Business Models and the Transfer of Businesslike Central Government Agencies

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At the same time as many researchers in public administration are suggesting the emergence of similar New Public Management (NPM) forms in Organization for Economic Co-operation and Development (OECD) countries, a substantial number of those working in comparative political economy are rediscovering differences between countries. This paper explores a key component of NPM—business-like central government agencies—in four countries: the UK, the U.S., Germany, and Japan. So far, the private sector side of the NPM story has largely been neglected. However, the business-like agency model as developed in the UK was influenced by the Anglo-American system of corporate governance. In comparative political economy, the Anglo-American system is seen as different from that in Germany or Japan. These differences are important for understanding transfer through emulation of the UK agency model by policy-makers in other countries. An apparent inconsistency may be developing, with governments using an NPM form based on an Anglo-American model of business that is far from universal in business itself.

In recent years, public administration has been dominated by debates about the “New Public Management” (NPM) (Hood 1991, 1994), “managerialism” (Pollitt 1993), “market-based administration” (Lan and Rosenbloom), “the hollowing out of the state” (Rhodes 1994; Saward) and “reinventing government” (Osborne and Gaebler). The particular features of these forms differ. However, taking the NPM definition as a starting point, they include: using contractors to deliver services rather than providing them directly; breaking up activities into corporate units with freedom to manage and targets for performance; creating incentives for good performance, including performance pay; and turning civil servants into managerial executives. NPM methods differ radically from traditional means of organizing the public sector. The intellectual origin of these ideas is mixed, but it is heavily influenced by ways of organizing private sector business (Hood 1994, 133–134; Pollitt 1993). The dominant view among researchers in public administration is that governments in many OECD countries have adopted NPM forms (Dunleavy; Minogue; Savoie; Zifcak). The surveys collated by OECD’s PUMA public sector group strengthen this impression of vigorous adoption (for example, see OECD 1995, 1998).

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However, at the same time that many of these scholars are noting the adoption of similar NPM models in different countries, one line of research in comparative political economy is rediscovering important differences between the private sectors of developed countries. In comparative political economy, postwar ideological conflict focused attention upon the contrasts between planning and the market and downplayed variations between markets. The collapse of communism and the apparent “global” triumph of capitalism provoked a new wave of research seeking to distinguish between different capitalist forms. Although slightly simplistic and polemical in style, Albert’s Capitalism against Capitalism stimulated a large number of studies offering analytical categories and commentaries upon growth, competitiveness and distribution (e.g., Berger and Dore; Crouch and Streeck; Hollingsworth and Boyer; Hutton). As part of this wider research, the diversity of corporate governance—the arrangements used by firms for making the production and sale of goods and services responsive to the beneficiaries of the firm—came to be a focus of research in the 1990s (e.g., Charkham; Kester; Turnbull).

The need for more comparative work exploring variety in the use of NPM tools has been suggested by authors who are skeptical of the dominant view that the spread of NPM forms is widespread. They argue for research which investigates how and why similar forms are institutionalized in different ways in different countries (Hood 1998; Lynn; Rhodes 1998). This article responds to and develops this suggestion by exploring the use of a key component of NPM, business-like agencies in central government. It traces the influence of private sector corporate governance on the agency model, drawing on the previously largely separate literature in comparative political economy. In so doing, it develops the insufficiently explored private sector influences on NPM.

The first section outlines how the version of the agency model that emerged in the UK was influenced by an Anglo-American form of big business corporate governance. Whilst the U.S. has a similar private sector system, Germany and Japan are usually identified as having very different arrangements (Albert; Charkham; Crouch and Streeck; Hollingsworth and Boyer; Hutton). The second section examines transfer through emulation of the UK agency model in the U.S., a country with some NPM features, and in Germany and Japan, countries normally thought of as NPM “laggards” (Hood 1996; James and Manning; Pollitt 1998; Rhodes 1998). The third section explores the implications of corporate governance for processes of policy-makers’ emulation of the agency model.

