



## A Transaction Cost Approach to the Autonomization of Government Organizations: A Political Transaction Cost Framework Confronted with Six Cases of Autonomization in the Netherlands

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### **Abstract**

The aim of this paper is to explore the relevance of some important aspects of transaction cost economics (TCE) to a better understanding and explanation of the autonomization of government organizations. As TCE, with its focus on economic efficiency, was basically developed for the profit sector, its main concepts have to be adapted for the public sector. This paper presents a 'political transaction cost' framework which emphasizes 'political rationality' and 'political efficiency'. TCE's main concepts—the transaction characteristics specificity, frequency/scale and uncertainty and its assumptions about human behaviour, i.e. bounded rationality and opportunism,—are discussed for politically governed organizations and they are related to autonomization. The results of exploratory case research into six government organizations in the Netherlands suggest that such factors as bounded rationality, opportunism, political efficiency, and social institutions may have played an important part in the autonomization of the organizations involved. It seems that strictly economic aspects were less relevant whenever a decision to autonomize was taken and a specific form of autonomization was chosen.

**Keywords:** transaction cost economics, government, structure, privatization, efficiency, politicians, case research

**JEL Classification:** D23, H11, K00, L22, L33

### **1. Introduction**

Since 1980 or thereabouts several elements of so-called New Public Management have been introduced into the Netherlands. These elements include deregulation, relinquishment of public tasks, a striving for more efficiency, the use of private sector management concepts and the introduction of new organizational structures within government (see e.g. Hood, 1991, pp. 3–6; 1995, pp. 95–106; Osborne and Gaebler, 1993, pp. 12–24; Ferlie *et al.*, 1996; Kickert, 1997; van Helden, 1998, pp. 94–102; Olson, Guthrie and Humphrey, 1998a; Pollitt and Bouckaert, 2000).

Alongside the rise of New Public Management, Dutch government organizations were autonomized. The autonomization of a public organization involves changes in its organization structure; it is a form of decentralization. In general, it means that elected politicians' direct control of certain tasks or activities diminishes.<sup>1</sup>

On the basis of what considerations do public organizations choose a particular organization or governance structure?<sup>2</sup> The new institutional economic theory might provide suggestions for an answer to this question. It has been pointed out before that the behaviour of government bureaucracies and the autonomization of public organizations might be explained with the help of new institutional economics (see e.g. Moe, 1984; Lane, 1993; ter Bogt, 1997; Horn, 1995, pp. 7–39; Kan and Hwang, 1996; Boston et al., 1997, pp. 16–35; Marsh, 1998; Williamson, 1990, pp. 264–266; 1997a, pp. 30–31, 1999; pp. 338–340). There has also been some research into the relevance of transaction cost economics (TCE)—one of the theories within new institutional economics—to government organizations (see e.g. Frant, 1993; Twight, 1994; Marsh, 1998).

New institutional economics is concerned with the question of how the functioning and development of an organization (or, on a macro level, the whole economy) and the rules, regulations as well as the set-up of that organization influence one another (see Eggertsson, 1990, pp. 3–7 and 28–32; Lane, 1993, p. 176). TCE is a part of new institutional economics which is focused on organizational structures which are, economically speaking, efficient, i.e. which produce products at the lowest possible transaction and production costs. According to Williamson's recent opinions, TCE and its concepts are, to a large extent, applicable to the public sector. However, TCE was developed primarily for the profit sector. In this paper, TCE's main concepts and assumptions will therefore be broadened and adapted to the government sector and suggestions will be made for a political transaction cost (PTC) framework which explains the autonomization of government organizations.

The aim of this paper is to develop a basic theoretical political transaction cost framework and to explore the relevance of some important aspects of this framework to a better understanding and explanation of the autonomization of government organizations. The PTC framework will therefore be compared with data from exploratory field research into the autonomization of six Dutch government organizations in 1995 and 1996. The paper will focus on the level of individual organizations and their considerations and will not focus on the meso- and macro-level of the whole government sector and society.

The paper is structured as follows. The concept of autonomization and the different forms of autonomization in the Netherlands will be introduced in Section 2. Section 3 deals with some of TCE's main concepts and their applicability to public organizations. In Section 4, the PTC framework is discussed and five research questions about the autonomization of government organizations will be developed on the basis of PTC. The research method which was used for the empirical research will be discussed in Section 5. Section 6 contains an outline of the organizations where case research into autonomization was conducted. The empirical findings of the research will also be presented in Section 6. In Section 7, these findings will be discussed and compared with the research questions. Section 8 presents the conclusions.

## **2. Autonomization: New forms of governance and new organizational structures**

Traditionally, most government organizations at a central, provincial and local level in the Netherlands are centrally governed. At present parts of Dutch government organizations are

becoming autonomous, which means that they will get more powers of decision-making. As far as government organizations are concerned, forms of autonomization include various forms of decentralization, internal contracting and external contracting. Two of these forms, privatization and 'relinquishing', are probably the opposites of forms of central governance. In this paper the term 'autonomization' denotes various forms of decentralization. In general, the autonomization of public organizations means that elected politicians' direct control of certain tasks or activities diminishes.

In the Netherlands the two main forms of autonomization are internal and external autonomization. These two forms can be subdivided into several specific forms of autonomization, which together form the 'autonomy spectrum' (see Appendix A). Ultimately, the boundaries between internal and external autonomization are defined by Netherlands law, although they can also be affected by other factors. In the Netherlands, internal autonomization encompasses various forms of decentralization or divisionalization. They include the establishment of a division with a limited degree of decentralized control of inputs or with internal 'contract management'. Forms of external autonomization are for example the founding of a public limited liability company and contracting-out (see e.g. Ministry of Finance/Heroverwegingswerkgroep Beheersregels, 1991, pp. 57–58; Commissie-Sint, 1995, pp. 7–12 and Appendix I; Ferlie et al., 1996, pp. 37–52; ter Bogt, 1999, pp. 331–332). Legally speaking, external autonomization entails the creation of an independent organization or the transfer of tasks to private sector organizations. As a result, politicians' formal responsibility for the autonomized tasks will diminish. An internally autonomized organization, on the other hand, remains part of its parent organization and politicians retain all their formal responsibility for this type of autonomized organization. An internally autonomized organization can to a certain extent conduct its business in its own way. However, both types of autonomized organizations are presumably affected by market forces.

In general, autonomization can result in divergent forms of decentralization and internal and external contracting out. These forms have, to a lesser or greater extent, the characteristics of the two opposites 'central governance' and 'relinquishing' (see Appendix A). As a consequence of autonomization, an organization's activities may be completely controlled by market forces and may therefore be only subject to general rules and laws. However, more often there are still ties between an autonomized organization and its 'parent' government organization. The parent organization may try to maintain some control over the autonomized organization by means of agreements on performance, e.g. target outputs and quality aspects, on budgets for tasks, and prices per unit. In addition, the parent organizations of internally autonomized organizations also tend to determine such matters as personnel policy, including salaries, and housing.

This paper is concerned with individual government organizations at a micro level and with changes in these organizations' management. It is focused on management control, i.e. on all means and activities used by politicians and professional managers to ensure that organizations survive, i.e. adapt successfully to changes in their environment (Otley, 1980; Emmanuel, Otley and Merchant, 1991, pp. 7–8; see also Pollitt, Birchall and Putman, 1998, p. 13; ter Bogt, 1999, pp. 330–331; ter Bogt and van Helden, 2000). Management control

can be exerted in various ways, e.g. by means of an organizational structure, an important element of a governance structure.

### 3. Transaction cost economics and government organizations

#### 3.1. Introduction of TCE

According to Williamson, a transaction occurs when a good or service is transferred across a technologically separable interface (Williamson, 1981, p. 552). Transactions involve costs which are incurred by finding a counterpart, drawing up a contract or monitoring task completion. These costs are also incurred by government organizations or autonomized parts of these organizations. According to TCE, economizing on transaction costs is a central problem in the economic organization and adaption of governance structures, i.e. in particular organizational structures.

Transactions can take place in the marketplace or within an organization, i.e. a 'hierarchy'. TCE presupposes that organizations continuously search for the governance structure which is, economically speaking, the most efficient. This governance structure incurs the lowest possible production and transaction costs. Only in this way can organizations be competitive and therefore survive in the long run. Williamson (1999, pp. 316–317) suggests that the most efficient governance structure has to meet the 'remediableness criterion', which 'holds that an extant mode of organization for which no superior *feasible* alternative can be described and *implemented* with expected net gains is *presumed* to be efficient'.

As far as transactions are concerned, TCE focuses on three characteristics:

- the degree of uncertainty of transactions;
- the frequency with and scale on which transactions take place;
- the specificity of assets needed for production. These assets include knowledge and sites needed for production, and products generated.

According to Williamson (1985, pp. 161–162), transacting business in the marketplace is very often the most efficient way of performing transactions. However, especially in organizations with high asset specificity, it can be more efficient to use an alternative mechanism for coordinating and controlling transactions. In practice, there seems to be a relation between the specificity of assets, knowledge or products and the uncertainty of transactions. Within a hierarchical organization, this uncertainty probably also relates to such aspects as the size of the organization, the complexity of its tasks and the amount of information to be processed, i.e. the complexity of internal governance. As far as human behaviour is concerned, TCE stresses bounded rationality (i.e. human behaviour is 'intendedly rational, but only limitedly so') and opportunism (i.e. 'self-interest seeking with guile').<sup>3</sup>

A certain degree of uncertainty, bounded rationality and opportunism seems to be common in practice. However, it is difficult to concretize uncertainty, bounded rationality and opportunism. The main characteristic which differentiates one transaction from another is asset specificity. This characteristic seems to determine the governance structure of an

economic organization (Williamson, 1985, p. 30; 1996, p. 330). The specificity of assets such as knowledge, sites and products is of vital importance when it coincides with high frequency and high uncertainty, bounded rationality and opportunism (Williamson, 1985, p. 56). Williamson (1981, p. 558; 1985, pp. 67 and 78–79) argues that a transaction should not be governed by market forces but should be controlled by other means, e.g. the hierarchical organization, if a high degree of asset specificity, high frequency (or large scale), and high uncertainty coincide at a certain level of opportunism and bounded rationality.

Apart from the two opposites hierarchy and market, Williamson (1985, pp. 83–84; 1991, pp. 269–272 and 277–281; 1996, p. 378; 1999, pp. 312–314) distinguishes intermediate or hybrid forms of governance as regards the organization of economic activity. The differences between the forms of governance relate to differences in incentives, administrative control mechanisms, and the ability to adapt to internal and external changes. Also, each form of governance is supported and defined by contract law. Certain forms of autonomization could probably be regarded as hybrid forms of governance. Since governance structures are very diverse, there may be several hybrid forms (see also Williamson, 1991, pp. 283–284; Barney and Hesterly, 1996, pp. 122–123; Speklé, 2001, pp. 59–62 and 94–95).

