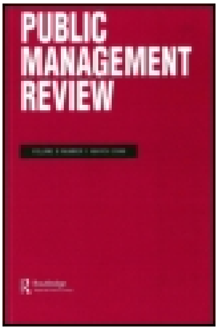

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Moving Beyond the Clash of Interests

Thomas Schillemans [a]

[a] Utrecht School of Governance Utrecht University, Utrecht, The Netherlands

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Abstract

This paper analyses the relationships between central government departments and agencies through the lens of stewardship theory. Stewardship theory has been developed as an alternative to agency theory and focuses on shared goals and norms. The paper first shows how current regulations are strongly imbedded in agency theory and then proceed to analyse, on the basis of a survey and focus groups, how the problems experienced by public managers generally point to the relevance of stewardship. On this basis and with input from sixty public managers, a stewardship model for the relationships between agencies and central governments is developed.

Key words

Stewardship theory, executive agencies, regulatory agencies, relationships, public managers

MOVING BEYOND THE CLASH OF INTERESTS

On stewardship theory and the relationships between central government departments and public agencies

Thomas Schillemans

Thomas Schillemans
Utrecht School of Governance
Utrecht University
Utrecht
The Netherlands
E-mail: t.schillemans@uu.nl

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INTRODUCTION

The closing decades of the twentieth century witnessed the large-scale separation of executive and regulatory agencies from central government departments in many countries (Laegreid and Verhoest, 2010) in a period of *agency fever* (Pollitt *et al.*, 2001) that caused considerable *furore* (Deacon and Monk, 2001). This separation of executive and regulatory functions from the administrative centre created a need to develop proficient working relationships between now co-dependent partners who either devise policies or implement and enforce them. The ensuing relationships have often been modelled – theoretically as well as empirically – on principal-agent frameworks in the broader context of New Public Management (NPM) reforms (Christensen and Laegreid, 2010; Van Dooren *et al.*, 2010). The clash of interests between self-centred agents lies at the heart of agency theory and it is precisely this conflictual dimension that has attracted criticisms (Roberts, 2001; Sabel and Zeitlin, 2008; Shapiro, 2005; Whitaker *et al.*, 2004).

This paper analyses the relationships between central government departments and agencies through the lens of stewardship theory. Stewardship theory has been developed as an alternative to agency theory and focuses on the shared goals and norms between principals and stewards (Davis *et al.*, 1997a; Dicke, 2002; Van Slyke, 2006). This paper develops an alternative model for the management of relationships with government agencies, based on the experiences of public managers, which aims to bridge or ameliorate rather than curb and control the differences of interest between central government departments and executive and regulatory agencies. Three consecutive questions are posed:

1. With what set of instruments do Dutch central government departments control their agencies?
2. What are the problems that public managers experience in this professional relationship?
3. What would be an alternative set of instruments, grounded in stewardship theory that responds to the experienced problems of public managers?

These questions are answered through a combination of research methods. The *problems* are analysed on the basis of a survey of executive public managers of Dutch agencies and government departments. The analysis of existing and the modelling of alternative instruments are based on document analysis, literature review and three focus groups with approximately sixty practitioners in total.

The paper first introduces agency – and stewardship theory, proceeds with a description of the research methods, then answers the three research questions (current set of instruments, experienced problems, prospective set of instruments) and closes with conclusions and discussion.

AGENCY THEORY IN SHORT

The principal-agent model has been very popular in the last decades in the related worlds of academia and government regulation. At a very basic level, agency theory is modelled on the relationship between a purchaser and seller of a service (Waterman and Meier, 1998: 174). Adopting this model implies that executive and regulatory agencies now are to provide services that are 'bought' by central government departments and their collaboration is now regulated on the basis of a contract.

Agency theory is essentially a conflictual theory, as it focuses on the regulation of conflicting interests between two self-serving actors (see Bendor *et al.*, 2001; McLaughlin and Osborne, 2003; Meier and Krause, 1997; Moe, 1984; Shapiro, 2005; Woods and Baranowski, 2002). The agent is supposed to 'act on behalf of someone else' (Shapiro, 2005: 275) and is expected to take the steps the principal would himself take in the given situation (Dunn, 1999: 300). Agents, however, bring their own interests to the job and these will at times collide with those of their principals. Principals will thus worry about the (ab)use of the inevitable discretionary space by their agents (Behn, 2001: 90–1).

This ingrained tension deepens because of the uncertainties that permeate the relationships between institutional actors in public administration. Principals 'suffer' from limited information, time, resources and knowledge. Principals are generally bothered by the (anticipation) of hidden knowledge and hidden action. It is a rational fear, as agents will generally benefit from and will often exploit the existing information asymmetries (Posner, 2002: 527; Wood and Waterman, 1994: 104).