SECTION ONE: THE BUSINESS-LIKE AGENCY MODEL

The agency model defined in this section is derived from the “Next Steps” reform in UK central government. The agency model is not the only way governments have sought to emulate business (Savoie, 116–199). Similar
reforms have been used before and in other contexts. For example, New Zealand sought to separate policy tasks from executive tasks as part of a set of arguably more radical reforms in the 1980s (Boston, 163–166). However, the UK initiative offered a distinctive reform which had a major impact in that country’s central government system and which other countries have attempted to emulate, as discussed below in the second section of this paper.

The wave of agency creation in UK rose from the recommendations of a report published in 1988 entitled *Improving Management in Government: The Next Steps* (Efficiency Unit 1988). The report summarized the results of a review conducted by the Prime Minister’s Efficiency Unit of the organization and management of the UK civil service. The agency reform caught on, and by the end of 1998 there were 138 agencies in the UK employing 81 percent of all civil servants (Cabinet Office 1999).

Whilst there are many differences between individual agencies, the agency model consists of two core features (James 1995; 2000b). The first of these is the use of organizational units called agencies to handle distinct central government activities on behalf of ministries. Functions transferred to agencies have generally been executive tasks, including social security delivery, passport provision, vehicle licensing, and army support services. Agencies are not legally distinct from the departments that supervise them; the division of responsibility between the two is set out in the Framework Document. Agencies are given some freedoms in, for example, choice of pay and recruitment systems to enable them to focus on the task at hand.

The second core feature of the agency model is the creation of a “regulatory” framework for each agency. This consists of a designated chief executive, who is accountable for performance, and a framework of performance requirements—including a set of performance targets for the agency—which are determined by ministers. The chief executive is on limited term rather than permanent contract and is recruited through open competition among candidates drawn from the public or private sectors. While still a civil servant, the chief executive has his or her pay set according to the requirements of the post, has an element of personal responsibility for performance of the agency, and can be removed for poor performance. Agencies are supposed to be responsive to the supervising department and to the consumers of the goods and services that they produce. Sometimes agencies have boards containing outsiders—people with no direct interest in the agency—to advise the minister in this process.

Agencies have to prepare annual reports and business plans based in part on their performance targets and Framework Document. This aspect of the model, combined with a centrally produced annual review of all Next Steps agencies, gives agency performance a higher public profile than is the case for traditional civil service bodies.
This agency model is heavily influenced by an Anglo-American form of private-sector, big-business, corporate governance. Broadly defined, corporate governance includes legal systems, courts, corporate regulators, and a wide range of influences and controls on firms. However, it can be more narrowly defined as the accountability structures of large firms, comprising the relationship of senior management and chief executives with their boards of directors, shareholders, and other beneficiaries of the firm. There is no uniform model of business practice in any country; some firms may even have more in common with firms in other countries than with those in their own country. However, researchers in comparative corporate governance have identified dominant forms in various countries (Charkham; Kester; Turnbull).

The Anglo-American model reflects characteristics shared by the U.S. and the UK. Many large businesses in these countries use the multidivisional or M-form of organization (Hill and Pickering, 26; Mahoney, 49). In contrast to the holding company model, which consists of a group of largely distinct firms, the multidivisional firm is more closely knit, with organizational units organized by product, region, or technology under the responsibility of single managers, with a strong central office to co-ordinate the different units and sometimes decentralized transactions between units. The holding company model was in widespread use in the 19th century; the multidivisional firm model came later, during the years after World War I, especially in the U.S. Leading companies pioneering the model included Du Pont, Sears Roebuck, Standard Oil, and General Motors. The model then spread and became influential in many other countries, including the UK (Charkham).

In the Anglo-American model, the principal beneficiaries of firms are shareholders, who are primarily concerned with the profitability of the firm. Institutional investors own a large proportion of shares in both the U.S. and the UK. In the U.S., banks have been restricted by legislation from holding controlling blocks in companies not closely related to banking and thus are not major shareholders. In the UK, banks hold shares, but are concerned with profits rather than taking long-term equity stakes to cement their relationships with customers or to gain influence in firms’ internal management processes. A key feature of the Anglo-American multidivisional model is the design of systems to overcome the “agency” problem of delegating activities to distinct units and giving managers freedoms while at the same time ensuring that those managers work in the interests of the “principals” of the firm, the shareholders. The fear is that managers may use their freedoms to pursue a range of goals, such as market share or even a quiet life, which may not be in the interests of shareholders (Kester).