In Williamson's opinion, TCE is first and foremost concerned with profit organizations. Organizations encountering fierce competition have to choose the most efficient governance structure in order to survive now and in the future. Nonprofit organizations, particularly government organizations, usually face less competition, so efficiency is less important. The governance structures of these organizations are probably also determined by other factors. As Williamson observes, 'politics is different' (Williamson, 1996, pp. 198–199 and 335; see also Moe, 1990, p. 126). Politically governed organizations possibly serve politically valued purposes which are not picked up on in economic calculations (Williamson, 1996, p. 212).<sup>4</sup> The wish to 'stay in power' may play a part in the governance of these organizations. Moreover, 'trust' or good social relations in an organization can temporarily result in generous judgements on performances (Williamson, 1981, pp. 572–574; 1985, pp. 149–150; 1990, pp. 265–266; 1991, pp. 274–276; 1996, pp. 30–31; see also Granovetter, 1985, pp. 490–491).<sup>5</sup> However, government organizations, too, may have to improve their long-term economic efficiency. The ensuing changes in the governance structures of these organizations can probably be explained with the help of TCE (Williamson, 1981, pp. 573–574; 1997a, pp. 30–31; 1997b, p. 21; see also 1985, pp. 149–150; 1993, p. 120).<sup>6</sup>

Efficiency can be measured accurately only if outputs are measurable. A low degree of output measurability could increase the uncertainty of transactions and the governance of organizations. Williamson pays little attention to the problems inherent in the measurement of outputs (see e.g. Williamson, 1985, pp. 80–81).<sup>7</sup> It seems, however, that this type of measurement can pose very serious problems in empirical research.<sup>8</sup>

A number of authors have examined the problems connected with the measurability of performances. Barzel and Wilson argue that the measurability of outputs is one of the decisive factors in the selection of a particular organizational form (Barzel, 1982; Wilson, 1989, pp. 159–171). According to Barzel, the different stages of a production process take place in one organization if production is difficult to measure (Barzel, 1982, pp. 41–42).

The measurability of performances also influences the level of transaction costs (Bokkes, 1989, pp. 42 and 49). A decrease in performance measurability leads to an increase in transaction costs, because less easily measurable performances have to be defined and monitored accurately in order to reduce uncertainty.

### 3.2. *Are government organizations similar to profit organizations?*

Are TCE and its concepts immediately applicable to the government sector?<sup>9</sup> Or are fundamental adaptations needed to develop a 'political transaction cost' (PTC) framework, i.e. a TCE-related framework for the public sector, in which elected politicians play a prominent role?

Although private organizations and public organizations may appear to be quite similar, profit organizations and government organizations also seem to differ in various respects (cf. Kan and Hwang, 1996, p. 198). Public organizations, for example, usually do not produce 'simple' profit figures which, although incomplete and indirect, are an indication of profit organizations' performances. Moreover, relatively many outputs and outcomes in the public sector are difficult to measure. Furthermore, citizens/voters, politicians, professional managers, and other civil servants usually do not seem to have a personal economic interest in increasing the economic efficiency of public organizations (see also McKean, 1972, pp. 176–181).

Like politicians, managers of private organizations probably do not always act rationally, economically speaking, and the governance of private organizations can be influenced by internal 'politics'. Nevertheless, the management of a private organization has to take account of the market and of owners' interests, i.e. shareholder value. The management has to pay 'sufficient' attention to profits and economic efficiency. Although any organization probably has multiple goals (see e.g. Cyert and March, 1963, pp. 29–32 and 40–43; Simon, 1964; Bouma, 1966, pp. 86–87 and 171–175), a multiplicity of goals may be particularly significant in the case of politically governed organizations (see also Hofstede, 1981, pp. 194–198; Moe, 1995, pp. 121–122).

It is, for example, doubtful whether economic efficiency is the first priority of politically governed organizations, seeing that it is questionable whether voters can or will really assess economic performances of government organizations. Perhaps many voters are not genuinely interested in economic efficiency—as long as governmental tasks are performed 'properly' and the tax burden is 'acceptable'.

Differences between public and private organizations are emphasized, among others, by Moe (1995, pp. 117–131), who points out that the goals of public organizations are larger in number and more divergent than those of private organizations. Politicians trying to achieve those goals are facing a more uncertain future than managers of private companies, e.g. because of the actions of interest groups. Wilson (1989, pp. 131–134, 346–364 and 376) argues that citizens may attach importance to equity, accountability and authority, in addition to outputs and efficiency. Citizens' opinions may also be influenced by incidents and perceived attention to certain problems (see also Dunleavy, 1992, p. 86; Horn, 1995, pp. 8–12; van Leerdam, 1999, pp. 230–232; Boston, 2000, pp. 25–30; ter Bogt, 2001, pp. 633–639).



To explain organizational changes in the government sector by means of TCE, it will be necessary to take account of the specific circumstances facing politicians and the government organizations for which they are responsible. Politicians decide how public activities will be organized, knowing that their decisions 'have to meet the test of electoral competition over time' (Horn, 1995, p. 37). Political rationality therefore differs from economic rationality. As Wildavsky points out, 'not simply the economic, but the political costs and benefits turn out to be crucial [in the political process]' (Wildavsky, 1966, p. 308; see also Rose and Miller, 1992, pp. 178–179; Roberts and Greenwood, 1997, pp. 357–361; ter Bogt, 1997, p. 45; Aranson, 1998, p. 750). Political costs include election costs, policy costs, and reputation costs. Election costs, i.e. the costs of being elected, include financial costs and the effort involved in spending time on and paying 'verbal-symbolic' attention to certain questions. Policy costs are caused by a politician's inability to command the bureaucracy to accomplish desired policy objectives, e.g. because the politician's position has weakened. Reputation costs are caused by a politician's loss of esteem and effectiveness with respect to other participants in the political system and the politician's inability to secure policies (see also Wildavsky, 1966, p. 309).

Political rationality could also imply that, perhaps implicitly, the focus of politically governed organizations is not primarily on 'economic transaction costs' but on 'political transaction costs', which include information costs, organization costs, and other costs, such as political costs. A politician will meet such costs, implicitly or explicitly, when he wants to realize plans or changes in organizational structures and tries to keep his electoral promises (see also Twight, 1994, p. 190). This could mean that TCE's characteristics specificity, frequency/scale and uncertainty, and TCE's suppositions about human behaviour—bounded rationality and opportunism—have to be considered in the political context of government organizations.

According to Granovetter (1985; see also Roberts and Greenwood, 1997; March and Olsen, 1999, pp. 55–56), in order to fully understand economic activity and its institutional forms, it will be necessary to investigate how that activity is embedded in other social relations and institutions. Institutions are more than transaction characteristics and organizational structures. A decision to autonomize an organization, as well as the effects of the decision, may largely be due to certain social, institutional, legal and political settings. This idea is also to be found in sociological institutionalism and the 'old' institutional economics (see also Scott, 1995, pp. 133–151; de Geest, 1995; Bouckaert, 1995; Roberts and Greenwood, 1997; Zafirovski, 2000, pp. 10–13).

Concepts such as political efficiency, political rationality and political (transaction) costs are largely qualitative by nature. They are therefore concepts with low operability for empirical research and low measurability, especially with respect to individual acts and decisions. Nevertheless, valuable insights into these concepts may be gained from verbal descriptions and interpretations of decisions and developments in organizations.

This brief summary of literature does not indicate that aspects highlighted by TCE are of no value to the public sector. However, to be relevant to a better understanding of (changes in) the structure of government organizations, TCE's concepts and assumptions probably have to be broadened by using insights from public administration and political science and by emphasizing more non-economic and behavioural aspects.

#### **4. Research questions about the autonomization of government organizations derived from a political transaction cost framework**

##### *4.1. Introduction*

The public sector in the Netherlands has recently gone through several changes in its governance structures, including the autonomization of parts of government organizations. It is therefore now possible to assess whether elements of PTC can be used to explain and understand the autonomization of government organizations and the six organizational structures mentioned above. To this objective Williamson's TCE has to be interpreted in autonomization terms and supplemented with insights from other authors.<sup>10</sup> This will provide an insight into the potential contributions of a political transaction cost framework to an understanding of the autonomization of government organizations. The research questions in this section are inspired by the writings of Williamson and several other authors in the field of management control, new institutional economics, public administration and political sciences.

According to TCE, transaction characteristics and certain aspects of human behaviour determine transaction costs, which, in turn, influence the structures of organizations. The TCE concepts of specificity, frequency/scale, uncertainty, bounded rationality, and opportunism form the basis of the PTC framework outlined in this paper. Each of the research questions presented in the following subsection focuses on only one aspect of (political) transaction costs. Any possible relationships between certain variables in the PTC framework will largely be ignored. The main objective of the research questions is to focus attention on individual aspects of TCE, the interpretation of these aspects with respect to government organizations, and their potential relevance to an explanation of the autonomization of government organizations.

##### *4.2. A political transaction cost framework and research questions concerning the autonomization of government organizations*

In this subsection a rudimentary political transaction cost framework will be developed. TCE's basic concepts will be broadened to gain a better understanding of the governance and autonomization of government organizations. After each discussion of an element of the political transaction cost framework, a research question concerning the autonomization of governmental organizations will be presented.

One of TCE's important concepts is specificity. Basically, Williamson (1985, pp. 55 and 95–96) associates specificity with physical assets, knowledge and sites. However, this paper assumes that specificity includes the specificity of products or activities which is due to a particular combination of assets, knowledge and/or sites (see also Colbert and Spicer, 1995, pp. 428–429).<sup>11</sup> In government organizations specificity could also relate to production processes, e.g. producing in accordance with specific rules and procedures to ensure fairness and equity (Wilson, 1989, pp. 132 and 326–327). It seems that specificity matters only when a politician highly values a product. If not, specificity is not a relevant issue.



The availability and quality of autonomized organizations' specific products, such as student loans, road maintenance, health care and waste water management, to some extent determine voters' opinions on these government organizations and the politicians responsible for the organizations. The specificity of a good or product in a particular region can be determined by measuring the number of profit organizations or other organizations which offer—or could easily offer—the good or service. In this paper, not only assets and knowledge as such, but also the number of suppliers of a product is regarded as an important indicator of specificity.

Monopolistic behaviour can be mitigated by competition, rules, and monitoring. In addition, market organizations may be willing to accept certain requirements for production processes and the transparency of these processes (see also Niskanen, 1971, pp. 195–197 and 219–225; Wilson, 1989, pp. 349–353; Trotman-Dickenson, 1996, pp. 382–390). However, politicians may want to have direct control over specific activities and products which are of vital importance to them and their political 'survival', particularly when they are not able or prepared to reveal their need for a certain product in advance (Dunleavy, 1992, p. 240). If a politician thinks that a government organization's products or knowledge are/is unique and vitally important or if it is hard to effect clear agreements to ensure that a market organization meets requirements for a specific production process which are vitally important to the politician (and citizens), his willingness to autonomize the government organization could decrease (see also Hofstede, 1981, pp. 197–198; Wilson, 1989, pp. 236–237).