In order to tackle the agency-challenge, agency theory suggests that principals should adopt a sensitive combination of instruments to keep their self-interested agents in check. This usually entails a combination of effective means of *preference transmission*, a cost-effective system of *monitoring* and efficient means of *correction* and redress (Woods and Baranowski, 2002: 3). Direct forms of monitoring and intervention are usually quite effective but also very expensive as they require profound investments in monitoring (McCubbins *et al.*, 1987: 252). Furthermore, redressing and correcting agency behaviour comes with additional social costs as their use will have adverse effects on the relationships with their agents. As Meier and Krause (1997: 9) put it: 'The use of active monitoring . . . contains the stigma of punishment and generates displeasure among agents who receive close and frequent scrutiny of their task performances'.

In the last decades, reforms in jurisdictions in many countries have explicitly or implicitly been modelled on agency theory (Australian Public Service Commission, 2009; Pollitt and Bouckaert, 2004; Pollitt *et al.*, 2001; Van Dooren *et al.*, 2010; Van Thiel and Yesilkagit, 2011). In the Netherlands, policy makers explicitly describe the relationships between policy makers and agencies in terms of contracts; they define ownership and transactions, and establish forms of ex ante and ex post control on agencies as their agents (Kraak and Van Oosteroom, 2002).

STEWARDSHIP THEORY IN CONTRAST

Stewardship theory has been developed out of dissatisfaction with the theoretically postulated selfishness of agents and the ensuing and inescapable clash of interests between principals and agents. Stewardship theory seeks to understand the conditions under which agents are less likely to base their actions on self-interest, but rather take pleasure in serving collective goals or act as stewards to the interests of their principals. Davis *et al.* (1997a: 24) described the general aim of the theory as follows:

> Stewardship theory … was designed for researchers to examine situations in which executives as stewards are motivated to act in the best interests of their principals. In stewardship theory, the model of man is based on a steward whose behaviour is ordered such that pro-organizational, collectivistic behaviours have higher utility than individualistic, self serving behaviours.

Where the model of the rational agent is based on the image of the provider of a service in the market, the model of the 'steward' is based on the image of a medieval steward of the lord. The English term 'steward' is a translation of the Anglo-Saxon word 'stigweard', which in turn combines 'stige' (a hall) with 'weard' (manager–proprietor) (Reeves, 2005). The 'steward essentially wants to do a good job, to be a good steward of the corporate assets' (Donaldson and Davis, 1991: 51; see also Block, 1993). Stewardship theory seeks to understand the qualities of and conditions for good stewardship. In doing so, the theory also changes the perspective on the relationship between the principal and the agent/steward. While agency theory is primarily concerned with containing agency losses and costs which emanates in a control system – in 1985, White already postulated that agency essentially *is* about control (White, 1985) – stewardship theory in contrast focuses on the premises for vigorous stewardship. The question in essence is: under what conditions will stewardship flourish in the management of tasks?

Stewardship theory is a fundamental critique of agency theory and is based on a number of contrasting assumptions. The analysis below is based on Davis *et al.* (1997a).

Contrasting assumptions

The first contrasting assumption is very basic as well as fundamental: stewards are motivated by collective or social goals and not (primarily) by their self-interest (Davis *et al.*, 1997a: 27–8). Stewardship does not necessarily imply that agents will be exclusively motivated by pro-social goals. Instead, the theory stresses that there is at least *some degree* of pro-social motivation in any steward which may or may not be tapped by principals. This notion to a large degree concurs with the extensive literature on public service motivation (Dicke and Ott, 2002: 465; Perry and Wise, 1990).

Stewardship theory furthermore postulates that stewards perform their tasks on the basis of *intrinsic motivation*. Stewards are motivated by ego-related values, such as personal development, self-realization and belonging as well as by content-related values, such as delivering a public good (Davis *et al.*, 1997a; Mills and Keast, 2009). The driving forces behind their behaviour can be generally attributed to the higher level values in Maslow's renowned pyramid of needs. This contrasts with agency theory, where rational agents usually need external motivation in order to prevent them from shirking.

The third contrasting assumption of stewardship theory relaxes the dynamic clash of interests between dyadic partners that informs agency theory. Stewardship theory rather postulates that interests can be ordered on a scale and that the interests of stewards may incline to or even coincide with the interests of their principals (Van Slyke, 2006; see also Donaldson and Davis, 1991). The same point has been made by agency theorists stressing the *relativity* of the clash of interests between agents and principals (Van Thiel and Yesilkagit, 2011; Waterman and Meier, 1998).

The fourth assumption of stewardship theory tackles the hierarchy in the relationship between principals and stewards (Davis *et al.*, 1997a). While agency theory assumes a hierarchical relationship between both parties that is maintained with institutional power, stewardship theory rather stresses the importance of a relatively low power distance that is maintained with a personal style of power. A low power distance and a personal style of leadership prevent stewards from distancing themselves from their principals and foster bonds of loyalty and respect that decrease the need for control and oversight.