The role of the chief executive officer is intended to ensure that one individual takes overall responsibility for performance, acting as a clear conduit for shareholder concerns about performance. The chief executive leads the company, takes a dominant role in the board, and presents the
firm’s image to the outside world. In about three quarters of cases in the U.S. and one quarter in the UK, they are also the chair of the board. They are not usually employed for long periods by single firms; they often have six- to eight-year contracts, with high pay relative to others in the firm. A U.S. chief executive typically earns 109 times average base pay, whilst a British chief executive receives about 35 times average base pay (Charkham, 185). In part, these pay differentials reflect the risk of losing their jobs through poor performance. There is acute interest in the performance of chief executives and whether their pay is merited by company performance. Within the multidivisional firm, different units are set targets for performance in a few key areas, intended as proxies for profit, or—where possible—a profit target is set for each unit. Boards oversee management and select and dismiss senior executives, review company performance, and ensure compliance with the law. Boards usually comprise a mixture of “outsider”—in the UK, “nonexecutive”—members and “insider” senior executives, in part to check up on managers. Employee representation on the board is not required and not usually included (Charkham, 264–265, 279).

In both countries shareholders can, and sometimes do, vote to remove boards to protect their interests. Shareholders in the U.S. litigate against directors and firms through class actions. In the UK, individual shareholders have less recourse to the law. However, one characteristic of the Anglo-American system is shareholders’ willingness to sell shares to pursue profit. This feature means that the threat of takeover and replacement of incumbent management is real. The market for corporate control is a way of spurring on management, although on occasion it is less closely related to incumbent management’s performance than to financing possibilities or predatory firms’ ambitions (Charkham, 205–206).

This Anglo-American way of organizing private sector corporate governance influenced the development of the agency model in the UK. It was not the only source of ideas and practices for this model; the model also bears similarities to traditional ways of organizing the public sector. For example, the idea of putting executive work in separate units away from political concerns resembles the long-running idea in public administration—dating back at least to Woodrow Wilson in the late 19th century—that politics should be separated from administration (Wilson). However, big business ideas and practices, “transferred” by policymakers in the UK central state observing business ideas and practices and attempting to emulate them in the context of the public sector, were an important influence on the agency model’s development.

The model evidenced these emulation processes in the design of both organizational separation and regulation. The idea of an agency as a unit with management freedoms to handle a distinct activity was influenced by the view that large organizations needed to be split up into manageable chunks. This idea was influential in government prior to the 1988 Efficiency Unit Report. The 1968 Fulton Report into the Civil Service
suggested “hiving off” routine operational tasks to semi-autonomous units, and this form was put into practice in a few areas of the Civil Service in the 1970s. The thinking behind this change came in part from a study by management consultants with experience of working in large private firms, who fed their ideas into the Fulton Report (Saint-Martin, 336). This report was cited as an influence on the agency model in the 1988 Next Steps report (Efficiency Unit 1988). However, the 1988 report went much further, making the creation of agencies its main recommendation. In the process of reaching this conclusion, the report team looked at private bodies, including the Halifax Building Society and the ICI Fibres Division and also at a public corporation, British Rail (Efficiency Unit 1988, 35). ICI is a major company with a multidivisional structure; British Rail imported a similar model into the public sector in the 1980s by splitting its organization into separate business units. The head of the Efficiency Unit at the time of the 1988 report was Sir Robin Ibbs, who came from ICI and brought his experience there with him. The cabinet secretary and head of the civil service during the period of implementation of the reform drew explicit parallels between parts of the civil service and sections of firms like ICI (Butler).

The regulatory system arose from the “agency” problem of ensuring that managers of executive units used their management freedoms to improve performance, as well as from the more conventional but similar requirements of civil servants’ accountability to ministers. The use of chief executives reflected the private sector big business practice of hiring a strong individual to lead an organization, one held personally accountable for performance and selected as the “best” candidate regardless of public or private sector background (Richards). The pay of chief executives was more flexible than pay scales in the traditional civil service, reflecting the high risks and rewards for private sector chief executives. The influence of business thinking was noted in a semiofficial history of the reform, written by a member of the Next Steps project team, which stated that “many of the qualities and skills required, including proven management ability and business competence, are similar to those required of the head of a successful commercial business” (Goldsworthy, 28).