The above has resulted in research question 1:

1. If politicians responsible for a government organization highly value the goods or services produced by the organization, will there be a tendency towards further autonomization of this organization if the specificity and transparency of its production processes, assets, knowledge and/or products decrease, i.e. if the goods or services are increasingly put on the market by profit organizations and these organizations' processes can relatively easily be monitored by politicians? (Williamson, 1985, pp. 47–49, 52–54 and 61–63; see also Niskanen, 1971; Hofstede, 1981; Wilson, 1989, pp. 236–237 and 352).

According to TCE, the selection of a form of governance is determined by production and transaction costs. A government organization may incur high production costs per unit of output if it makes little use of its specific assets. In that case, production costs per unit can be decreased by producing outputs on a larger scale or more frequently.<sup>12</sup> Production on a larger scale and lower production costs and management costs per unit can also be achieved by selling the government organization's outputs to internal as well as external organizations, including profit organizations (cf. Demsetz, 1988, p. 146). During the 1990s several government organizations in the Netherlands adopted that course of action, probably because of budgetary stress, imitation of other organizations' success stories, or 'ritualistic responses' to new trends (see also Staw, 1990, pp. 77–79; Meyer, 1994, pp. 124–128; Hood, 1995, p. 106; Lowndes, 1996, p. 185; van Thiel, 2000, p. 184; van Helden, 2000, pp. 93–96).

In the government sector, frequency and scale might relate to the frequency with which government organizations or politicians want a product or to the scale on and frequency with

which it is supplied to citizens. Government organizations' striving for scale or frequency effects could make them more market-oriented and internally or externally autonomized. After internal or external autonomization, parent organizations have to prepare and conclude external contracts. They will probably incur higher information costs and other transaction costs. However, all these transaction costs should be offset by lower production costs per unit. Government organizations which are not internally or externally autonomized cannot possibly achieve substantial scale-effects.

One scale effect to be achieved by autonomized organizations seems to be particularly attractive to parent organizations and politicians, namely producing and supplying the same amount of products at a lower cost. This scale effect makes it possible for them to develop and finance new government policies without increasing taxes. However, the financing of autonomized organizations by government organizations could lead to distortion of competition, e.g. through internal 'cross-subsidization' (Commissie Cohen, 1997).<sup>13</sup>

Besides factors related to competition and economic efficiency, other factors, such as values, customs, and social patterns in society, might also have an influence on organizational design and a politician's decision whether or not to strive for scale effects (see also DiMaggio and Powell, 1983, pp. 150–154; Granovetter, 1985; March and Olson, 1989, pp. 21 and 135–140; Moe, 1995, p. 130; Scott, 1995, pp. 34–45). Roberts and Greenwood (1997, pp. 351–353 and 357–361) emphasize that organizations operate in both competitive and institutional environments. This could mean that taking a decision to autonomize a government organization also involves considering 'traditional' factors, such as externalities and the importance of merit or collective goods. Politicians and voters may be of the opinion that direct governmental involvement is of vital importance in some cases and that politicians have to be fully accountable for certain activities and products. They may hold these opinions because they have little confidence in the transparency and accountability of market organizations (and autonomized government organizations), fear the opportunism displayed by politicians who try to 'hide' for problems by blaming market organizations, believe there are well-established and stable relationships between bureaucrats and politicians, or think that doing business with an autonomized (market) organization could lead to considerable agency problems and costs. These considerations may result in the opinion that the activities and outputs mentioned above have to be realized by government organizations which do not operate in the market, although this might mean fewer scale effects and less economic efficiency (see also Coase, 1960, pp. 15–19; Cheung, 1970, pp. 27–30; Niskanen, 1975; Dahlman, 1979, pp. 156–162; Fama and Jensen, 1983; Jensen, 1983; Kan and Hwang, 1996, pp. 200–201).

Research question 2 has been formulated as follows:

2. Will citizens and politicians' opinions on direct governmental control over certain activities and products, and on public organizations' role in the market play a part in the decision to allow further autonomization of a government organization in order to achieve scale and frequency effects? Or will there simply be a tendency towards further autonomization of the government organization—even one with a high degree of specificity of assets, knowledge or products—if its production costs per unit and its parent organization's total costs per unit decrease through scale effects due to its

external orientation, which has resulted in an increasing number of external clients? (see Williamson, 1979, pp. 239–242; 1981, p. 555; 1985, pp. 60–61 and 75–77; Fama and Jensen, 1983; Granovetter, 1985; Commissie-Cohen, 1997; Roberts and Greenwood, 1997).

The next TCE concept to be discussed is uncertainty, which relates to the concepts of bounded rationality and opportunism of human actors. In an organization, human actors are uncertain about internal and external factors. Uncertainty includes ‘political uncertainty’, which is vitally important to politicians. It includes uncertainty about themes which will become important to voters, the support for a politician from his party, the future of the politician and his party currently in power and the functioning of the organizations for which the politician bears responsibility (see also Dunleavy, 1992, pp. 112–128). However, it seems that political uncertainty is not so much caused by aspects of government organizations’ concrete processes and products as caused by aspects of the ‘political process’ outside government organizations. This paper focuses on uncertainty caused by aspects of government organizations’ processes and products.

In the case of an organization which is to be autonomized, uncertainty caused by aspects of the organization and its products could be assessed from the viewpoint of the organization in question. However, its parent organization probably has more say in the decision-making process concerning autonomization. This paper therefore focuses on the uncertainty with which the parent organization and the politicians governing it are confronted. This uncertainty, which takes various forms, is determined by many factors. Attempts to reduce uncertainty will lead to an increase in the costs of gathering and processing information, contracting and control, i.e. an increase in (political) transaction costs.

Internal uncertainty arises mainly from inside the organization. It is determined by, among other things, organizational complexity, output measurability and insight into transformation processes. If the complexity and cost of the internal governance of activities increase, it may be more efficient to autonomize the activities (cf. Niskanen, 1973, p. 42). They can be ‘controlled at a distance’ by means of agreements on available budgets and the main target outputs or other target performances. As far as output measurability is concerned, outputs and output quality are highly measurable if outputs are relatively concrete and homogeneous. In that case, it is relatively easy to conclude clear performance agreements and contracts (see also Alchian and Demsetz, 1972, pp. 778–779; Ouchi, 1977, pp. 97–98; Hofstede, 1981, pp. 194–198). As a result, transaction costs will be low, other things being equal.<sup>14</sup> However, it seems that relatively many governmental activities, outputs and outcomes are difficult to define and measure (Niskanen, 1971, p. 20; Mintzberg, 1996, pp. 79–80).

External uncertainty arises mainly from factors outside organizations. It could also relate to output measurability. In addition, external uncertainty could be influenced by, among other things, developments in production technology, economic climate, competitive products and organizations, and citizens’ changing preferences. If only a few organizations offer a particular product in the marketplace, i.e. when product specificity is high, there is a greater chance that a parent organization—and the politicians responsible for it—will not be able to guarantee supply of this product to the citizens (see also Niskanen, 1971, pp. 195–201).

and 213–218; Wilson, 1989, p. 352). The above-mentioned form of market uncertainty could therefore be particularly relevant to a parent government organization and politicians responsible for it. It seems reasonable to assume that if there are more external suppliers of the product in question, there is a greater chance that the parent organization will consider (a major increase in) autonomization.

This is expressed in research question 3:

3. Will various forms of uncertainty play a part in the decision to allow autonomization of a government organization, i.e. will there be a tendency towards further autonomization of the government organization if the complexity of the internal governance of its parent organization increases, if the concreteness and measurability of its outputs increase, and if its goods or services are increasingly put on the market by profit organizations, which reduces the 'market uncertainty' faced by its parent organization and the politicians responsible for it? (see Williamson, 1981, pp. 564–566; 1985, pp. 17, 68–80 and 244–248; 1990, pp. 265–266; see also Niskanen, 1971, p. 20; Alchian and Demsetz, 1972, pp. 778–779; Barzel, 1982, pp. 41–42; Arrow, 1984, pp. 142–143; Wilson, 1989, pp. 158–171).

In TCE, specificity, scale or frequency, and uncertainty greatly influence transaction costs and economic efficiency, two essential aspects of TCE. As was mentioned before, TCE also assumes that opportunism and bounded rationality are two characteristics of human behaviour (Williamson, 1985, pp. 44–52), i.e. the behaviour of all human beings, including politicians. However, TCE's assumptions about human behaviour are less distinctive than its ideas about transaction characteristics. It is for example not clear how important bounded rationality is in various circumstances (see also Tolbert and Zucker, 1996, pp. 186–187). With respect to government organizations, the specific circumstances and environments in which politicians operate may influence the form and focus of their opportunism and bounded rationality.<sup>15</sup>

In theory, it seems reasonable to agree with TCE's assumption that in government organizations, too, changes in organizational structures—such as autonomization—are due to a striving for an increase in economic efficiency. This increase may be necessary because of the organizations' budgetary stress and their desire to lower costs.<sup>16</sup> Dutch politicians and civil servants, i.e. top professional managers, have certainly often mentioned a striving for more efficiency as an important formal reason for autonomization. However, as was discussed before, politicians are in fact probably more interested in 'political rationality' and 'political efficiency' than in economic efficiency (Horn, 1995, p. 37; Wildavsky, 1966, p. 308). This paper therefore assumes that in a transaction cost framework for politically governed organizations the emphasis is on political efficiency.

The shift in focus from economic efficiency to political efficiency is probably the most important adaptation of TCE which is needed to make the concepts of TCE sufficiently applicable to government organizations. This does not mean that economic efficiency is an irrelevant part of political efficiency. After all, politicians are often confronted with restricted financial resources and citizens expect 'acceptable' government performances for which they expect to pay 'acceptable' taxes or prices. Politicians probably do not want autonomization to result in 'insufficient' economic efficiency, because that could lead to a decrease in political efficiency. It is assumed here that an 'acceptable' level of economic

efficiency is a prerequisite for political efficiency and is a constraint on politicians who want to achieve political efficiency.

In the short term in particular, a politician's striving for economic or political efficiency may be impeded by bounded rationality. Politicians and professional managers probably do not know all available alternatives to changes in organizational structures and all the effects of the alternatives they do know. Bounded rationality does not mean that human beings act 'irrationally', i.e. that they do not select the best alternative they know. That is why it seems reasonable to expect that changes in organizational structures, like autonomization, implicitly or explicitly are expected to contribute to increasing political efficiency, i.e. to maximizing electoral support with minimal 'efforts' (see also Dunleavy, 1992, p. 118; Mayston, 1993, pp. 77–80).

In practice, bounded rationality probably also implies that politicians will be inclined to change existing organizational structures only if the structures are not 'satisficing' anymore, i.e. if there is a real pressure for change (Cyert and March, 1963, pp. 116–125; Simon, 1976, p. xxviii). This pressure could arise from, for example, low economic efficiency and serious budgetary stress, obvious disfunctioning, clients' frequent complaints which receive attention from the press or competition from other political parties (cf. Bosso, 1987, p. 256; Young, 1991, p. 130). 'Political entrepreneurship' will result in organizational changes when conventional organizational structures are considered to be inadequate and/or when alternatives seem to be promising, from a political point of view (see also Aranson, 1998, p. 748; Choi, 1999, pp. 255–258).