A low power distance also marches in line with a different management style. Agency theory presupposes a hierarchical and external management style that aims to curb the agents' possibilities to serve his self-interest. Stewardship is better suited by a management style that fosters active self-regulation within mutually agreed-upon boundaries (Dicke, 2002). Stewards need substantial responsibility and autonomy (Van Slyke 2006: 167). Internalized mechanisms of reporting, information processing and recording, then, are to be prioritized above external demands for information and external behavioural guidelines.

Finally, stewardship theory propagates the use of a different set of incentives. In agency theory, financial incentives are most important (Pratt and Zeckhauser, 1985: 8), as they appeal most clearly to the motivational structure of self-interested agents. Reputational and non-financial incentives, however, appeal more clearly to the motivational structure of stewards. Incentives, such as praise, realization, acknowledgment and reputation are important for stewardship (Van Slyke 2006: 167).

Table 1 lists the contrasting assumptions in the two theoretical models.

Applications of stewardship theory

In the past years, several scholars have used stewardship theory in empirical studies. For instance, Donaldson and Davis (1991) applied the theory in its original locus: the

Table 1: Agency theory vs. stewardship theory

	Agency theory	*Stewardship theory*
Interests	Conflicts of interests	Alignment or congruence of interests
Focus	Self-interested and self-serving	Serving collective and social goals
Motivation	Extrinsic	Intrinsic
Power distance	High	Low
Use of power	Institutional	Personal
Management style	External management	Bounded self-regulation

relationships between executive management and shareholders in large for-profit corporations. Their paper compared the relationship between the returns on investment in companies with boards where oversight and executive management are clearly separated (as propagated by agency theory) versus organizations where CEOs are also head of the boards ('CEO duality'), which is more in line with stewardship theory. Their findings were that returns on investment over time are indeed higher for corporations which are organized closer to the stewardship model, although there were some issues of causality. For the public sector, recent applications of stewardship theory include Mills and Keast (2009) on infrastructure projects, Van Slyke (2006) on contracting social services, and Dicke (2002) and Dicke and Ott (2002) on contracting human services.

As the applications in the public sector suggest, interpretations often focus on the selection process, the underlying assumption being that it would be better to contract stewards than agents as this will lower transaction costs and improve policy outcomes. The results of empirical studies have generally been promising, although they are far from overwhelming. Scholars usually find 'some support' or 'partial support' for the uses of stewardship (Dicke, 2002; Van Slyke, 2006).

These applications of the theory in the context of public management and public administration also suggest that the stewardship model is still in development and that it has not reached the same level of practical application that agency theory has. This paper is intended to be a part of this intellectual process. It aims to provide building blocks for a general model for relationships between central government departments and public agencies, based on a Dutch case and inspired by the general theory of stewardship that is spiced by empirical insights.

RESEARCH DESIGN AND METHODS

In order to answer the three research questions, three research methods were used. The analysis of existing relationships was based on document analysis and focus groups. The analysis of the public managers' problems was based on a survey and the focus groups.

The alternative model followed from the application of the theory, interpretation of the results from the survey and focus groups. Figure 1 visualizes how the different research methods relate to the research questions.

Content analysis

The focus of the content analysis was the general regulations of a subset of Dutch agencies, sometimes called 'contract-agencies'. They are generally known as 'baten-lasten diensten' (Accruals Accounting Agencies; see Smullen, 2007: ch. 5). There were forty-three contract-agencies in the Netherlands at the time of the research (website Dutch ministry of Finances, October, 2010). All agencies are regulated on the same basis. Documentation for the analysis was coordinated with the bureau of the Dutch ministry of Finances that is institutionally responsible for (evaluation of) this agency model. The analysis aimed to establish to what extent elements from agency theory and stewardship theory were inscribed in the formal regulations. Analysed were the following documents:

- Formal Arrangement ('Regeling BLD').
- Statutory provisions (Comptabiliteitswet).
- Formal Evaluations 2007, 2011.

	Current model	Current problems	Alternative model
Content analysis documents	√		
Survey		√	
Focus Group 1	√	√	
Focus Group 2	√	√	√
Focus Group 3		√	√

Figure 1: Research design

- White paper on policy and implementation (Ministry of the Interior, 2009).
- Formal agreements between one exemplary, large agency and its parent departments.
- Academic descriptions of the model (partly written by practitioners): Kraak and Van Oosteroom, 2002; Smullen, 2007; Van Oosteroom, 2002.

Survey

The focus of the survey was the level of satisfaction of executive agencies in government departments and agencies with their professional relationships. The survey was initiated and distributed by the Dutch ministry of the Interior and the content was coordinated with the researcher. The survey consisted of forty-two questions in total. Answers were measured on a five-part Likert scale. Two questions measured general satisfaction with the relationships, ten questions measured items derived from agency theory and seventeen questions measured items derived from stewardship theory. The remaining items were sometimes specifically based on specific Dutch policies or had formulations that did not fit well with either agency or stewardship theory. The survey was distributed amongst the executive managers (executive directors) of all forty-three contract agencies and to the regulatory agencies that do not have the status of contract agency. The survey was also distributed amongst the executive managers of the government agencies who act as their formal counterparts. The survey was sent out and analysed by an independent market research organization. There were sixty-one responses which equals a response rate of 42 per cent.