The creation of agency performance targets and monitoring reflected a concern with protecting the interests of the beneficiaries of the organization. In the private sector these are shareholders; in the agency model the analogous groups are taxpayers, service users, and their elected representatives, especially ministers, who have difficulties monitoring the bureaucracy. The semiofficial history referenced above remarked on the need to “re-orientate systems and attitudes to focus on the delivery of services and, flowing from this, on the needs of the recipients of those services— the customers—whether inside or outside government” (Goldsworthy, 6). The desire to achieve one main goal—profit—was transferred into achieving a few key targets, for fear anything more
complex would not be easily measurable. Target setting for agencies developed out of the Financial Management Initiative and the management information systems for ministers that were implemented in the early 1980s. These systems were intended to give ministers and senior managers better indicators of costs and performance than those which had existed previously. They were influenced in part by ministers with private sector management experience—for example, Michael Heseltine, who was instrumental in setting up the ministerial management information system. Whilst the FMI system suggested ministers could become managers, the agency model that developed from it incorporated arms-length control of agency units using information systems as part of regulatory structures for performance targeting and measurement. Management consultants who had private business experience with these sorts of systems were increasingly used in the implementation phase of the reform (Efficiency Unit 1994).

Despite its prominence in these UK developments, the Anglo-American model of business is far from universal. In Japan, industrial organization is based on corporate groupings, called the keiretsu system; holding companies were illegal for a time, and multidivisional firms are less evident than elsewhere (Gerlach, 63–102). The overall system of control in Japan is collegial, rather than being based on the individualistic model of chief executive responsibility outlined above. Firm boards have presidents, and there is often a chair of the board who has a more representative role in the organization, but sometimes these functions are fused. The president will often come from within, rather than being recruited from open competition, and will seek consensus. Unless there is a crisis, the president usually follows the same line as the previous president; there is less need to make a personal mark on the firm. Remuneration is not as unequal within the firm as in the Anglo-American model; the top manager will generally get 16 times average base pay. The tradition of long—even lifetime—appointments, with reputations and trust in management built up over many years, contrasts with the Anglo-American model (Kester, 112). Presidents are rarely removed for poor performance. Whilst there have been some moves towards more public responsibility in recent years, public displays of accountability, such as those that occurred in the recent economic crisis, are the exception rather than the rule. Boards operate in a variety of ways, but usually contain full time employees of the business itself, and there are few non-executive directors to check up on the insiders (Charkham, 87–90).

There are fewer shareholder companies in Japan, and trading in shares is low compared to that in the Anglo-American system. The banks and other firms in the keiretsu are the main source of capital, own shares, and are in long-term rather than short-term relationships with firms (Charkham, 99–100). Unlike the situation in the UK and the U.S., there is no real market for corporate takeovers, and the idea of hostile bids is an anathema. The main motive is growth and market share rather than
profit; shareholder dividends take a lower priority. Labor is incorporated in quasi-paternalist rather than fully participative structures, including company unions and lifetime employment, which present the company as a welfare community rather than a means of profit maximization (Gerlach, 221–245).

The German case contrasts with both the Japanese and the Anglo-American systems. In Germany, both holding companies and multidivisional firms are found, but specific aspects of them differ. The chief executive is usually less of a leading individual than in the UK or U.S. There is usually a board, or *vorstand*, which is collegial, and a chairman, sometimes called a “speaker” to reflect his or her role as first among equals rather than as a dominant chief executive, although in some bigger firms chief executive figures have emerged. The system is stakeholder-oriented, but the beneficiaries of the firm include employees and supplier firms as well as shareholders (Streeck, 144–156). All but the smallest firms establish works councils, which participate in decision-making and give employees information about the state of the firm. A supervisory board, containing employee and union representatives, ensures the competence of the *vorstand* and makes appointments to it (Charkham, 18–20). The system is focused not exclusively on profit but instead on the continuity of benefits to stakeholders. A consensus exists that firms should generally promote public welfare, a point mentioned in the German Constitution, suggesting that firms have broader responsibilities than making profits (Charkham, 10–11). Share price performance is not the overriding criterion for assessing performance, and neither institutional investors demanding short-term profits nor threat of takeover are prevalent. Banks are major shareholders. Despite recent changes, with banks selling their shareholdings and seeking better returns from the companies they still own, the general pattern remains a concern with continuity of business and growth.