In the case of politicians, opportunism will probably relate mainly to political efficiency, seeing that political efficiency seems to be of prime interest to politicians. Unlike the environment of managers of profit organizations, the environment of Dutch politicians has the following important characteristics: the necessity to compromise with other political parties, the necessity to publicly account for processes and results, the relatively high visibility of activities and decision-making in government organizations, the relatively high uncertainty in the political environment, and the relatively high number of groups of stakeholders, including many (private) associations, foundations, councils and advisory bodies which are active in many parts of society (see e.g. Konijnenbelt, 1998, pp. 50–53, pp. 60–61; Schouw, 1998, pp. 211–213; Lijphart, 2002, pp. 18–19, van Waarden, 2002). All this makes a politician's job relatively complex and may force him or her to be politically flexible. However, some citizens could regard this flexibility as unreliability and opportunism. In this paper, the focus of the discussion of opportunism, like that of uncertainty, is mainly on the relation between the concept in question and the structures and outputs of organizations.

Politically speaking, politicians probably display rational behaviour if they, to a certain extent, take account of new developments in society, opinions among voters and in the press, and pressure from various stakeholders in government organizations, including specific interest groups. Moreover, politicians and parties probably have to make compromises when participating in coalition governments (Blom-Hansen, 1997, p. 680; Timmermans, 1998).<sup>17</sup> The political transaction costs of ignoring new developments, powerful interest groups or other political parties can be high, particularly if there is a possibility of retaliatory responses in the future (Blom-Hansen, 1997, pp. 688–689; Dunleavy, 1992,



p. 126; see also Bosso, 1987, pp. 8–18). For this reason, i.e. from a political point of view, changing plans and being ‘flexible’ can be politically rational and efficient behaviour for politicians, even if they are in power and some voters might think that the politicians are breaking promises and behaving opportunistically.

Forms of opportunism in a political environment include the kinds of opportunism displayed by a politician who focuses on the short term (in which he has to ‘survive’) rather than the longer term, deliberately dramatizes an incident for political gain, and tries to avoid certain responsibilities, e.g. those concerning activities which do not attract positive attention from the voters and the press (anymore) (see also Dunleavy, 1992, pp. 122–125). Another form of opportunism is displayed by a politician who, together with his party, is emphasizing economic efficiency before being elected, but is trying to avoid drastic cutbacks after being elected. The politician may act in this way because he is facing opposition to the cutbacks and he prefers to maintain good relations with bureaucrats and certain interest groups (cf. Young, 1991, pp. 132–135).<sup>18</sup>

On the whole, bounded rationality and opportunism probably play a more prominent part in the political transaction cost framework than in TCE. In this framework bounded rationality and opportunism not only explain ‘deviations’ from economic efficiency, as seems to be the case in TCE. Voters, politicians and government organizations have relatively many goals, compared with profit organizations, and they do not focus mainly on economic efficiency. Politicians striving for political efficiency probably have to be flexible, have to avoid changing ‘satisfactory’ situations, and have to make compromises, i.e. display forms of bounded rationality and opportunism. Research question 4 has been formulated as follows:

4. Will there be a tendency towards further autonomization of a government organization if citizens and politicians believe increasingly that the organization does not perform satisfactorily and if new developments in society and/or the organization increase the political rationality for politicians to change existing plans and structures or to ‘break promises’? (Williamson, 1985, pp. 44–52; Cyert and March, 1963; Simon, 1976; Dunleavy, 1992, pp. 122–126; Horn, 1995, p. 37; Blom-Hansen, 1997; Aranson, 1998).

In the political transaction cost framework to be developed in this paper, it is assumed that autonomization is intended to result in not only more economic efficiency, the focus of TCE, but also more political efficiency. Political efficiency is determined, among others, by economic efficiency. In TCE, specificity, scale/frequency, and uncertainty, are defined in economic terms. In this Section 4.2, however, these concepts have been defined in broader terms to make them suitable for the political environment of government organizations. Together with bounded rationality and opportunism, the concepts play a part in the process of increasing political efficiency and in an explanation of the autonomization of government organizations.

If politicians display (bounded) rationality, it seems reasonable to assume that they change, i.e. autonomize, organizational structures to increase political efficiency. However, the concepts of political rationality and political efficiency are not very explicit and operational. It is therefore difficult to empirically measure political efficiency and the effects of individual decisions on it—measuring all this is probably even more difficult than



measuring economic efficiency properly. Nevertheless, it might be possible to quantitatively or qualitatively explore certain aspects relating to political rationality and political efficiency. It might be interesting to examine aspects of political rationality which, implicitly or explicitly, probably play a part in autonomization.

Political efficiency consists of various elements, of which economic efficiency is probably not an unimportant one. According to TCE, the economic efficiency of an organization and its parent organization will probably increase after the autonomization of the organization. If data about the inputs and outputs of an organization are available, it might be possible to get at least a rough idea of the development of economic efficiency, in quantitative terms. However, autonomized organizations are often only a relatively small part of parent organizations. Furthermore, autonomization probably has a greater effect on the efficiency of the organization to be autonomized. Seeing that economic efficiency is an element of political efficiency which might be determined quantitatively, it could be interesting to examine the development of the internal economic efficiency of an autonomized organization and its parent organization, without considering underlying causes.

These considerations have resulted in research question 5:

5. How relevant are political efficiency and political rationality to the autonomization of a government organization? Does autonomization result in an increase in political efficiency, i.e. efficiency in the eyes of the politicians involved? Assuming that political rationality is influenced by economic efficiency, how relevant is economic efficiency to the autonomization process? And how do the economic efficiency of an autonomized organization and that of its parent organization compare with its economic efficiency and that of its parent organization before it was autonomized?

In order to find answers to the five research questions, exploratory case studies were conducted at the six Dutch government organizations mentioned above.

## 5. Research method

The autonomization of government organizations is a complex process in which many known and unknown factors play a part. Descriptive and exploratory case research therefore appears to be an appropriate method of clarifying the part played by the PTC aspects from the five research questions during the autonomization of the six organizations mentioned above (see Yin, 1989, pp. 15–19; see also Chua, 1986, pp. 606–610 and 613–616; Scapens, 1990, pp. 264–272). Because the organizations were autonomized to different degrees, multiple case research was conducted.

To get an overview of the applicability of transaction cost concepts to the autonomization of government organizations, cases were selected from the three administrative levels in the Netherlands, the central, provincial, and municipal level respectively. It also appeared advisable to conduct exploratory case research into organizations which were engaged in fairly concrete activities and which produced reasonably measurable outputs. The outputs and internal economic efficiency (x-efficiency) of these organizations could probably be

measured and assessed. The six organizations mentioned above were studied because they were expected to meet these requirements.

In 1995 and 1996 case research was carried out at the 'Informatie Beheer Groep' (the IBG), the municipality of Haarlemmermeer, and the province of Groningen. The 'autonomization files' of the organizations were studied. They contained all the relevant documents on the autonomization of the three organizations. The documents included political documents, formal policy notes, reports by external consultants, internal management memos and reports, documents for management meetings, and copies of internal and external letters. The most interesting documents were selected and examined in greater detail.

A number of professional managers were interviewed about the autonomization of the three organizations mentioned above: five managers at the IBG, eleven managers at Haarlemmermeer, and six managers at the province of Groningen. The duration of these formal interviews varied from one and a half to two and a half hours.<sup>19</sup> In addition, several employees of the organizations gave relevant additional information, i.e. reports and opinions, during informal talks. Each manager received a written report on his/her interview. Their comments were incorporated in the final interview reports, which formed the basis of the case research reports. The case study reports were discussed with some of the managers mentioned above, after which inaccuracies in the reports were corrected.

Furthermore, changes in the internal economic efficiency of the autonomized organizations (i.e. x-efficiency, including internal aspects of transaction cost efficiency) were included in the case study reports. The data on the changes were based on the available information on inputs (i.e. total costs, including production and transaction costs) and on outputs (see also Leibenstein, 1966, pp. 406–409).<sup>20</sup> However, relevant objective data were lacking, especially data on service levels, which are an important quality aspect. Therefore the development of the efficiency of the six organizations mentioned above could not be judged completely accurately. However, an impression of this development was gained by analysing inputs and outputs from the period when the organizations had not been autonomized and also data from the period when the organizations had been formally autonomized for one or more years. In five of the six organizations, the data were only limitedly available. They were gathered from budgets and accounts, internal reports, and quarterly and annual reports. In addition, the managers gave qualitative and subjective information about the development of the organizations' efficiency.

## 6. Organizations studied and results from the case research

The six organizations studied will be introduced and the results of the case research will be presented in the Sections 6.1–6.3. However, first, the movements of the six organizations across the autonomy spectrum will be displayed in figure 1 (see also ter Bogt, 1999). This figure is based on official data, such as the organizations' legal status and the parent organizations' intended management control of the autonomized organizations.

Figure 1 shows the three cases of internal autonomization and the three cases of external autonomization which were studied. Because the external autonomization of the Management of Public Areas subdivision (MPA) at Haarlemmermeer was seriously delayed, only a limited amount of empirical evidence was obtained from a case of extensive external

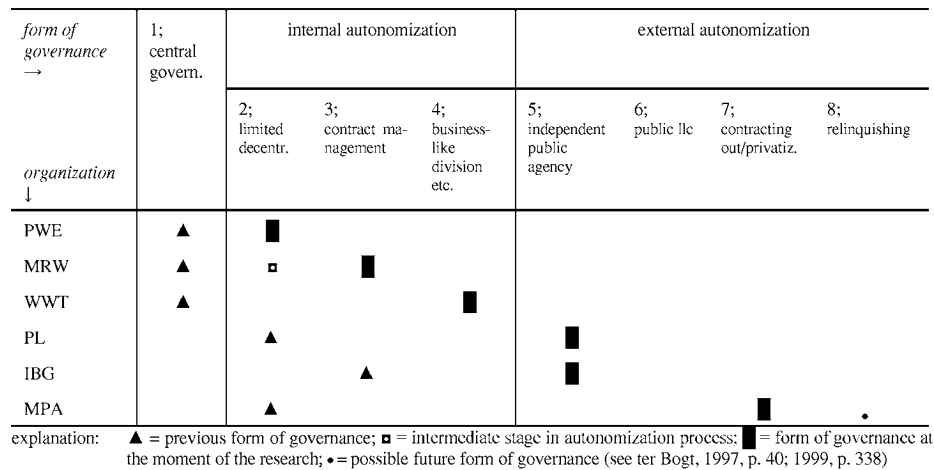


Figure 1. Movements of the organizations in the autonomy spectrum.

autonomization. However, this case is included in the case studies because it does provide relevant information about the reasons for and the process of autonomization.

The six organizations mentioned above and the case research results will be presented in the following subsections.

### 6.1. IBG

The main purpose of the IBG, an organization at the central administrative level, is to perform tasks for the Ministry of Education, Science and Cultural Affairs. In 1995, the IBG employed approx. 1,260 staff, i.e. 1,260 full-time equivalents (fte's), and its main activities were:

- awarding grants and loans to students aged 18 and over;
- awarding study costs allowances to parents of schoolgoing children under 18;
- performing various educational services, i.e. collecting school fees, organizing national school exams, etc.