Focus groups

The focus groups had a threefold goal. The focus groups first of all served to validate the findings from the document analysis and the survey and were secondly used to help interpret the results. And the focus groups finally served as forums to discuss the possible application of stewardship theory to the relationships between agencies and parent departments. Participation in the focus groups varied. The first focus group had fourteen participants, almost evenly representing central government departments, executive agencies and regulatory agencies. The second focus group had around twenty-five participants from one specific ministry and its counterpart from one large, executive agency. The third focus group had around twenty participants with a stronger focus on policy makers. Participation was coordinated with the Dutch ministry of the interior and with one contract-agency. Participants for the first focus group were selected by the researcher from a larger list of respondents, who had responded to an open invitation, distributed via different channels of communication. The main criteria for selection were: (1) even representation of participants from regulatory agencies, executive agencies and central government departments and (2) senior-level officials only. The second focus group was organized during a larger conference of one agency and its parent department. Participants to the general conference were free to join this focus group. The third focus group consisted of people responding to an open invitation.

As visualized in Figure 1, the three focus groups focused on different questions. Focus group 1 was primarily used to validate and interpret the findings from the content analyses of existing regulations and the findings on current problems in the survey. The results were presented to the participants and they were asked whether they believed that the findings were reliable and to explain – on the basis of their professional experience – the negative answers to some of the negative findings. The first focus groups concluded with an open discussion in small groups on possible solutions. The second and third focus group were built around three short presentations: findings from the document analysis, findings from the survey and a draft version of possible solutions, derived from stewardship theory (see Table 4 for the finalized version). Again the participants were asked to validate the findings and to interpret the negative scores from the survey. In addition, they were now asked to respond to the draft version of solutions and to indicate which of those they found particularly (un)helpful and to provide, if possible, similar or related good practices. The final set of ideas has been discussed with and is enriched by the participants. Their ideas were only added when they were consistent with stewardship theory. Overall, the focus groups turned out to be more helpful as instruments of verification than as generators of new ideas.

CURRENT RELATIONSHIPS

All Dutch contract agencies operate on the same institutional basis and their relationships with parent departments are regulated with similar sets of instruments. The formal policy model carries a strong resemblance to agency theory, which should not come as a surprise as it was in part deliberately modelled on new public management, as one of the founders of the model recollects (Van Oosteroom, 2002: 3). The model is based on three core rules with which agencies who aspire the status of contract-agency need to comply. The first rule is that they work on the basis of an accruals budget with which they are able to explicate and measure the costs of the individualized services they deliver. The second condition is that the agency identifies the incentives with which to increase their efficiency. The third condition is that agencies are able to measure their performance in their monitoring and reporting.

A more detailed analysis of the specific instruments with which central government departments mould their relationships with agencies provides a telling evocation of Brunsson's (2003) famous distinction between 'talk' and 'action'. On the surface, there seems to be a strong commitment to symbiotic relationships between government departments and agencies and there seems to be a deep concern for the quality of professional cooperation. On the level of *talk*, so to speak, the stewardship model seems to have been inspirational to the policy makers. Consider, for instance, the quote underneath that describes what central government envisions relationships with agencies should ideally look like:

> Steering and control suggest unilateralism and they are for this reason too restricted to be the basis for the relationship between policy making departments and executive agencies. It is in fact rather about going along together on the basis of equal importance by two, mutually dependent partners, with differing points of departure but with a common goal (Ministry of the Interior, 2009: 12)

The quote stems from a policy white paper but one could have hardly asked for a more astute and compelling description of what stewardship theory aspires to realize. When, however, we shift our attention from talk to *action*, the general picture is quite different. The existing regulations are heavily and almost predominantly based on agency theory. Agency theory proposes that principals with limited resources need a balanced combination of ex ante and ex post controls to deal with their agents. Ex ante controls refer to the selection(procedures) of agents, the ways in which principals transmit their preferences to their agents and a set of process rules that tie agents to specific actions and constrain their discretion. Ex post controls refer to the incentives principals use to sanction and reward performances and to the active and passive forms of monitoring principals use to keep on track with their agents. Table 2 lists the most important features of the Dutch agency model.

The table clarifies the practical importance of agency theory for the institutional design of ministry–agency relations in the Netherlands. The focus groups further underscored the prevalence of mechanisms from agency theory in the regulation of Dutch agencies. There was a lot of recognition amongst the participants of the importance of contracts, performance indicators, measurability, outputs, efficiency and the separation of roles between formulating policy and delivering on targets.