These different approaches to corporate governance are summarized in Table 1. The organizational basis of the firm in Japan differs from the Anglo-American system, although the holding company and multidivisional firm models from that system are found in Germany. In the Anglo-American arrangements, the agency problem is seen as very significant in senior management systems. There is concern that shareholders may find it difficult to control management, the system focuses responsibility on a chief executive who can be removed for poor performance, and boards are less collegial than the German and Japanese cases. The Anglo-American system makes extensive use of nonexecutive directors to check up on managers. In contrast, the systems in Japan and Germany rely more on trust built up over a long period of employment. In terms of the beneficiaries of the firm, shareholders’ interest in short-term profitability is seen as dominant in the UK and U.S. In contrast, in Japan and Germany stakeholders include employees and supplier firms who
SECTION TWO: INTERNATIONAL TRANSFER BY EMULATION OF THE UK AGENCY MODEL

The term “policy transfer” has been used to describe a range of processes through which a policy idea or tool originating in one country or context is applied elsewhere (Dolowitz and Marsh). The related notion of “lesson-drawing” suggests that policy-makers seek to learn from the experiences of others (Rose). Transfer includes both “voluntary” and “coerced” adoption; lesson-drawing includes most observation of and reflection on other countries’ experiences in order to draw positive and negative lessons. These processes and outcomes are potentially very wide-ranging. In this broad sense, much of policy transfer and lesson-drawing resembles conventional comparison of public policy between areas.

In this section of my paper, I use the idea of transfer in a more specific way, examining it as policy-makers’ emulation of practices in another jurisdiction, involving observation and attempts to set up similar
practices. In other words, the focus is not just on an idea; it is on a more concrete practice or policy instrument. These activities have become an important issue for academics and governments, with several groups examining agency reforms influenced by the UK (Matsuda; NPR 1996; OECD 1995; Pollitt et al.; Wright) and more skeptical accounts of the potential for influence (Hogwood 1994). However, two closely related phenomena need to be disentangled from emulation: first, contemporary reforms similar to the agency model which, whilst not directly emulating from the UK reform, constitute adoption of similar forms; and second, the use of similar forms prior to the UK initiative.

In U.S. federal government, performance-based organizations (PBOs) were developed in the latter half of the 1990s. Policy-makers on the National Performance Review team stated that the reform was modeled on the UK agency initiative and was based in part on a paper exploring this experience (NPR 1996, 1999). The PBO model involves separating service operation functions from their policy components within a particular department of government and placing them in separate organizations reporting to the department. A chief executive heads each PBO, hired on a fixed-term contract through a competitive search and held accountable for performance. The PBO and the department then negotiate a three- to five-year framework with measurable goals and targets for improvement. In exchange, the PBO has more freedom to manage personnel, procurement, and other services than do traditional organizations.

U.S. governmental functions proposed for PBO status in 1997 included the Patent and Trademark Office, the Defense Commissary Agency, the St. Lawrence Seaway Development Corporation, the U.S. Mint, and the Air Traffic Services Division of the Federal Aviation Administration. Congress blocked these, although in 1998 it approved the conversion of the Education Department’s Office of Student Financial Assistance to a PBO. The 2000 budget proposed that organizations requesting PBO status reapply, along with the Seafood Inspection Services, the Rural Telephone Bank, the National Technical Information Service and the Federal Lands Highway Program (Friel). Overall, these changes did not encompass much of the federal government, and the PBO reform does not look like it will engender as much large-scale change as in the UK.