The costs of the IBG's administrative system over 1995 amounted to well over NLG 180 million (almost € 82 million), including permanent staff costs amounting to approx. NLG 75 million. In 1995, the IBG paid well over NLG 5 billion (approx. € 2.3 billion) to students, parents of schoolgoing children and others on behalf of the Ministry of Education, Science and Cultural Affairs.

In 1993 and 1994, the IBG went through a process of external autonomization. The IBG, then called the 'Informatiseringsbank', was part of the Ministry of Education, Science and Cultural Affairs until 1994. It had been internally autonomized since 1988. The IBG was formally separated from the Ministry in 1994, when it was turned into a so-called ZBO ('independent public agency'; see Appendix A). The IBG had been preparing itself for



external autonomization since 1989. The IBG was studied from the middle of 1990 until the middle of 1995.

***Reasons for and effects of autonomization.*** The 'Informatiseringsbank' was founded and internally autonomized in 1988, after a period in which the system of financial assistance for students posed serious problems for the Minister of Education at the time. The Minister was harshly criticized by the press and the Dutch Parliament, and almost had to resign. In 1989 a new Minister of Education took office. Until 1994 the Ministry and the professional top management of the Informatiseringsbank adhered to a contract which enabled the management to manage the organization according to its own views. A top manager of the IBG said:

Autonomization was greatly speeded up because of the system of student loans, which was a 'near disaster'. (...) Internal autonomization was an initiative of politicians who thought it was too risky to bear full responsibility for the system of student loans any longer (...). The external autonomization of the IBG was also an initiative of politicians. Initially, the [new] Minister of Education (...) [was] of the opinion that the IBG had to be privatized, probably because he believed that there were still certain [political] risks attached to system of student loans. (...) There were two phases in the autonomization process, as far as the authorities' reasoning was concerned. At first, they wanted to separate responsibilities, which actually meant getting rid of the political responsibility for student loans. Subsequently the professional management of the Ministry, in particular, reasoned that an autonomized IBG probably would be more [economically] efficient.

Political rationality and political efficiency were not explicitly mentioned by any interviewee nor in documents. One top professional manager of the Ministry observed that:

Because of a ZBO's legal status, the IBG has some independance, which makes it a more stimulating environment than a government agency. So the 'social psychological' aspect also plays a part. The employees and management of the IBG can now identify themselves with their 'own' organization.

During the research period, the IBG was engaged in very specialized activities for which great knowledge of the law and jurisprudence was required. The IBG used large databases and specific computer software. For a period of two or three years, it was in effect a monopolist. The top manager of the Ministry mentioned above said that the IBG actually had no competitors which could perform its tasks. She believed that, in retrospect, it would have sufficed to aim for a somewhat greater degree of internal autonomization. The top manager of the Ministry also made clear that the Ministry certainly did not want to loose control over the autonomized IBG and its production processes. Student loans had to be granted or refused fairly, for example, because unjust practices could easily attract the attention of the press.

The external autonomization of the IBG could have meant that the Ministry would be faced with an increase in 'market uncertainty'. However, the ties between the IBG and

the Ministry remained very strong. This situation could probably be called a monopoly. The Ministry was highly dependent on the IBG, which acted in accordance with the regulations concerning student loans and performed other activities. And the IBG remained highly dependent on the Ministry. The IBG's budget still had to be approved by the Ministry and approx. 95% of the IBG's expenses were paid by the Ministry. Moreover, according to the Act concerning the IBG's autonomization, the IBG was allowed to perform only a limited number of tasks for third parties. These tasks had to be 'public tasks' (Staatsblad, 1993, No. 714—Explanatory Memorandum, p. 14). There were therefore only a few ways in which the IBG could reduce its financial dependence or realize scale effects in production.

Most of the IBG's activities and outputs were relatively concrete and easy to measure. There were also comprehensive data on inputs, i.e. costs of the organization. The available data on outputs and in particular the quality of outputs were not complete. The outputs included numbers of student loans, numbers of examination candidates, etc. However, the available data indicated that the IBG's outputs decreased slightly during the period 1989–1994. The decline in total costs (on a real basis) seemed to be somewhat smaller. It could therefore be concluded that the IBG's internal economic efficiency did not increase during the research period, when the IBG went through a process of internal and external autonomization. Its efficiency may even have decreased during this period.

## 6.2. *Municipality of Haarlemmermeer*

Haarlemmermeer is a fast growing municipality with, in 2000, approx. 110,000 inhabitants. At the end of 1995, the municipal organization employed approx. 850 staff (fte's). The costs of permanent staff amounted to NLG 73 million (€ 31 million). The municipality's total expenses over 1995 amounted to approx. NLG 430 million (€ 195 million). At Haarlemmermeer, case research was conducted at three parts of the municipality: the Public Works and Environment division (PWE), the Management of Public Areas subdivision (MPA), and the Public Library (PL).

The municipal organization at Haarlemmermeer was completely reorganized in 1991. In addition, a new financial management system was introduced in January 1991. The formal purpose of the reorganization was to create one organizational unit which would be engaged in policy-making and the implementation of policies. These activities used to be performed by different units. The 1991 reorganization was followed by a 'reorientation' in 1992. In future, the municipal organization would only perform 'core activities', whereas 'non-core activities' would be outsourced or left to the market.

Policy notes and other formal documents on the 1991 reorganization did not indicate a striving for more internal economic efficiency. Neither did the documents on the 1992 reorientation, which was an initiative of a new city manager and other top professional managers. Political efficiency was not explicitly mentioned either. The only formal purpose of the reorientation was to make municipal politicians concentrate on policy-making and political decision-making. They were supposed not to be directly engaged in the performance of tasks once they had taken policy decisions. A few years later, however, a formal

report stated that one of the 'hidden aims' of the 1991 reorganization was to increase internal economic efficiency. This objective was added to the aims shortly after the start of the 'core activities project' in 1992, when the financial situation of the municipality had seriously deteriorated.

***Reasons for and effects of the autonomization of PWE.*** For a considerable time after the general reorganization in 1991, the governance and control of the municipal organization were not up to the mark. A lot of professional managers and other employees were not properly prepared for their new tasks, which often had not been clearly defined. A professional top manager who joined the organization in the autumn of 1991 observed that:

In fact, they lacked insight into the financial situation of the municipality. (...) In addition, the political governance of the municipality was rather weak. (...) One of the problems was that the municipal council occupied itself with all kinds of details concerning the performance of tasks (...) The position of the politicians was also weakened because a few aldermen were forced to resign.

In 1991, PWE (350 fte's) was autonomized internally. PWE was engaged in activities such as collecting garbage, dispensing building and environmental licences, and developing plans for the creation and upkeep of parks, roads and canals, and to a certain extent in actual maintenance tasks. In 1995, the total costs of PWE's administrative system were almost NLG 35 million (approx. € 16 million). The main effect of the internal autonomization of PWE was that the head of this division was freer to decide how tasks should be performed and how funds should be spent within the limits of the approved yearly budget. PWE was studied from 1990 until the beginning of 1996.

The internal autonomization of PWE in 1991 had hardly any effect on aspects such as market uncertainty or scale. PWE continued performing the same activities within the municipal organization. The only scale effect, a negative one, was caused by the decentralization of financial-administrative tasks. They were transferred from the central municipal level to PWE and the subunits within PWE. As for an increase in efficiency, this aim was not one of the formal purposes of PWE's internal autonomization. However, in reality it was a 'hidden aim'.

In 1991, PWE's control problems seemed to be even more serious than those of the whole municipal organization at Haarlemmermeer. However, PWE already had these problems before 1991. The top manager mentioned above said:

PWE has had a lot of serious problems in recent years. (...) Financial management was very chaotic, even simple accounts were a mess. (...) [Most people] seemed to do what they thought had to be done. (...) Internally, the organization was very traditional and hierarchical. (...) In general, they had a negative attitude to politics and politicians' involvement in PWE' activities (...) Moreover, during a short period of time the position of general manager was held by various people and PWE also had a rather high turnover of other managers.



According to an interim top manager of PWE, PWE did not conclude any agreements on target performances and it drew up hardly any management reports. The management was hardly aware of the depletion of certain project budgets and had very inadequate information about budgeted and realized outputs, e.g. road maintenance. Although not much information on production standards, outputs and internal economic efficiency was available, the interim manager said:

Obviously, PWE's production standards are substantially lower than those used by private companies. (...) And its overhead costs are relatively high compared with those of similar organizations.

PWE was largely engaged in non-specific activities, such as collecting garbage, maintenance of roads and parks, and control of parking meters. Other municipalities or private companies could relatively easily take over the non-specific activities at short notice. Several activities, such as maintenance of roads and parks, were actually already performed by private companies. The parent organization of PWE was therefore faced with low market uncertainty. The external autonomization of a part of PWE, i.e. MPA, was being prepared during the research period.

PWE also had more specific tasks, such as granting building licences and developing plans for road-building. However, third parties could have taken over these activities within one or two years. Engineers from external organizations, including profit organizations, and town planners were for example already preparing town expansion plans. Yet PWE did not consider the possibility that the part of PWE engaged in these activities could be externally autonomized. Professional top managers and politicians wanted to keep direct control on these processes, which were considered as politically sensitive core activities of the municipality.

The costs of PWE increased substantially between 1991 and 1995, but PWE did not prepare any formal reports on budgeted and realized outputs. Only some quantitative data about performances was available. However, the interviews with PWE's employees yielded qualitative and subjective information. According to their probably widely shared opinions and the very incomplete data, PWE's internal economic efficiency decreased after 1991. It was not possible to prove this assumption with sufficient facts.

***Reasons for and effects of the autonomization of MPA.*** MPA (75 fte's) was a subdivision of PWE which was to be externally autonomized. MPA was mainly engaged in the maintenance of roads and streets, public gardens and traffic lights, i.e. mainly small-scale activities. Approx. 80% of the maintenance activities, i.e. mostly large-scale jobs, were contracted out to private enterprises. In 1995 the budget for MPA's activities, a part of PWE's budget, amounted to approx. NLG 8 million (€ 3.6 million). The external autonomization of MPA had not yet been finalized during the research period. MPA was to become the property of two private contractors and, for the time being, the municipality. MPA was to be supported by the municipality for a few years, but eventually it would have to become self-supporting.

An interim manager of PWE who had worked for other parts of the municipality of Haarlemmermeer emphasized that MPA and PWE had not been functioning well for several years, especially since 1991:

Since 1991 PWE has had a bad reputation within the municipal organization. (...) There is a lack of cooperation between the professional managers of PWE, most of whom are only interested in their own subunit. (...) An alderman was even forced to resign because of the poor state of affairs within PWE and large deficits that had not been foreseen. (...) The situation at MPA is even worse, [compared with the rest of PWE]. (...) Information about performances and efficiency is not available. (...) Most employees are not highly motivated, which leads to low production levels and high rates of absenteeism. Most employees are not in favour of external autonomization at all. (...) Their resistance to external autonomization is also a consequence of the very slow pace at which autonomization has been prepared and poor communication with the employees.