The only really missing element from the theoretical model is incentives, as neither the public managers nor the agencies themselves can hope to expect financial gains from doing their job well. They have an obligation to deliver as agreed upon, and punishments are likely available when they fail to do so, but the policy model itself does not provide positive rewards for good performance.

CURRENT PROBLEMS

The regulation of Dutch agencies altogether has a distinct impregnation of agency theory while, in addition, at least political lip service is heeded to ideals of cooperation and partnership that are much closer to stewardship theory. The follow-up question is then how the Dutch public managers experience and evaluate the existing relationships between central government departments and agencies.

Table 2: Current set of relational instruments (agency theory)

Selection and relationship	• Deliver a service to paying principal(s) • Bidding procedure • Competitive tendering • Internal contracting • Aims to realize quasi-market under ministerial responsibility • Role descriptions in terms of principal and provider • Separation of roles, explicitly aimed to create different interests as a basis for bargaining
Preferences and monitoring	• Focus on outputs • Products in cost price • Individuation of servicesbr • Performance measurement and reporting • Pricing individual products and services • Service Level agreements • Long-term strategic plan
Procedures	• Widened financial competencies that allow contract agencies to have surpluses, loans and savings • Obligation to use loan facility of Finance ministry only • Obligation to accept advise from Finance ministry when seeking status of contract agency • Standardized procedures and timing for depreciations • Accruels accounting system • Additional regulations, following general government policies • Early warning agreements • Separated book-keeping allows Parliament a specified financial overview
Incentives	• Organization financed on the basis of outputs • Original model hoped to attain performance pay for the managers, but this has not been politically acceptable (Van Oosteroom, 2002)

This question was answered by the survey that provides an overview of how executive managers – the officials in charge of either agencies or government departments – experience the relationships. The survey also provides insight into which aspects of the relationship are considered to be positive and what aspects are seen to be more problematic. The survey furthermore reveals strongly divergent experiences between managers in agencies and in government departments.

The overall view of the respondents on the relationships with their counterparts is moderately positive. The average of all accumulated answers is just slightly better than neutral, as is their general characterization of their satisfaction with the relationship (3.17 where 3 is neutral) as well as their general assessment of the 'professionalism, quality and skill of counterparts' (3.25). However, this moderately positive general picture of the existing relationships darkens considerably when we distinguish between the responses from governmental managers and agency managers. A more precise look then reveals that the average score on all items for departmental managers is significantly more positive (3.27) than the average scores of agency-managers (2.64). Departmental managers are moderately satisfied with the existing relationships on most items (thirty-three out of forty-two), highly positive on six items (six) and only dissatisfied on three items. In contrast, managers from regulatory agencies specifically were found to be dissatisfied on half of the items (twenty-two out of forty-two). These uneven findings probably signal the persisting imbalance of power between government departments and agencies, where the dependence of the latter seems to be far greater than that of the former. The findings also suggest that improving the relationships between government departments and agencies implies looking at the issues and complaints signalled by agency managers.

Table 3 provides an overview of the items from the questionnaire where either governmental managers or agency managers were found to be dissatisfied with aspects of their existing relationships. Only the scores that were significantly below the neutral answer (>2.75) have been listed in the table and the negative scores are depicted in bold. The table also lists whether the item stems from agency theory or stewardship theory. A superficial glance at the table reveals a number of insights. First of all, as noted above, it is particularly agency managers who signal that the relationship could be improved. Secondly, most items of dissatisfaction stem from stewardship theory. This means by implication that most managers were found to be satisfied with the items in the relationship that stem from agency theory. And the overview finally suggests that improvements should in particular be sought in the maintenance of professional relationships and in the ways and procedures with which policy preferences are transmitted to agencies.

On the level of *selection* and the professional *relationship*, two types of items come to the fore. The first set relates to the exchange of staff and knowledge that would foster mutual recognition and knowledge between partners in a stewardship perspective. The second set relates to the degree to which government departments invest in, acquire and use the types of operational knowledge agencies typically possess. On both items, the managers note room for improvement.

On the level of *preferences* and *procedures*, there are a number of related items relating to the participation of agencies in the procedures by which policies emanate as the preferences they have to execute. Stewardship theory would suggest that policies are decided upon in a mutual process, the formal policy documents indicate that this should be the case; the respondents from agencies, however, indicate that practice departs from this lofty ideal. The focus groups with participants from both groups added that, while many agencies actually *do* participate in policy processes, they are usually consulted at the start only and are often shut out when tensions rise and decision making edges closer. Also, the respondents suggested that the power distance with government departments is felt to be too big. In spite of the frequent lip service in policy documents to the inherent *equality* of both professions, practical experience