However, the U.S. government’s lack of success with PBOs does not mean that similar models are not used. The practice of bringing in outsiders, many of whom have business experience, to run parts of the federal government is well established, as is the principle of bodies with some independence from the departments that supervise them and with highly public reporting of performance. Contemporary reforms with similarities to the agency reform exist. For example, the broad-ranging Government Performance and Results Act (GPRA) of 1993 requires federal bodies to develop strategic plans, performance measures, annual performance plans, and performance reporting (NPR 1999). The requirements of the act resemble the emphasis on public reporting against a few key
In contrast, Japan is seeking to emulate the UK experience through a major reform to create Independent Administrative Corporations (IACs) within its governmental structure. The thinking behind this reform was heavily influenced by research conducted by Japan’s Management and Coordination Agency into the UK agency reform. The Director General of the MCA gained further insights through visits to UK central departments and agencies in 1997. The Director General later became acting chairman of the Administrative Reform Council, which suggested the reform. IACs will handle executive tasks and will be separate from ministries. Functions to be transferred to IACs include research activities, mint and printing operations, and operational activities such as motor vehicle inspection. Each body will have a degree of management freedom, with targets set by ministers and the supervising department, and will have to produce a business plan. Unlike the case with UK agencies, the bodies will not formally be part of central government departments, but will have a similar arms-length relationship with ministries. IACs will be headed by a chief executive on a five-year contract who—along with management personnel—can be recruited from outside government (Kaneko). Laws to enable the IAC reform to take place have already been passed, and 89 activities will be transferred in April 2001 (Matsuda).

The German federal government shows no evidence of emulation of the UK agency model, but some similar structures are present. Because some public service functions are carried out by joint work between the federal government and Landes governments, Germany already had a form of delegation, although functions handled by the Landes are an example of decentralization to semiautonomous regional governments, rather than of delegation. Recruitment of private-sector chief executives is not evident in German federal government. However, some use of performance targets has emerged in the Neues Steuerungsmodell (NSM) in local government and at the Landes level. The NSM consists of strategic management with steering at arms-length, output and customer-focused orientation with replacement of rules by performance contracts, decentralized structures with more managerial freedom, and attempts to bring administrative action closer to citizens (OECD 1996). Examples of decentralized resource management have been introduced in Landes in pilot schemes across a range of services (e.g., Hesse, Bavaria). Whilst this model has not been used at federal level, there were some attempts in 1997 to introduce more formal systems of target-setting and performance assessment for organizational units in the federal administration. For example, this system was used in the Press and Information Office of the federal government and the Federal Waterways and Shipping Administration (OECD 1997). There have also been moves towards clearer mission statements for federal bodies. Overall, however, this experience
stops well short of a comprehensive reform similar to the creation of agencies.

The experiences of the different countries are summarized in Table 2. This brief survey does not attempt to capture the full complexity of trends in the countries. Instead, it draws out evidence of transfer by emulation. Emulation of the UK model has occurred on a small scale in the U.S. and is proposed as a major reform in Japan, but it is not evident in Germany. However, the starting points of the countries were very different, so the absence of new examples of the agency model does not imply that the country has no similar structures. In central government, similar forms that predate the agency initiative are most significant in the U.S., and other contemporary reforms reinforce these features. The findings are similar to those found in broader surveys of NPM developments, which point to continued variety in public sector delivery structures (Elder and Page; Hood 1996; Pollitt 1998; Pollitt and Bouckaert; Rhodes 1998).

**TABLE 2**

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<th>Reforms emulating the UK initiative</th>
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<th>Germany</th>
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<td>89 Independent Administrative Corporations (IACs) are to be set up beginning in April 2001. The Basic Law for the Reform of Ministries and Agencies, including provision for IACs, was passed in June 1998, and legislation for the first wave of transfers passed in December 1999</td>
<td>No similar reforms</td>
<td>No agency initiative</td>
<td>Performance Based Organizations (PBOs) were proposed in 1995; the first PBO was authorized in 1998, and there were at least nine candidates in 1999</td>
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The Neues Steuerungsmodell (NSM) involves increasing management freedoms and using performance targets in local government and Lander. There are limited reforms using formal performance targeting in the federal government.