The formal reason for the external autonomization of MPA was the municipality's wish to concentrate on 'core activities' and to be less engaged in 'production activities'. However, some of the managers interviewed indicated that the external autonomization of MPA was necessary because MPA was not functioning well. This fact had caused serious political problems. In the past politicians did not want to give up control of MPA's relatively costly activities, because it enabled them to show their 'political strength' if citizens complained about, for example, 'loose paving stones'. However, perhaps this was no longer a sensible policy now that MPA did not function satisfactorily anymore and caused political problems. Moreover, the municipality's financial prospects had deteriorated.

MPA was largely engaged in non-specific activities and it had contracted out several of its activities to private companies. The parent organization was therefore faced with relatively low market uncertainty. The external autonomization of MPA could result in scale effects, because MPA would be allowed to cooperate with other organizations and to work for third parties. After serious delays, the external autonomization of MPA was realized in 1998.

***Reasons for and effects of the autonomization of PL.*** The public library was mainly engaged in lending books to the inhabitants of the municipality. PL (45 fte's) was autonomized externally in 1995, when its structural budget was NLG 5.1 million (€ 2.3 million). PL was studied from the middle of 1993 until the middle of 1996.

After discussing its 'core activities', the municipality decided that it had a responsibility to provide its inhabitants with the public library's services and that it did not need to perform this task itself. However, a working group of civil servants actually preferred internal autonomization of the public library. They thought that the public library would remain largely dependent on municipal subsidies and that it would maintain strong ties to the municipality. The municipal control of the library would largely be maintained. Internal autonomization would enable the municipal organization to continue to perform such tasks as financial and personnel management and salary accounts. No scale advantages would be lost.

However, the working group mentioned external autonomization as one of several solutions, because its members realized that the professional top managers strongly preferred external autonomization. According to a manager of the public library who was also a member of the working group, the city manager in particular preferred the municipal organization not to be closely involved in the public library's tasks in the future, be it only to show that the withdrawal to core activities had to be taken serious. The manager of the public library concluded that the top professional managers were in favour of external autonomization.

PL was engaged in fairly specific activities which could also be provided by other organizations, e.g. the Central Provincial Library. However, that was not a short-term solution for a relatively large municipality like Haarlemmermeer. In addition, PL still maintained strong ties to the municipal organization after it had been formally externally autonomized. The municipality still paid approx. 87% of PL's expenses. Moreover, the municipality and PL intended to conclude detailed agreements in the future. The municipality therefore was not faced with an increase in market uncertainty.

Many of the public library's activities and outputs could be measured fairly well. Before 1979 this information was included in its annual reports because, as a manager of the public library said, it was then a 'really independent' foundation. From 1979 until 1994, PL was part of the municipal organization, which showed only little political and managerial interest in the public library. In fact, PL functioned as a more or less autonomous entity. Apart from agreements on financial budgets, the municipality and PL drew up hardly any formal agreements and reports on performances. Because only a limited amount of data on performances was recorded and PL had been autonomized for only a short period, it was not possible to draw conclusions on the development of the public library's efficiency.

### 6.3. *Province of Groningen*

The administration of the province of Groningen in the north-east of the Netherlands, with approx. 560,000 inhabitants in 2000, employed approx. 900 staff (fte's) at the end of 1995. The total expenses of the provincial organization over 1995 were approx. NLG 545 million (€ 247 million). In Groningen, two organizational units were examined, i.e. two separate cases were studied.

The provincial organization was reorganized in 1990. The formal purpose of the reorganization was to strengthen the political governance and control of the organization. After a long period of political conflicts, some professional top managers and other civil servants tended to 'go their own way' too much. Politicians wanted to strengthen their control of certain parts of the organization. There were no explicit references to political rationality and political efficiency. Like the municipality of Haarlemmermeer, the Province decided to combine such activities as the development and implementation of policies into one organizational unit. It meant that the professional top managers of the other organizational units would be freer to decide how tasks should be performed and how such matters as financial and personnel management should be dealt with. However, politicians wanted to retain their influence over the organization and its processes and the development and implementation of policies.

Although a striving for an increase in internal economic efficiency was not formally mentioned during the preparations for the reorganization, it was one of the 'hidden aims' in Groningen too. Another 'hidden' purpose of the reorganization was the dismantling of the organizational unit responsible for the provincial infrastructure. In 1989 approx. 650 of the 1,100 provincial employees (fte's) worked in this unit. The management of the unit had obtained a powerful and relatively independent position and the unit produced a few political bombshells. A top professional manager of the province of Groningen said during an interview:

One of the important underlying reasons [for the reorganization] was the fact that politicians thought that they had insufficient grip on the 'provincial infrastructure unit'. They feared that [the existing organizational model] would prevent a reduction in the number of employees in the 'provincial infrastructure unit'. (...) In fact, a striving for more efficiency already played an important role in 1989 and 1990.

During the 1990 reorganization, such activities as the development and implementation of policies were combined into one organizational unit. Furthermore, the unit responsible for the provincial infrastructure was divided into smaller units.

***Reasons for and effects of the autonomization of MRW.*** The first organization to be studied was the Maintenance of Roads and Waterways division (MRW), which employed 315 fte's by the end of 1995. Its main task was the maintenance of provincial roads and provincial and national canals in the province of Groningen. MRW was autonomized internally in 1990. In 1995, the costs of PWE's administrative system amounted to approx. NLG 24 million (€ 11 million). PWE was studied from 1989/1990 until the autumn of 1996.

MRW used to be part of the unit responsible for the provincial infrastructure which was divided into smaller units during the reorganization in 1990. Although politicians wanted to get a firmer grip on most provincial activities, MRW was autonomized to some extent. The maintenance of the existing infrastructure was seen as an activity which was hardly politically sensitive and interesting. MRW was given a certain amount of freedom with respect to its activities, processes, budget, and other aspects of financial management. The politicians hoped that this would result in more internal economic efficiency. A top professional manager of MRW believed that 'the members of the Provincial Executive no longer wanted to occupy themselves with [such matters as] requests for additional money for [maintenance] projects or proposals to transfer budgets from one project to another'.

MRW mostly performed activities with low specificity, such as the maintenance of roads, roadsides, and sheetpilings alongside canals. A lot of profit organizations were able to perform these activities. In fact, private companies already performed many of these activities. More than 55% of MRW's budget was spent on contracts with external companies. However, a provincial top manager indicated that further outsourcing of these activities was not really being considered. The Province wanted to perform a certain number of tasks itself, as the size of the provincial organization could be regarded as an indicator of its relevance. Moreover, internal research had shown that the outsourcing of certain tasks would not result in savings.

The provincial organization was not faced with a loss of control or an increase in market uncertainty as a result of the internal autonomization of MRW. MRW was still part of the provincial organization and it still mostly performed tasks for the Province. It also performed tasks on which the Provincial Executive and the central government had agreed, e.g. the maintenance of parts of certain national canals. The autonomization of MRW therefore did not result in a change in the scale of MRW's activities.

Most of MRW's activities and outputs were very concrete and relatively easy to measure. A considerable amount of data on outputs was available, but it was not complete. The data

did not include information about output quality. The available information suggests that production levels remained unchanged or decreased slightly during the period 1990–1995. The administrative costs of MRW remained the same during that period. It could therefore be concluded that MRW's internal economic efficiency decreased somewhat during the period 1990–1995.

In 1994, an external consultant reported that MRW paid little attention to cost-consciousness, production and 'businesslike' working methods. An evaluative study indicated that the 1990 reorganization had not been sufficiently effective, as far as efficiency and 'businesslike attitude and culture' were concerned. For these reasons and because all Dutch provinces decided to concentrate on 'core activities', another reorganization took place in the spring of 1996 (see figure 1). This reorganization, which will not be discussed further, resulted in a small increase in the degree of internal autonomization of MRW. Apart from that, the reorganization had very few consequences for MRW and the other division studied in Groningen, the Waste Water Treatment and Inspection of Quality of Public Water Areas division (WWT).

***Reasons for and effects of the autonomization of WWT.*** The main activity of WWT, which employed 125 fte's by the end of 1995, was the treatment of waste water from households and companies in the province of Groningen. Other relatively important activities were the testing of the quality of water produced by waste water treatment plants and companies, and the testing of the quality of public water areas.

WWT went through an autonomization process in 1989, when major reforms were introduced. The process resulted in extensive internal autonomization. WWT was not affected by the reorganization of the province of Groningen in 1990. In 1995, the costs of WWT's administrative system were approx. NLG 21 million (€ 9.4 million). The remaining costs, including plant depreciation and the costs of handling sludge, amounted to approx. NLG 38 million (€ 17 million) in 1995. WWT was studied from the beginning of 1989 until the middle of 1996.

When WWT was formally established in 1989, waste water treatment posed serious problems, also politically. In the early 1980s, deficits of several tens of millions of guilders were created, although the residents of the province of Groningen had to pay a relatively high waste water treatment tax ('surface water pollution tax'). One of the possible reasons for the huge problems was the fact that waste water treatment and related activities, such as collecting the surface water pollution tax, were carried out by three different subunits of the provincial organization. The management of waste water treatment improved gradually and internal economic efficiency increased after the mid-eighties. In 1987, initiatives were taken to combine the three subunits into one internally autonomized unit for waste water treatment. This unit was to carry out waste water treatment and related tasks in a more flexible and efficient way. Politicians' interest in waste water treatment diminished when the deficits disappeared gradually and the surface water pollution tax became comparable to that in other provinces.

WWT was engaged in specific activities and made specific investments, e.g. in pipelines and waste water treatment plants. A few companies also owned waste water treatment plants, but only because they produced pollutants. There were no market or non-profit organizations



which offered waste water treatment services. WWT was in effect a monopolist, as far as the treatment of waste water from households was concerned. It would take other organizations three or four years before they would be able to treat waste water. WWT financed its activities by the taxes which it was allowed to collect.

For the province of Groningen, the internal autonomization of WWT did not mean a real loss of control or an increase in market uncertainty. WWT was still part of the provincial organization and could not offer its 'waste water treatment services' to other clients in a market for services of that sort. The internal autonomization of WWT did not result in any scale effects, because the province of Groningen remained the only geographical area where WWT was engaged in waste water treatment. As far as overhead costs were concerned, some scale advantages may have been realized by combining the three subunits into one unit and by the internal autonomization of WWT.

WWT's activities and outputs were highly measurable. Right from the start in 1989, the governance of WWT entailed the use of well-defined management contracts, including many clear performance indicators. WWT's actual performances were incorporated in management reports and annual reports. A considerable amount of data on WWT's performances, including output quality, was available, although the data were not complete. According to the available data, production increased considerably during the period 1989–1995. The expenses of the organization also rose substantially in this period. The available data suggest that WWT's internal economic efficiency increased slightly.