Table 3: Negative scores at a glance

Dimension of relationship	*Govt. managers*	*Agency managers*	*Item*	*Theoretical foundation*
Selection and relationship	**2.45**	2.91	Staff turnover negatively affects relationship	–
	2.91	**2.13**	Exchange of staff between government and agencies	Stewardship theory
	–	**2.53**	Government departments actively invest in knowledge and skills of implementation/ regulation	Stewardship theory
	3.64	**2.48**	Policy takes sufficient notice of knowledge and insights from practice	Stewardship theory
Preferences and procedures	–	**2.56**	Sufficient participation in decision making on policy	Stewardship theory
	3.73	**2.74**	Sufficient participation in choice of target audiences	Stewardship theory
	3.91	**2.74**	Sufficient participation in preparation of policy	Stewardship theory
	3.27	**2.43**	Sufficient participation in choice of policy instruments	Stewardship theory
	3.36	**2.40**	Participation lasts from inception until implementation of policy	Stewardship theory
	3.40	**2.59**	Participation in formulation of performance targets	–
	3.82	**2.61**	Policies takes enforcement into account	Stewardship theory
	3.82	**2.69**	Policies takes implementation into account	Stewardship theory
	2.73	**2.07**	Performance agreements based on outcomes	–
	2.64	2.99	Performance indicators for efficiency	Agency theory
Incentives	**2.60**	**2.60**	Performance indicators for continuity	Stewardship theory

speaks of an enduring prevalence of policy making over service provision and regulation.

In addition, the respondents indicated that policy processes did not, in our translation, take the practical necessities of implementation and enforcement into account sufficiently. The focus groups added on this issue that agencies often felt that policy departments did not feel that their jobs of implementation and enforcement were of equal importance to policy formulation. Finally, there were two items relating to performance targets, where agency managers were dissatisfied with the extent to which they were based on outcomes (stewardship theory) whereas departmental managers were more concerned with the performance measures for efficiency (agency theory). In addition, executive managers thought that performance indicators for stability were absent.

Table 4: Alternative set of relational instruments (stewardship theory)

Element	*Objectives*	*Possible (areas of) operationalizations*
Selection and relationship	• Select stewards above agents • Deepen professional relationships • Foster mutual knowledge • Operate in low power distance	• Personal level: of HR policies on recruitment, management and promotions • Organizational and personal level: underlining importance of professional affinity with policy area • Invest time in professional relationships • Provide, if possible, institutional stability
Preferences	• Alignment or congruence of interests • Mutual and collaborative development of preferences	• Full participation in development of goals • Focus on outcomes • Use general targets that leave room for implementation • Coordination of 'demand' between government departments
Procedures	• Bounded self regulation • Internalization of external demands	• Self-management • Internal quality systems • Authority and responsibility • Proofs of good performance
Incentives	• Based on intrinsic motivation • Personal use of power • Non-financial and reputational incentives	• Non-financial incentives • Professional and peer review • Transparency/publishing outcomes/trial by publicity • Personal authority, personal use of power • Face to face sanctioning • Mutual accountability
Monitoring	• Monitoring on added social value	• Based on organizational information systems • Coordination of systems demands between principal and steward • Quality management • Peer review • Audience feedback/societal checks

All in all, the survey and the focus groups clearly suggest that improving the relationships between government departments and agencies critically rests on the operationalization of an agenda that is connected to stewardship theory, as almost all areas of dissatisfaction are closely related to items from stewardship theory. Further support for this direction may come from earlier research, investigating to what extent and under what conditions Dutch agencies trust their parent departments (Van Thiel and Yesilkagit, 2011). The authors tested seven hypotheses, derived from more conventional political science theories, and had to refute most of them. The only corroborated hypotheses were the *contact hypothesis* and the *participation hypothesis*, both of which underline the importance of close proximity between ministries and agencies. The authors then came to their 'proximity-thesis'. Agencies that had many contacts with their principals, including reporting on performance and (although the findings here are mixed) participate in policy development, are more likely to trust their principals. Proximity, according to Van Thiel and Yesilkagit, also implies that agencies are former departmental units and have no legal independence. At first sight, it seems that the proximity thesis further underscores the relevance of stewardship theory. In the next section, a draft will be presented of a general agenda for the regulation of relationships with agencies, based on the application of stewardship theory, 'tests' in two focus groups and geared towards the specific relational issues uncovered above.

ALTERNATIVE MODEL

In an ideal typical agency theory approach, agencies would be *selected* in a process of competitive tendering and the principal would submit its *preferences* in a contract and in measurable output targets. *Operational procedures* for the agency are imposed externally and aim to forestall agency losses. *Monitoring* is an important instrument and directed at compliance and the detection of sunk costs. The system is finally stabilized with the use of preferably financial *incentives* as they will be most intelligible to self-serving agents, although we saw earlier that incentives are largely absent from the actual Dutch regulation of agencies. A contrasting model from stewardship theory should take as its point of departure the congruence or alignment of interests between agencies and government departments and should seek to establish the conditions under which stewardship flourishes. The theory does not assume that all agencies are, equally and fully, pro-social stewards who work naturally for the satisfaction of their principals. Rather, the theory stipulates that some individuals will be more inclined to steward-like behaviour than others and that some institutional features will stimulate stewardship to a larger degree than others. The practical implication for government-agency relations therewith moves from controlling agency loss to the selection of stewards and to stimulating the proper institutional features for stewardship.

