A RESEARCH NOTE ON ORGANIZING REGULATION IN A MULTI-ACTOR SETTING

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INTRODUCTION

In recent years, the regulation literature has reported the rise of the regulatory state, which has two central features. First, regulatory bodies operate in complex fragmented *constellations*. Previous research focused on describing such constellations in specific sectors. A second feature is that sectoral regulators have been established with some *autonomy* from their minister. Previous studies have focused largely on the extent to which agencies are formally independent from politicians and regulatees. The main argument of my study is that the regulation literature has produced a partial picture of the autonomy of regulators. First, a focus on formal autonomy alone ignores that the actual autonomy may differ significantly from the formal autonomy. Second, whereas the regulation literature has mostly focused on the autonomy from political principals on the one hand and from the regulated industry on the other, the literature on interorganizational relations suggests that the constellation, of which a specific sectoral regulator is only one member, may affect the autonomy of specific regulators as well.

The paper attempts to set out a new research agenda to study the autonomy of single regulatory bodies. We build a research model that integrates the effect of steering from the minister and influence from the constellation, on the autonomy of agencies. In addition, researchers may focus on how agencies respond when their formal autonomy differs from their actual autonomy (i.e. what kinds of strategies agencies deploy to safeguard their autonomy). The arguments and the model that are developed in this paper are part of the theoretical framework in my PhD-research, which aims to contribute to the understanding of how organizations behave in complex, fragmented environments.

CENTRAL CONCEPTS

Regulation

Regulation has been defined as 'the full range of legal instruments, by which governing institutions, at all levels of government, impose obligations or constraints on private behavior' (OECD, 1995, note 1; OECD, 1997). The core of the definition is that a body (the regulator) will steer or control the behavior

of others (the regulatees) through the application of binding rules, forcing (or prohibiting) them to display a certain behavior (Baldwin & Cave, 1999). The term 'rules' should be interpreted broadly and refers to 'constitutions, parliamentary laws, subordinate legislation, decrees, orders, norms, licenses, plans, codes and even some forms of administrative guidance' (OECD 1995; 1997).

In order to control the behavior of others, regulators can perform several specific tasks. A cybernetic definition of regulation (i.e. specifying which tasks are performed by regulatory bodies) usually distinguishes between rule-making, monitoring and enforcement (Hood et al., 2001; Black, 2002). Rule-making can be divided into two subtasks and entails the creation of *general* rules and the application of these rules on *individual* cases (i.e. licensing/authorization) (Lowi, 1999). Hence, a regulatory body is an organization that is involved in at least one of the following tasks:

1. Transition of general policy and laws into more concrete rules, criteria, norms and standards. Standards indicate the acceptable levels of risk (e.g. safety standards, goals in distributive justice, pollution, chemicals);

2. Application of rules and standards in individual cases via licenses, permits and authorizations (e.g. building permission, driver's license, permission to start a business);

3. Monitoring of compliance: Includes all actions that are aimed at gathering information on the compliance of actors to rules. Information-gathering can occur both through desk work and on-site inspections and audits;

4. Enforcing compliance: is defined as modifying the behavior of an actor through the application of sanctions and rewards, forbidding to do an activity or demanding a reversal/change of a decision (e.g. retracting a decision).

A crucial aspect of this definition these tasks represent a cycle or chain, where all tasks are connected in a logical order. The chain normally starts with the creation of general rules (task 1), which are then applied to a specific case. If the applicant is compliant with the criteria, an individual authorization or license is granted, allowing the applicant to perform an activity (e.g. enter a market) (task 2). Next, monitoring is performed to test whether the regulatee still complies to the norms (task 3), after the licensing. If necessary, the regulatee may be sanctioned, for instance by retracting the license (task 5). Thus, regulation is conceptualized as a bundle of tasks, where the output of a preceding task forms the input for the following task. In addition, any cycle necessarily consists of these four tasks, although it

is not required that these are performed by a single body. Instead, the tasks may be dispersed across multiple bodies.

Regulatory bodies can be found in almost all policy sectors. Economic regulation focuses on the direct government intervention in corporations and market decisions such as pricing, market entry or exit, in order to stimulate competition. Social regulation involves the exercise of state influence in relation to the unwanted effects of industrial activity on society and is aimed at government protection of citizen and social values such as health, safety, the environment and social cohesion (Baldwin et al., 1998; Meier, 1985; OECD, 1998). General legal regulation can be added as a third category, referring to the protection of universal rights and legal obligations such as human rights or immigration (Christensen & Yesilkagit, 2006).