## 7. Comparison of research questions and case findings/discussion

The specificity of many of IBG's activities, knowledge and products was very high (research question 1). Politicians probably still valued IBG's activities and products, but they did not rate political responsibility for IBG highly (research questions 1 and 4). On the other hand, politicians still wanted to be able to have almost complete control over IBG and its processes, and IBG was hardly allowed to realize scale effects by working for external clients (research question 2). The concreteness and measurability of most of IBG's outputs was relatively high. IBG faced a very low degree of external competition. The relationship between the Ministry and IBG could be regarded as a monopsony, although IBG was formally externally autonomized because of the political wish to decrease political responsibility for its activities (research question 3). From a political point of view, IBG's activities were highly risky. The political wish to limit responsibility for IBG could therefore be considered to be politically rational, although probably also opportunistic (research questions 4 and 5). The autonomization of IBG did not result in an increase in its internal economic efficiency. It seems that politicians and professional managers were not really interested in IBG's economic efficiency. It was not possible to assess the effect of IBG's autonomization on its political efficiency. However, it seems that political reasons played a very important part in the decision to autonomize IBG (internally and later on externally) (research question 5).

In the case of PWE, the specificity of many activities and products, and market uncertainty were low (research questions 1 and 3). As PWE was only internally autonomized, no scale effects could be realized by means of a strong increase in the amount of work done for external clients. Although an increase in internal economic efficiency was reportedly



a hidden aim to be achieved through PWE's autonomization (research question 2), no increase in internal economic efficiency was realized. It seems that the organization and politicians were not really interested in internal economic efficiency, probably because the organization's economic performances were still considered to be satisfactory (research questions 4 and 5). PWE was autonomized internally rather than externally, because the politicians actually wanted to have direct control over some of PWE's processes which they found highly interesting and sensitive from a political point of view. They wanted to control such processes as granting licences and developing town expansion plans (research questions 1, 2 and 4). It was not possible to judge the effect of the internal autonomization of PWE on its political efficiency. However, political rationality may have played an important part in the decision to autonomize PWE internally. It seems that the political wish to have direct control over PWE was more important than an increase in economic efficiency which probably could have been achieved by autonomizing PWE externally (research questions 4 and 5).

The activities and products of MPA were highly measurable and not really specific (research questions 1 and 3). Politicians had lost interest in MPA's activities and no longer wanted to be responsible for the activities, because they considered them to be very costly and politically risky (research questions 1 and 4). MPA's performances were not satisfactory anymore. Political rationality, or opportunism, apparently played an important part in the decision to autonomize MPA externally. As regards MPA's activities, the municipality faced a low degree of market uncertainty (research question 3). External autonomization would make it possible to achieve scale effects which could increase MPA's internal economic efficiency (research questions 2 and 5). It was not possible to determine the effect of the external autonomization of MPA on its political efficiency. However, it seems that, apart from MPA's inefficiency, a lack of political will to bear responsibility for MPA any longer was the main reason for the external autonomization of MPA (research questions 4 and 5).

PL's activities and products were fairly specific. However, it seems that politicians and some top professional managers were not really interested in its activities. They probably thought that they acted in a politically rational manner when they allowed the external autonomization of activities which they found not very interesting from a political point of view. After all, PL's autonomization was an indication that the municipality was limiting itself to core activities (research questions 1 and 4). The external autonomization of PL hardly resulted in any positive scale effects (research question 2). Moreover, the external autonomization was not formally intended to result in an increase in PL's internal economic efficiency (research question 5). Since the municipality still exerted control over PL after the external autonomization of PL, the municipality hardly faced an increase in market uncertainty (research questions 2 and 3). It was not possible to assess the effect of PL's external autonomization on its political efficiency (research question 5). However, it seems that the lack of interest in PL on the part of the politicians and top professional managers was the main reason for the external autonomization of PL (research question 4).

Most of MRW's activities and products were highly measurable and not really specific (research questions 1 and 3). Although politicians were probably not really interested in MRW, they wanted to maintain direct control over MRW's activities, particularly because MRW had always been part of an 'independent island' within the provincial organization (research questions 1 and 2). External autonomization was not really an option, because

it would reduce the size of the provincial organization too much. It seems that political rationality, or opportunism, was an important reason for the internal autonomization of MRW (research question 4). MRW's autonomization did not result in an increase in market uncertainty for the provincial organization (research question 3). One of the formal aims of the internal autonomization of MRW was an increase in MRW's internal economic efficiency (research question 5). However, it seems that its economic efficiency did not increase at all, which was probably partly due to the fact that scale effects could hardly be achieved through internal autonomization (research questions 2 and 5). Although it was not possible to measure MRW's political efficiency, it seems that MRW was autonomized only internally mainly for political reasons (research questions 4 and 5).

Most of WWT's activities and products were highly specific (research question 1). After the very high costs of waste water treatment were reduced, i.e. some big (political) problems were solved, political interest in WWT's activities gradually diminished (research questions 1 and 4). Politicians were probably formally interested in a further increase in WWT's internal economic efficiency, but WWT could not achieve scale effects as it was only internally autonomized (research questions 2 and 5). In fact, after the problems mentioned above had been solved, WWT's economic efficiency was considered to be satisfactory (research question 4). Most of WWT's activities and outputs were highly measurable and the provincial organization was not confronted with an increase in market uncertainty (research question 3). The effect of WWT's internal autonomization on its political efficiency is unknown. However, it seems that the main reasons for the internal autonomization of WWT were the following: a formal wish to achieve a further increase in WWT's internal economic efficiency, little political interest in WWT, and a political wish to control WWT in order to avoid new political risks (research questions 2, 4 and 5).

On the whole, the research into the six organizations suggests that specificity of assets, knowledge, activities, and products plays some part in the political decision to choose a particular form of autonomization for an organization. The same is true for frequency/scale of activities, measurability of activities and outputs, and market uncertainty. These transaction characteristics were assessed not only from an economic point of view, but also, in line with the discussions of these concepts in Section 4, from a political point of view. This involved finding 'political reasons' for a particular form of autonomization, such as political interest in certain activities or the political wish to control certain processes. In most cases, the main reasons for autonomization were probably political reasons relating to political rationality and political efficiency. MPA, for example, could be so inefficient and incur such high (financial) costs that citizens, the press, and politicians no longer thought that it performed satisfactorily. MPA had become a 'political risk'.

It was not possible to measure political transaction costs, political rationality and political efficiency. However, the clear, or less clear, arguments which played a part in the autonomization processes of the organizations studied strongly suggest that the decisions to autonomize internally or externally were also taken for such reasons as less political interest in certain activities, the wish to limit responsibility for certain risky activities and the wish to exert control over certain activities. Perhaps these reasons were due to new developments in the organizations involved, developments and trends in society, the press and among voters, or the necessity to make compromises. Politically speaking, these could be regarded as

rational reasons for autonomization, which will probably result in lower political transaction costs and an increase in political efficiency, now or in the future.<sup>21</sup>

It is undeniable, however, that some voters could regard the above reasons for autonomization as opportunistic, because in their view they represent (undesirable) changes in politicians' behaviour and promises. Other opportunistic reasons for autonomization include reasons which are nothing to do with the organization involved, e.g. rivalry between politicians within a political party. However, even if some people regard certain forms of behaviour as opportunistic, implicitly or explicitly politicians may still consider these forms of behaviour to be politically efficient in the short and/or long run.

## 8. Conclusion

Dutch politicians have often mentioned a striving for more economic efficiency as an important formal reason for the autonomization of government organizations. In interviews with official managers of the six autonomized Dutch government organizations presented in this paper and in policy documents of these organizations, an increase in internal economic efficiency was also regarded as an important reason for autonomization. At first sight, this seems to suggest that the governance and autonomization of public organizations could to a large extent be explained by economic reasons and arguments from transaction cost economics (TCE). As a matter of fact, Williamson himself suggests that TCE, which was developed primarily for profit organizations, can be applied to public organizations.

However, there are several differences between profit organizations and government organizations. They differ in such aspects as multiplicity of goals, measurability of outputs and the role of financial profits. In addition, it is highly uncertain whether economic efficiency is the prime aspect on which citizens—who are voters in elections—assess government organizations and the politicians responsible for the organizations. For these and other reasons, politicians responsible for the governance and structures of government organizations, might be more interested in political rationality, political transaction costs, and political efficiency, than in economic efficiency.

To reflect the goals and circumstances of the politically governed public sector, the main concepts of TCE have been adapted in this paper and combined into a rudimentary political transaction cost (PTC) framework which could be used to explain the autonomization of government organizations. Five research questions concerning the autonomization of government organizations have been developed on the basis of some of the main elements of the framework. The research questions have been compared with the findings of case research into the autonomization of six Dutch government organizations.

TCE deals with specificity, frequency/scale, uncertainty, bounded rationality/opportunism, and economic efficiency in a coherent manner. The PTC framework should probably be operationalized further and developed into a more coherent whole. In this paper, the research questions 1–5 focus on political efficiency and the concepts of specificity, frequency/scale, uncertainty and bounded rationality/opportunism in a political environment. The findings of the exploratory case research presented in Section 6 indicate that various political reasons played a major part in the autonomization of public organizations. It seems that the concepts which, in this paper, are assumed to be aspects of politicians'

behaviour, i.e. opportunism, bounded rationality, political rationality and the striving for political efficiency, substantially contribute to understanding the decision to internally or externally autonomize an organization.

TCE's assumptions about human behaviour are not very distinctive. However, in the governmental organizations studied, bounded rationality and opportunism—which are related to political rationality and political efficiency—appeared to be some of the important characteristics of the politicians and professional top managers involved. When we suppose that politicians behave (bounded) rational, opportunism could also be regarded as an implicit or explicit effort of a politician to limit his future transaction costs with respect to, for example, voters and other political parties. The politician might suppose that by acting the way he did, the future efforts and other costs of attracting voters and compromising with other political parties will be relatively low.

Although the concreteness and measurability of most outputs of the organizations studied were relatively high, it was difficult to determine the effect of the organizations' autonomization on their internal economic efficiency (see also Pollitt, Birchall and Putman, 1999, pp. 53–55). This was partly due to the fact that autonomization hardly made the organizations more interested in their outputs and internal economic efficiency, as could be deduced from the limited amount of data on activities and outputs which was available in five of the six organizations (cf. ter Bogt, 2001, pp. 631–635).

It seems that the findings of the case research hardly support the strictly economic reasonings in TCE. The transaction characteristics specificity, frequency/scale, and uncertainty may have played a role in the six cases of autonomization, but they have to be combined with other aspects. These other aspects include bounded rationality, opportunism, political rationality, and also such aspects as political interest in certain activities, and the wish to control certain processes. They are all part of the political transaction cost framework presented in Section 4.

The explorative research presented in this paper suggests that there is some empirical support for the PTC framework. However, definitive conclusions cannot be drawn until the organizations have been studied for a longer period of time. After all, it takes a while before organizational changes have translated into increases in economic efficiency, especially if organizations are not under pressure from competitors and their future is not exactly at risk (see also Shields and Young, 1989; Gosselin, 1997, pp. 107–108 and 117; Burns and Scapens, 2000; Alt, 2000; ter Bogt and van Helden, 2000).