The Government Performance and Results Act emphasizes the use of performance targets and monitoring.
In *Cages of Reason*, Bernard Silberman sought to explain why the administration of modern nation states failed to proceed towards homogenous "bureaucratic" institutional structures in the 19th and early 20th centuries. The experience with the agency model suggests that administration does not seem to be converging on a standard postbureaucratic, reinvented government, or NPM model in the late 20th and early 21st centuries. This section of the paper does not seek to offer a full explanation of this finding in terms of differences in private sector corporate governance. Many factors seem likely to be at work, including administrative institutions, political systems, and the degree of policy-makers' involvement in international networks of public managers, which enable the sharing of ideas and practices (see Hogwood 1994; Hood 1998). In terms of political systems, for example, the UK and Japan have relatively powerful central executives compared to Germany, where the federal government has to negotiate with the Land who may oppose reform, and the Federal U.S., where Congress has been partly responsible for blocking PBOs (Friel). However, differences in corporate governance arrangements raise interesting questions for policy-makers seeking to emulate the UK experience.

The relationship between corporate governance and contemporary emulation of the UK model or adoption of similar models is not straightforward. The potential for more use of the model is limited to the extent to which structures were already in use. Table 3 categorizes the countries in terms of these characteristics. First, there are cases in which the agency model is not being emulated or otherwise adopted and private sector analogues are absent. Contemporary Germany and historic Japan are the clearest examples of this. Second, there are cases in which the model is being emulated or adopted in central government, but the private sector analogue is not evident; in this sense, the sectors are incongruous. This situation, which involves a country having a public sector run on a model influenced by the private sector of other countries, seems to be developing in Japan. Third, there are cases in which the model is being neither emulated nor adopted, but analogues are found in the private sector. This is another kind of incongruity and resembles the U.S. with respect to new agency forms and the historic UK. However, the U.S. already had several aspects of the agency model prior to the agency reform, limiting the potential for emulation or further adoption. Finally, there are cases in which the agency model is being emulated or adopted and private sector analogues are found; the contemporary UK fits this category.

The clearest case of a developing incongruity appears to be Japan. This development could be seen as potentially paradoxical and unstable if the presence of a suitable private sector analogue is seen as necessary in order for the agency reform to be successfully implemented. Some elements of the agency model require interaction between the public and private
sectors, leading to potential conflict. Reading across UK experience provides some indication of the issues to be encountered in Japan. A key part of the agency model is the recruitment of officials, including chief executives, from outside government on limited term contracts. By 1998, of the 138 chief executive appointments in the UK, 92 had been filled through open competition; of these 31—about one-quarter of total appointments—went to candidates outside the civil service or the military. This change resulted in an influx of people from nontraditional civil service careers, including charities, local governments, and private firms (Cabinet Office 1998, 68–69). However, in Japan the private sector tradition suggests long-term contracts and careers in particular firms. It may be difficult to get people to leave these jobs to work in agencies if they fear that their contracts may not be renewed and that they will be unable to return easily to the private sector.

Another potential area of conflict in Japan is the concern with overcoming the agency problem of controlling managers through systems of key performance targets, public reporting, and individual chief executive accountability. In the UK, highly public reporting of failures has been

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<th>Countries Categorized by Emulation or Other Adoption of the Agency Model in Central Government and Private Sector Corporate Governance Arrangements</th>
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<td><strong>Anglo-American corporate governance</strong></td>
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evident; for example, the Child Support Agency has attracted unprecedented interest from the Parliamentary Social Security Committee and has garnered a good deal of adverse media coverage (Harlow). Chief executives have been personally held responsible for performance, and this has led on a few occasions to resignations—for example, that of the chief executive of the Child Support Agency. There have been acrimonious incidents relating to allocating blame for poor performance, of which the removal by the Home Office of Derek Lewis as head of HM Prison Service after a series of prison escapes serves as an example (Barker). Whilst these were unusual cases, the public profile of most chief executives in the UK is much higher than that of the officials in the corresponding administrative posts prior to the reform. Since 1991, the Cabinet Office has published an annual review of all agencies, and agencies generally produce their own public annual reports with statements from the chief executive. In contrast, studies of private-sector senior management in Japan emphasize the ways in which reputations are established over time within firms, building trust through the reputation of managers. The use of a few crude performance targets may not easily be accepted in a context where underperformers are removed using the “quiet tap on the shoulder,” rather than public confrontation (Charkham, Kester).