Selection

Selecting pro-socially oriented stewards above ambitious but self-serving agents would be the major strategic aim of selection within stewardship theory, both at the individual level as on the organizational level (see Dicke, 2002; Van Slyke, 2006). This means that selection, recruitment and promotion policies should favour qualities, such as service to the public, intrinsic motivation and collaborative skills above ambition, competitiveness and target-orientation (Roberts, 2001). It is an ambition that would generally favour candidates or organizations who are experienced in a given policy area above innovative or ambitious outsiders. In practice, the ambition to select people and organizations that adhere optimally to the ideal typical steward could take many forms. In Australia, for instance, many social and human services have been contracted out to not for profit organizations, very often with religious backgrounds. In this way, the intrinsic motivation to do a good job is believed to be superior to that of civil servants (see Saunders and Stewart-Weeks, 2009). With a similar type of reasoning, Dutch Parliament has objected to the privatization of electricity companies, believing a partially public organization will be more prone to serve the public interest than a large, private corporation.

Preferences

Transmitting preferences in a stewardship model is not about unilaterally advancing demands, targets and deliverables, but needs to be a reciprocal and mutual search for appropriate targets and goals. This requires stewards and principals to cooperate closely, particularly when formal decisions are nigh. Proximity between principal and steward, consisting of high degrees of mutual contact, participation in policy preparations and reporting, are helpful (see Van Thiel and Yesilkagit, 2011). The often described fact, and in this research revisited conclusion, that it is often problematic to define expected outcomes of policies in advance (Meier and O'Toole, 2006: 178), is actually a positive challenge in this respect. As neither principal not steward may know with sufficient details where policies may lead and what disruptions, perverse effects or failings may occur, they can benefit from each others knowledge and insights and work together towards a shared understanding of expected outcomes. Of course, politicians should and will to a large extent provide the direction and conditions for this development. The focus groups and survey, however, suggested that a number of practicalities stand in the way of the ideal of reciprocal target-development. Staff turnover, limited mutual knowledge, insufficient time and a lack of coordination within *and* across government departments are all reasons why ideals of reciprocal developments are thwarted in practice. Most of these issues can actually be improved once policy makers devote sufficient priority to this issue.

Procedures

Bounded self-regulation is the guiding principle in a stewardship framework (Davis *et al.*, 1997a). Principals should set the general guidelines and then leave a large discretionary space to motivated stewards. The extent to which this is possible will vary between policy fields and tasks, of course. In addition, this approach presupposes relative institutional and financial stability within the policy field as this would give the agencies sufficient respite to develop their stewardship-qualities. Stewardship theory depends in as far as possible on the internationalization of external regulations. Self-regulation is not a necessary contra point to external regulation and external reporting requirements are not necessarily negative for stewards (see Van Thiel and Yesilkagit, 2011). Ideally, rather, agencies understand the relevance of external concerns and are given the opportunity to translate them into appropriate internal measures and regulations. Simultaneously, principals may expect their stewards to act in accordance with the highest principles of self-regulation within their field and may ask their stewards to be able to show for that.

Incentives

Stewardship theory favours non-financial and particularly reputational correction mechanisms above financial incentives. As stewards are (theoretically) motivated by values, such as social behaviour, development and self-realization, incentives should be aligned with these sources of motivation. Reputational incentives, feedback from peers on the quality or lack thereof of activities can be expected to stimulate responsible behaviour by stewards. Likewise, information about the societal reception of policies is an important stimulant and incentive for motivated stewards. This requires strong and functional mechanisms that link stewards to peers and societal stakeholders, in such a way that their feedback can be meaningful and change the behaviour of stewards. In addition, information disclosure – trial by publicity, if one wishes (Roberts, 2005; Yeung, 2005) – is another potential non-financial incentive. In addition to the above, principals will still need mechanisms and incentives of correction. The way they handle these mechanisms is, however, crucially important in stewardship theory. It is important to resort to *personal uses* of power in stead of relying on *institutional forms* of power (Davis *et al.*, 1997a). This, for instance, implies that senior managers personally use and explain the use of corrective mechanisms and do not delegate the dirty work or shift blame to others.

Monitoring

Monitoring in stewardship theory would ideally be based on the internal mechanisms of the steward. The smaller the informational asymmetry – or the *proximity* – between the external demands of the principal and the internal information processes of the steward, the healthier their relationship will be, and the less likely it is the principal will become distrustful of his agent because of information asymmetry. In addition to reporting requirements, forms of peer review, quality assessments and societal checks through the beneficiaries of policies can be helpful to keep the steward sound and in tune and to ascertain that policies, policy makers and public managers keep focused on societal outcomes (see Ball and Osborne, 2011).