It is also not very clear yet which specific forms of internal or external autonomization will result from various political considerations. When politicians no longer have any interest in an organization's activities or when they (have to) relinquish control over an organization, an obvious solution would be to opt for contracting out/privatization or relinquishing activities. However, five of the six organizations studied were hybrid organizations, which are common in the Dutch public sector. Only MPA was to become a 'real' market organization. The organizational structures of hybrid organizations are perhaps more difficult to explain than those of the organizations at either end of the autonomy spectrum, i.e. centrally governed organizations and market organizations. Further, the PTC framework focuses on political efficiency, which is a concept with low operationality. Moreover, a lot of government organizations have a multiplicity of goals and have to work in complex environments.

For these reasons the PTC framework lacks the relative straightforwardness and clarity of TCE.

In order to fully understand economic activity and its institutional forms, it will be necessary to further investigate how that activity is embedded in other social relations and institutions. The research findings in this paper, too, suggest that political institutions and the governance structures of government organizations are not only influenced by transaction characteristics, but also by, for example, behavioural, information and agency aspects, and the division of property rights. Social, institutional, legal, and political settings also seem to play a major part in the governance of public organizations and a decision to autonomize a government organization and they partly determine the effects of an autonomization. Further broad-based research into (autonomized) government organizations might shed more light on the rudimentary PTC framework presented in this paper. In addition to yielding insights into the amount of empirical support, the research might ultimately result in changes and improvements to the PTC framework.

#### **Appendix A: The ‘autonomy spectrum’: Forms of autonomization in the Netherlands**

The following eight forms of autonomization of government organizations can be distinguished in the Netherlands:

1. Central governance; hardly any or no decentralization (referred to as 1 in Tables 1 and 2);
2. Division with a limited degree of decentralized control of inputs (‘zelfbeheer’; referred to as 2);
3. Division with a limited degree of decentralized control of inputs, some freedom with respect to ways of achieving outputs and more or less clear agreements on activities/outputs to be achieved (‘contract management’);
4. Division run like a business entity, with considerable freedom with respect to the use of inputs and ways of performing tasks; similar to the ‘next step agency’ in Great Britain (‘agentschap’ on a national level or forms like ‘tak van dienst/bedrijf’ on a provincial or local level);
5. Organization run like a business, with complete freedom with respect to the use of inputs and ways of performing tasks, and some freedom with respect to tasks to be performed and outputs to be achieved, apart from performances agreed with its former parent organization; ‘independent public agency’ (‘Zelfstandig Bestuursorgaan’ (ZBO) on a national level or comparable forms);
6. Public limited liability company; business organization owned and governed (more or less at a distance) by one or more government organizations; usually performing some well-defined public tasks;
7. Contracting out/privatization; activities are conducted by private organizations, but the government organization is still engaged in the activities as a principal, i.e. the government organization commissions the tasks to be performed and probably finances them at least partially;
8. Relinquishing; no longer any special governmental involvement with activities.

In the last case, certain tasks are left completely to the market.



Central governance is followed by three forms of internal autonomization. The last four forms mentioned are instances of external autonomization. Together the eight forms distinguished above form the ‘autonomy spectrum’. On the one hand, the spectrum represents the complexity of actual forms of governance because more than two or three forms of governance are distinguished, i.e. more than internal governance and ‘privatization’). However, on the other hand, the many existing forms of governance are divided into only eight main forms (ter Bogt, 1997, p. 40; 1999, p. 332; see also Commissie-Sint, 1995, pp. 7–12 and Appendix 1).

The autonomy spectrum is a ‘flowing’ scale. The boundaries between the different forms are not delineated clearly. This is partly due to the fact that autonomization is not a one-dimensional concept. Factors from different lines of approach can play a role in autonomization, e.g. legal, public administrative, financial, economic, organizational and political factors. Organizations do not necessarily have the same degree of autonomy in every aspect of governance.

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### Notes

1. For the sake of completeness, it should be noted that since 1995 there has also been a tendency in the Netherlands—especially among politicians at a central governmental level—to shift the formal focus from ‘managerialism’ and efficiency to the ‘primacy of elected politicians’ (see also Verhaak, 1997, pp. 168–171; Kickert, 1997, pp. 737–742). This may, to a certain extent, have influenced the recent autonomization of government organizations at a central level.
2. A governance structure is a combination of methods, techniques, procedures, organizational forms, etc, which are needed to plan and to maintain control over certain activities or transactions (see also Williamson, 1979, p. 239).
3. See Simon, 1976, p. xxviii, and Williamson, 1985, p. 47, for bounded rationality and opportunism respectively. Bounded rationality and opportunism are a link between TCE (and information economics) and other parts of neoinstitutional economics, such as the agency theory and the economic theory of property rights (see e.g. McKean, 1974; Jensen and Meckling, 1976, pp. 305–310; Fama and Jensen, 1983, pp. 301–305; Arrow, 1984, pp. 136–152; Neelen, 1993, pp. 61–84).
4. Williamson:2000 Williamson does not mention the various kinds of efficiency which could be relevant to a government organization in the short and medium term, i.e. ‘economic efficiency’ and ‘political efficiency’. Political efficiency can be expressed as a ratio of the amount of ‘effort’ (including money and other production factors) made by politicians to the amount of electoral support gained by means of the politicians’ policies. Assuming that political parties and politicians in democracies make rational choices, they will probably try to maximize their electoral support with minimal ‘efforts’. Voters’ political support may not depend the economic efficiency of government organizations, but on other factors (see Wildavsky, 1966, pp. 308–309; Wilson, 1989, pp. 131–134; ter Bogt, 1997, p. 45; see also Frant, 1993, pp. 993–996; Horn, 1995, pp. 7–24; Aranson, 1998, pp. 750–751; Zafirovsky, 2000, pp. 26–27).
5. Williamson argues that power and ‘forgiveness’ play a role in every hierarchical organization (see e.g. Williamson, 1981, pp. 572–573; 1985, p. 148).



6. Williamson says that TCE is relevant to an explanation of changes in the governance structures of government organizations. He admits, however, that politically governed organizations cannot always be explained fully with the help of TCE (Williamson, 1996, pp. 212 and 322).
7. As regards the measurability of outputs, Williamson—inspired by Alchian/Demsetz and Ouchi—seems to state only that the governance of the production factor labour is also determined by the measurability of its performance (Williamson, 1981, pp. 564–566; 1985, pp. 244–248; see also Alchian and Demsetz, 1972; Ouchi, 1977, pp. 96–98).
8. It is often difficult to measure the outputs of public organizations. Various performances of public organizations, such as planning and coordinating activities or preparing policy notes, are not very concrete and homogeneous. They are therefore difficult to measure (see also Hofstede, 1981; Anthony and Young, 1994, pp. 55–61). Although profit figures are incomplete information and have their limitations (see e.g. Kaplan and Norton, 1992, pp. 71–79; Kaplan and Atkinson, 1998, pp. 442–453 and 499–509), profit could be regarded as an indirect measure of profit organizations' efficiency. Government organizations generally cannot use profit figures as an indirect efficiency measure.
9. More in general, Simon (1991, p. 27) observed: '... new institutional economics has not drawn heavily from the empirical work in organizations and decision-making for its auxiliary assumptions. ... Until that [empirical] research has been carried out (...), the new institutional economics and related approaches are acts of faith ...'.
10. Moe argues that it will be necessary to modify and develop TCE and the neoinstitutional theory in general if their application to public organizations is to be meaningful and instructive (Moe, 1984, p. 761; see also Moe, 1990, pp. 118–119; van Leerdam, 1999, pp. 113–127).
11. See also Monteverde and Teece (1982, p. 69), where they mention 'assembler-specific parts', and (Williamson, 1985, p. 87), footnote 14, where 'design and asset aspects' are linked with the 'efficient boundaries' problem (Williamson, 1991, p. 281), where 'brand name capital' is mentioned as a form of asset specificity, and (Colbert and Spicer 1995, pp. 426–428 and 447–448). As far as the specificity of products/activities is concerned, attention should be focused primarily on the availability of resources and products; not on the 'sunk cost' aspect. This aspect is important in the case of the specificity of assets and knowledge.
12. The opposite would be the case if an organization is confronted with diseconomies of scale.
13. However, most Dutch government organizations have not been allowed to conduct a substantial number of commercial activities since about 1999. Because of the risk of cross-subsidization and, as a consequence, distortion of the market, they are no longer allowed to sell outputs to external buyers (see also Commissie-Cohen, 1997). Moreover, it could be difficult to combine commercial activities of government organizations with an ideology to strengthen the position of market organizations or a striving by national or international governments, like the European Union, for more competition (cf. Rose and Miller, 1992, pp. 198–201).
14. Government organizations and politicians are probably more interested in outcomes, which are the effects of outputs. However, as outcomes of government organizations are often relatively difficult to measure, outputs are often considered a proxy for outcomes.
15. For example, a politician could be interested in opportunistic acts to increase his popularity within his political party and attract more votes in elections, but not interested in manipulating profit figures or stock prices to raise his financial bonus and the value of his stock options.
16. The intended direct effect of the autonomization of a part of a government organization could be an increase in the efficiency of the organization concerned and its parent organization (increase of *x*-efficiency), but the ultimate goal could be an increase in efficiency in society through an optimal allocation of resources (increase in allocative efficiency).
17. The political system in the Netherlands could be described as 'neo-corporatist' and consensus-minded (Koole and Daalder, 2002; see also Streeck and Schmitter, 1985, pp. 14–17; Peters, 1997, pp. 252–261). Government at a national and a local level usually involves members of at least three political parties. Because these coalitions often consist mainly of the parties around the centre, they usually result in relative stability and continuity with respect to political decision-making.
18. One could also take the more cynical view that politicians might intentionally choose a suboptimal solution to a problem. A politician could, for example, choose a rigid organizational structure which is perhaps only moderately efficient. However, if future politicians of other parties might want to change the organization, it has the 'advantage' of high political transaction costs (see also Twhight, 1994; Aranson, 1998, p. 749).

19. Not only the reasons for the autonomization of the three organizations, but also the factors which affected the autonomization processes, the effects of the autonomization processes, and the changes in the financial management of the three organizations were studied (for a report on this part of the research, see ter Bogt, 1999). I regularly visited each of the organizations during periods of between six and nine months. Three teams of two assistants helped to conduct research into changes in financial management. They were business administration students who had almost finished their studies. They worked, under my direction, with the IBG, Haarlemmermeer, and Groningen for about three months.
20. Section 6, in which the findings of the case research are presented, contains information on efficiency which relates to the internal economic efficiency of the autonomized organizations (i.e. x-efficiency, including internal aspects of transaction cost efficiency). There were only (some) data about internal economic efficiency available in the organizations involved. Political efficiency was not explicitly mentioned by any of the organizations, nor were there any explicit data about political efficiency available. Political efficiency (and political rationality) could therefore only be assessed indirectly, qualitatively and incompletely.
21. Even 'just' following a trend could be a form of rational behaviour, because in this way a politician might respond to the need to appear competent and legitimate and indicate that he responds to social influences and expectations (see Weick, 1977, pp. 277–290; Staw, 1990, p. 79). A politician who (implicitly) follows trends at the 'right' moment might be confronted with less need to account for his actions and/or meet less opposition than a politician who in this respect takes an 'independent' position.

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