An alternative development might involve the private sector in Japan adopting an Anglo-American mode of operation, thus bringing about congruity between that sector and the government. Whilst some authors suggest that this development is taking place (Ohmae), most are much more cautious about the prospects for such a change (Berger and Dore; Charkham; Kester; Streeck). Nonetheless, despite the apparent incongruity, the Japanese government seems to be pushing ahead with the IAC reform, suggesting that whilst conflicts with private sector arrangements might arise they are not enough to halt the reform. However, a hypothesis thrown up by the analysis is that IACs will emerge in a “softer” form than UK agencies, with less recruitment of officials from outside the public sector, less emphasis on an individualized chief executive role, more collegial decision-making, less crude target-setting, and less use of highly public performance regimes.

CONCLUSION

Experience with the UK agency model shows that this aspect of NPM is not simply a mix of public sector and business arrangements, but uses a particularly Anglo-American form of business organization not traditionally found in Germany or Japan. The alternative forms of such organization found in these countries suggest ways to move beyond NPM to overcome some of the problems that are increasingly being acknowledged in the UK. Whilst many potential sources to inform such reforms exist, there appears to be considerable potential for transfer through emulation of non-Anglo-American “national styles” of business practice.
After all, policy-makers have been urged to emulate non-Anglo-American practice in private business organization—for example by adopting a form of stakeholder capitalism (Hutton).

Analogous arguments about emulation apply to both main features of the agency model. In the UK, the separation of agencies with separate pay systems and working practices has made cooperation across organizational boundaries to achieve jointly provided programs more difficult. The regulatory systems associated with the agency model have not always behaved in the ways intended by those who designed them (Hood et al.; Hood, James, and Scott; James 2000a). Performance targets have encouraged agencies to focus on their own narrow targets rather than the consequences of their activities for other bodies. For example, the largest UK agency, the Social Security Benefits Agency, has used increasingly different practices from other agencies in the same department, hindering the efficient administration of jointly provided welfare payments. The agency has concentrated on performance in terms of its own targets rather than working completely cooperatively with other bodies. It worked jointly with local authorities in the delivery of Housing Benefit paid as a subsidy to low-income groups, but was often late in delivering information to the authorities and unhelpful in tackling fraud where it did not relate to achieving its own targets (James 2000b). The significance of these problems varies, but overall they are substantial. The lack of “joined-up” government, without sufficient coordination of activities or sharing information, has become a major concern of the current administration (Prime Minister and Minister for the Cabinet Office).

Emulating forms of organization found in the private sectors of Germany and Japan might help mitigate some of these problems. A more collegial system would involve boards running parts of the public sector and include a broader set of stakeholders benefiting from the organization’s activities. In the case of the Benefits Agency, the stakeholders might include local authority representatives, client groups, and frontline staff. Such a change might provide more information about the practicalities of delivery and opportunities for improvement, and might relate the activities of the agency more directly to a broader set of beneficiaries. Replacing the use of a few crude, incentive-linked performance targets with a wider range of aims might lessen the tendency to concentrate on narrow performance against target regardless of wider consequences for effectiveness. Central government looking to business for organizational models need not have a limited conception of what business does.

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Notes

1. Most work examining NPM phenomena has involved either comparing the broad features of reform across several countries (for example, Hood 1996; James and Manning; OECD 1995, 1998; Peters and Savoie; Pollitt 1998; Pollitt and Bouckaert; Rhodes 1998) or analyzing an individual country’s experience with reform. Examples of work relating to the countries in this article include Klages and Loffler on Germany, Jun and Muto on Japan, Hogwood (1997) on the UK, and Kettl and Difulio on the U.S.


3. Another clash could be hypothesized between the presence of Anglo-American private sector business forms and the absence of central government agency forms. For example, private practices could drive agency reform though potential public sector recruits’ reluctance to commit to long-term contracts in areas in which well-paid flexible jobs exist in the private sector. In this case, only the congruous boxes 1) and 4) in Table 3 would be stable.

References


