the municipality for some years, but would have to become self-supporting after that. The municipality would then sell its share in MPA. MPA's main task is the maintenance of roads and streets, public gardens and traffic lights.

The PL (45 ftes) was autonomized externally in 1995. The Public Library's main activity is to provide books that can be borrowed by the residents of the municipality.
Chapter 8 presents the case research conducted in the province of Groningen. In Groningen, two organization-units were examined, so two separate cases were studied.

The province of Groningen is situated in the north-east of the Netherlands. The province had approximately 550,000 inhabitants in 1995. About 900 persons (ftes) were employed by the provincial organization by the end of 1995. The total costs of the province of Groningen over 1995 were approximately NLG 545 million.

The first of the two case studies conducted here was of the division of Maintenance of Roads and Waterways (MRW; 315 ftes by the end of 1995) whose main task was the maintenance of provincial roads and provincial (and national) canals in the area of the province of Groningen. MRW was autonomized internally in 1990; the degree of internal autonomization was increased in 1996.

The final case study was carried out at the division of Purification of Sewage Water and Inspection of Quality of Public Water Areas (PSW) of the province of Groningen. The most important activity of PSW (125 ftes by the end of 1995) is the purification of sewage water from households and companies in the province of Groningen. Other relatively important activities are the testing of the quality of water produced by purification plants and companies, and the testing of the quality of public water areas. PSW went through a process of internal autonomization in 1989, when far-reaching reforms were implemented.

4. Some conclusions drawn from the research project (chapters 9 and 10)

The results of the case studies and the theories mentioned in the first four chapters are compared in the chapters 9 and 10, and a number of conclusions are drawn.

Chapter 9 contains a few tentative conclusions concerning changes in the financial and economic management of the organizations studied. Without going into details, we can say that several formal changes were made to the financial and economic management of the organizations. In actual fact, several real changes were introduced. These changes included, in particular, improvements in financial management and financial reporting. However, the actual changes did seriously lag behind the planned changes, especially in economic management.

Managers of autonomized organizations were given special powers with respect to the substitution of sub-budgets within their total budgets. In none of the organizations that went through internal autonomization were the divisional managers allowed to decide independently about external purchasing of products or services (such as housing, printing, and wages administration) which could be bought from the parent organization, i.e. internally.

The frequency and timeliness of financial reports increased. Generally speaking, the quality of financial control of the organizations improved. The number and quality of administrative employees also increased slightly (as measured in terms of salary-level/educational level and experience).
However, the relationship between financial and economic information was not strengthened much in practice; in fact, planning and control improved but slightly. In reality, budgets still contained a rather limited amount of information about outputs. Often, only a limited number of real changes were made to the more economic aspects of management. This is especially true for the determination and use of information on the cost of activities and outputs, and numbers of activities and outputs. Insofar as such information was available, it was usually hardly ever used by official managers and politicians. The organizations were still governed mainly on the basis of information about inputs.

In chapter 9 the results of the case studies are compared with a theory about the introduction of important changes in financial and economic management in organizations. Although this theory is particularly concerned with commercial organizations, it may also be relevant to governmental organizations (especially when these organizations are autonomized and want to operate in a more businesslike manner).

The conclusion drawn in chapter 9 is that several factors may have impeded the actual realization of the changes which were formally introduced. One of the possible reasons is that most of the autonomized organizations were not fully exposed to the rigours of market competition. Moreover, the autonomized organizations and their employees were probably not well-prepared for the changes that were introduced (e.g. the management was not always well-motivated and competent to introduce the desired changes, not much attention was paid to changing organizational culture, and administrative and other employees were not well-prepared for their new tasks). It is, of course, also possible that the period of research, which started after autonomization had taken place, was not long enough. This period ranged from one to five years, but did not apply to MPA, which had not been autonomized.

Chapter 10 compares the results of the case studies with the hypotheses that were formulated in chapter 3. No detailed conclusions will be drawn in this summary as far as these hypotheses are concerned. However, some main points are presented below.

First, in the case of seven of the fifteen formulated hypotheses, it was not possible to draw any conclusion as to the extent to which the six researched cases confirmed these seven hypotheses. This was due to the fact that autonomization did not result in much change or provide a wide spread of values (or ‘intensity’) of the independent variables in the hypotheses. For example, autonomization hardly changed personal (material) interest in the organizations’ performance. And, in all cases, there was still very little uncertainty and competition after autonomization had taken place. As organizations were selected on the basis that they mostly performed concrete tasks and provided products that were, in principle, relatively easy to measure, the measurability of outputs and performances did not vary much. However, it should be borne in mind that the conclusions were drawn on the basis of primarily qualitative evidence derived from the cases.
During the formal preparations for autonomisation, the drive for greater efficiency was often mentioned as an important reason for autonomization. However, the limited amount of information which was available on outputs indicates that in only one (PSW) out of five cases where autonomization was implemented, was a slight increase in efficiency achieved, according to the factual data. It seems that efficiency either did not change or deteriorated slightly in the other cases.

In the six cases that were examined, there was little evidence to support the hypotheses that the extent of autonomization was dependent on the specificity of assets or products, or on achievable economies of scale. There was also not much evidence to suggest that an increase in autonomization would pressurize organizations into lowering product-prices and paying more attention to performance, or lead to a decrease in overhead costs and the cost of monitoring and bonding.

On the whole, the six cases provided only little support for the hypotheses that were based on neo-institutional economics and related theories. This could be due to the nature of the cases or the period studied. However, it is also possible that the framework of hypotheses that was developed on the basis of neo-institutional economics was too limited. In the second part of chapter 10, some other theories are discussed, to see whether they could be relevant to further research on the problem of the autonomization of governmental organizations. Special attention is paid to neo-institutional theories which provide more sociological or political insights. These theories broaden the view from which organizations and changes in organizations are studied. Economic efficiency is no longer the prime motivation for change. More attention is paid to such aspects as the political wish to influence certain activities and to accept the ensuing costs ('influence costs'), organizational culture, and a clear vision of goals and values of organizations. In addition, it is observed that it is not clear whether efficiency is really very important in politically governed organizations. General trends and rituals may have played a role in the striving for efficiency in the six organizations which were studied. Perhaps the autonomizations could partly be explained by a rather superficial wish simply to look like a rationally acting organization. Further research might indicate whether such ideas could be of value in explaining and understanding the autonomization of governmental organizations.