CONCLUSION AND DISCUSSION

This paper has argued that relationships between central government departments and agencies could be improved with the use of stewardship theory. The stewardship model has been put to a widespread use and has helped researchers analyse or describe various institutional arrangements. This paper aimed to contribute to the translation of the general theory into a more specific model for structuring the relationships between government departments and public agencies. It aims to tackle the most prominent relational issues that were found to exist in the case of Dutch agencies. The 'real' conclusion of this exercise is then the model developed in Table 4, which provides an overview of a relational model for agencies, based on stewardship theory, and provides some examples that describe how this approach could be operationalized.

Taken together, the joint impact of the above mechanisms is likely that the relationship between principals and agents improves. Specifically, the 'problems' of power distance, participation and relationships that were manifest in the survey may likely be alleviated. This does not imply that the overall model would be more efficient or effective than the agency model is. To a large extent, both models can and will operate in conjunction, as we will discuss shortly. Nevertheless, it seems important and possible to enrich the existing relationships with more and more consequential potions of stewardship.

The model is not intended to be a one-size-fits-all solution but needs to be understood with some qualifications in mind.

To begin with, the results from the survey do not substantiate the claim that the stewardship model is in general superior to the agency model. In this paper, a deliberately narrow perspective was adopted and we only focused on how to manage the relationships with agencies in such a way that the relational satisfaction of public managers is likely to improve. The results do, however, not imply that the alternative model would be either more effective or efficient. It is likely – more than likely – that good relationships go together or even stimulate effectiveness and efficiency. This is, however, a follow-up question that needs separate empirical attention.

In addition, a comparison between Table 2 (agency model of relationships) and Table 4 (stewardship model of relationships) illuminates an important, perhaps obvious but not always noted point: both models are not mutually exclusive in their practical application (Davis *et al.*, 1997b: 612). Elements from both perspectives could thus be combined. The issue is just that – as was suggested in one of the focus group – agency theory has been developed further than stewardship theory and has been translated more powerfully into do's and don'ts for public managers. This paper hopefully contributes to a further operationalization of stewardship for public management.

As existing practices are to a large extent informed by agency theory, adoption of a stewardship approach has numerous consequences for government departments. On a *fundamental* level, a stewardship approach encourages government departments to rethink their style of leadership. Government departments should break away from their self-image of change agents, based on the business enterprise model, and look for different models of leadership. Interesting clues come from Terry (2003), describing leadership as *conservation*, and from Frederickson and Matkin (2007), who compared leadership to *gardening*. These metaphors have a similar bearing; they both imply that public leadership cannot follow one-size-fits-all approaches, but should rather attend to the ecology, values, history and culture in public agencies (see Frederickson and Matkin, 2007: 35). Leadership, then, is situational *and* relational. Leadership in this perspective is also to a large degree about conserving and encouraging public institutions, and guarding institutional integrity, rather than about changing them in order to arrive at stipulated results (Terry, 2003: 24). It is furthermore a somewhat humble affair, as Frederickson and Matkin (2007: 36–7) described nicely:

> As in gardening, the possibilities are limited by soil and climate, and accomplishment is slow. Like gardening, reorganization is not an act but a process, a continuing job. And like gardening, reorganization is work whose benefits may largely accrue to one's successors.

On a *practical* level, a stewardship approach forces administrative leaders and managers to shift their attention away from instrumental approaches to a focus on fostering productive working relationships. The *affective leadership* literature is relevant in this respect as it focuses on the importance of: 'relationship, rapport, interaction, compassion, service, personal, intervention, connectedness and soulwork' (Newman *et al.*, 2009: 17; see also Damen *et al.*, 2006). As most public agencies work with and for people, the relationships between persons and organizations are crucially important and oftentimes neglected areas of concern. It would lead too far for now to investigate the practical implications of this relational approach. For now, it is important to note its connection with the numerous specific suggestions found in this paper, as evidenced by Table 4.

For government departments, the most important practical area of concern would be personnel management/HRM. Over the last decades, the NPM-movement has invoked *change* as an important operative in bureaucratic careers (see Pollitt and Bouckaert, 2004: 74), propagating values, such as rapid change, ambition and non-specific management qualities. A stewardship approach, however, should aim for *stability*, because this enables actors to invest necessary amounts of time in their professional relationships in order to nurture mutual understanding, goals and trust. A stewardship approach to personnel management should aim to enlist *stewards*: highly motivated professionals, with affinity for the task at hand. Another area of practical importance for a stewardship approach would be policy preparation. Participation in policy preparation is highly appreciated by agencies (see Table 3), and is significantly related to trust (see

Van Thiel and Yesilkagit, 2011). Government departments should thus be willing to go the extra mile and include agencies in all phases of devising policies; they are likely to be reciprocated with trusting and intrinsically motivated stewards serving shared goals.

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