Regulatory constellation

In his seminal article, Majone (1994) described the rise of the regulatory state. Since the beginning of the 1980's, regulatory reforms such as privatization, liberalization and re-regulation have caused a shift from the 'positive state' to the regulatory state. Whereas the traditional welfare state was concerned with redistribution of income and macro-economic stabilization, the regulatory state is mainly concerned with the correction of market failures via rule-making instead of direct production. The state retreats from sectors such as utilities and re-regulates the liberalized markets with less intrusive instruments. The regulatory state entails a new mode of governance, not only with changes in state functions (from distribution to regulation), but also with new institutions (Majone, 1997). Specifically, the regulatory state relies on indirect government, where powers are delegated to a complex web of specialized organizations. In order to signal credibility, the 'regulatory state' involves a separation of tasks, where regulatory activities (i.e. rule-making, licensing, monitoring, sanctioning) are separated from policy (i.e. preparation and determination). A second split is the separation of operational tasks and other tasks, with the former being allocated to newly-created organizations, with varying degrees of independence (Scott, 2004: 148; Christensen & Lægreid, 2005: 11). Furthermore, the national state increasingly shares authority with subnational and supranational actors, leading to a system of multi-level regulatory governance (Doern & Johnson, 2006).

This separation of tasks has resulted in a proliferation of actors. The new regulatory institutions do not entirely replace the old ones. Rather, some tasks are hived off from existing institutions and are allocated to these new forms, so that the latter are embedded in institutional settings that were created in previous periods. The accumulation of different institutions with the capacity to intervene has made decision-making in regulatory policy more complex than in traditional interventionist policies.

Whereas regulation used to be concentrated in large bureaucracies, it now involves a myriad of highly-specialized organizations, where each organization has its own legal mandate and its own goals (Jordana & Sancho, 2004: 296). Specialization implies that tasks are split up into subtasks and only a few subtasks are allocated to each actor. Hence, there is now 'regulation in many rooms' (Black, 2003: 2). Regulation is no longer shaped by individual organizations, but by entire 'institutional constellations' (Jordana & Sancho, 2004), the 'post-regulatory state' (Scott, 2004) or regulatory 'regimes' (Doern et al., 1999; Hood et al., 2001; Hall et al., 2000). Adopting a purely organizational perspective, an institutional constellation can be defined as *the set of formal organizations that are mandated to perform one or several regulatory tasks within a particular field.*

Adopting a 'constellations perspective' has both theoretical and methodological consequences. Theoretically, a 'constellations perspective' implies that the regulatory chain (i.e. rule-making, licensing, monitoring, enforcement) is no longer performed by a single organization. Although all components should still be present in a specific sector, it is likely that these functions are spread across several bodies (Hood et al. 2001). Such dispersion can have positive effects on the regulatory system. Fragmentation leads to overlaps between regulators, creating checks and balances and allowing for the existence of a back-up in case of failing regulators (Hood et al., 2001). Second, a fragmented decentralised regulatory arrangement may be able to collect more easily relevant information from the regulatees and markets at different levels, than a centralised one (Laffont & Martimort, 1999). A potential disadvantage is that fragmentation leads to a duplication of tasks, which increases administrative costs for companies when they must deal with divergent regulators. Second, companies can play regulators off against each other and exploit blind spots in rule enforcement ('functional underlap') (Hood et al., 2001; Geradin & McCahery, 2004).

The methodological consequence of adopting a constellations perspective is that the research object should be the constellation, since regulations will be the product of the interplay between multiple organizations: 'In order to both describe and prescribe for the regulatory system, a focus needs to be placed on the actors involved, on their regulatory capacities, and on how they are enrolled within a regulatory system' (Black 2003: 2). Although some studies have mapped regimes in single sectors, (notably sectors such as telecommunications (Hall et al., 2000) financial markets (Black, 2003) energy (Doern et al., 1999), and certain social sectors (e.g. food safety, see Doern & Johnson (2006)), the general structure of such constellations, as well as the task divisions between its members, is largely unclear. In case of fragmentation, any sectoral regulator may have overlapping tasks with the following actors:

1. Sectoral regulators in the same sector: Bodies differ with respect to the number of regulatory tasks they perform. In some policy sectors, regulators are specialized in only one or two tasks, so that multiple bodies are active in the same regulatory cycle (Rommel et al. 2008). When the regulatory cycle is spread across multiple bodies, a regulator will have to co-ordinate with other bodies that are involved in the cycle, especially with those that are involved in tasks directly preceding or following the task of the body. For instance, when licensing and inspections are performed by two separate bodies, both will have to find an agreement on which companies will be inspected. Hence, in sectors where the regulatory cycle is more fragmented (e.g. sectors where most regulators only have one or two tasks), regulators will have to negotiate more with other sectoral regulators than in sectors where regulators are less fragmented (e.g. sectors where regulators are active in all four tasks).

2. Sectoral regulators in other sectors: To an increasing extent, sectoral boundaries are blurring because of economics of density. A proliferation of sectoral regulators may lead to increasing competition between agencies that are defending their turf, which in turn decreases consistency of regulations and induces distortions in the investments of regulated firms (Hansen & Pedersen, 2006; Helm, 1994). Avoiding inconsistencies across industries through coordination will particularly be necessary when the activities are substitutes, e.g. gas and electricity (Gonenc et al., 2000).

3. Regulators on other levels of government: National states have increasingly delegated tasks to other levels of government, both upward and downward. Upward, national governments have delegated entire bundles of competencies to the supranational level, of which the EU is the most notable example (Hooghe & Marks, 2003). The role of the EU as a supranational regulator has grown substantially, and it has become active in almost all policy areas (Lodge, 2008). Downward, national governments have decentralized tasks to the subnational level. The most notable examples are found in federal states, such as Belgium. To the extent that competencies are shared by levels of government, multi-level regulatory governance implies continuous deliberation between multiple layers of government (Doern & Johnson, 2006). However, there are significant differences between sectors with respect to the extent to which competencies are shared by the federal and regional government, making negotiations with other levels more or less important.

4. General regulators: In (liberalized) economic sectors, sectoral regulators are concerned with promoting competition in that specific sector. By creating sector-specific regulators, information asymmetries with the regulated companies are reduced. Separation of regulators increases the total amount of available information (Laffont & Martimort, 1999). Separate agencies also allow for the use of yardstick competition by which to compare the behavior of different regulators, especially in related sectors (Neven et al., 1993). Sectoral regulators usually provide ex ante control, aimed at preventing

the incumbent from abusing its dominant position, held by virtue of its control of essential facility such as local access networks. Sectoral regulators are responsible for prices and services of natural monopolies. Notwithstanding, there is some overlap with general competition authorities, when jurisdiction over network access is shared (OECD, 2004). Therefore, sectoral regulators will have to co-ordinate with general regulators and find an agreement on which regulator will take action (Tweede kamer der Staten-Generaal, 2005: 12).

The relations that constitute the constellation of which a certain regulator is a member, are summarized in figure 1.

Figure 1: Structure of regulatory constellations[1]

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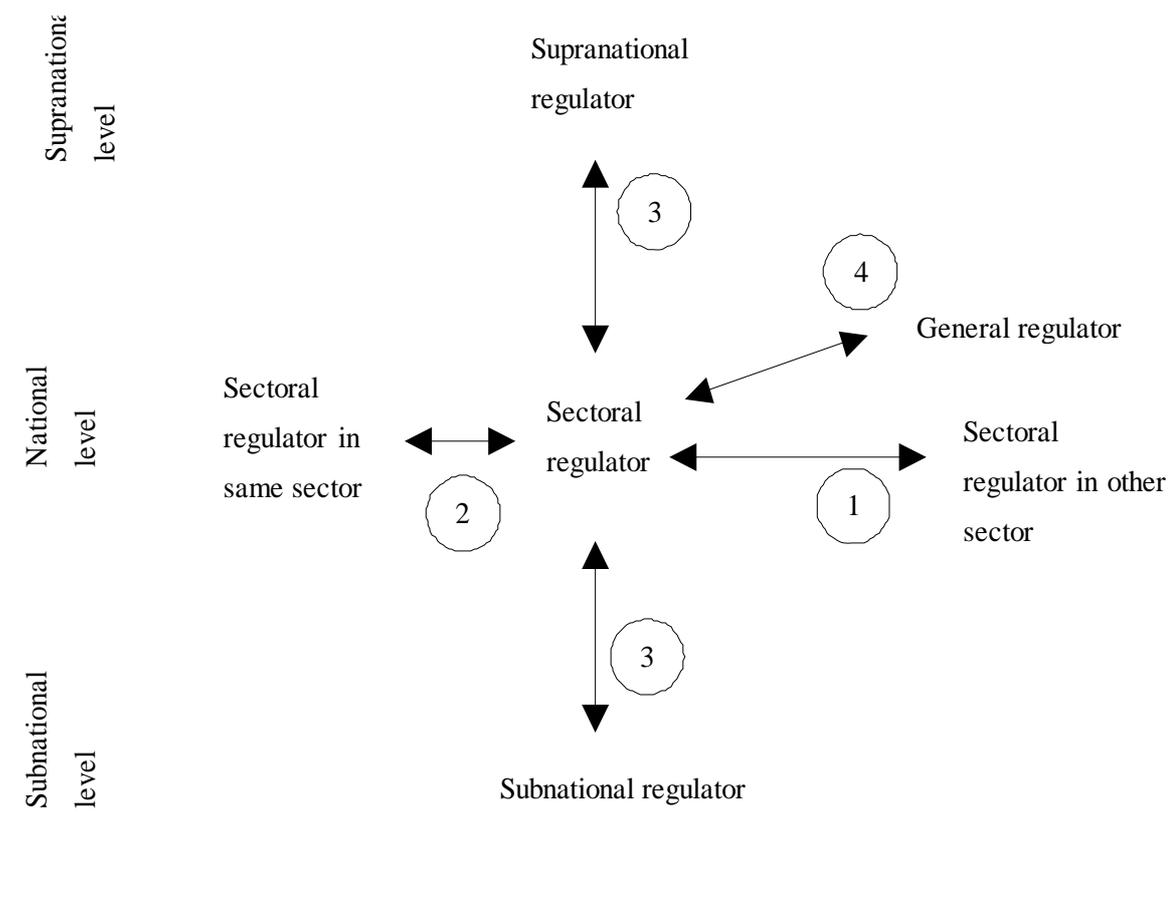
[1]   Note that vertical arrows do not necessarily imply that there is a hierarchical top-down relation.

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Independent regulators

One of the most widespread features of the indirect government in the regulatory state is the creation of independent regulatory agencies (OECD, 2002: 91). They have proliferated since the late 1980's, spreading across domains and in countries which previously had few such agencies (Braun & Gilardi, 2005). Much attention has been paid to economic regulators, operating in liberalized markets (e.g. utilities, financial markets). These are typically given powers to prevent unfair competition, block mergers and even control prices in that particular sector. They also receive powers over 'social' or distributional aspects of markets, for instance to ensure universal service or to protect specific groups. Agencies in the area of social regulation are responsible for promoting the public interest in areas such as health and safety and environmental protection. These agencies are given powers to set standards, issue licenses, prohibit unauthorized supply and enforce legal requirements (Thatcher, 2002a: 126).

The delegation of tasks to regulatory agencies is usually explained as an argument of 'credible commitment'. When governments want to attract new investors, they have to credibly signal their commitment to a certain policy, i.e. to bind themselves to a fixed and pre-announced course of action (e.g. not intervening in the functioning of the market). Because investors are rational, they will estimate and anticipate the future moves of policy-makers (Gilardi, 2002). Rational investors strive for optimality but this can only be reached when they are certain that politicians are committed to displaying the same behavior in the future (Shepsle, 1991). However, politicians have a very short time horizon, namely the next election. Elections may incline them to change their preferences on the short term, making it difficult for politicians to be credible (Gilardi, 2002). One way of solving the problem is when "political sovereigns are willing to delegate important powers to independent experts", i.e. independent agencies (Majone, 1997: 139-140). Such experts do not suffer from the short time horizons that constrain politicians. As a result, their capacity to credibly commit themselves is much greater than that of democratically elected politicians (Gilardi, 2002).

RESEARCH PROBLEM: AUTONOMY OF REGULATORS

Studies on regulatory agencies often focus on the formal independence from politicians. For instance, functional independence refers to the specific regulatory functions that the agency may use. It should have a range of functions available (e.g. issuing licenses, regulation on prices) (Baudrier, 2001: 12) and it should be able to implement these functions without interference from politicians or industry. Regulators should not be placed under any direct authority such as putting its operations under approval, blocking or delaying an action or giving orders to change or prevent the regulator's action. In addition, legal guarantees ensure that the regulator acquires a structural independence. Regulators

with high independence are characterized by a fixed term of office for their board members, who are in turn appointed on the basis of technical expertise, and who cannot be dismissed unless for serious misbehavior that is not related to the specific regulatory policy. The legal safeguards may also grant a substantial autonomy in internal affairs such as the allocation of resources, internal structuring, accounting and personnel management.

Gilardi (2002) developed an index to measure the formal independence of regulatory agencies, consisting of twenty indicators that are grouped in five dimensions (status of the agency head, status of the members of the management board, relationship with the government and with parliament, financial and organizational autonomy, regulatory powers).

Notwithstanding, focusing on the formal independence from politicians alone may have two shortcomings. First, the formal independence may differ substantially from the perceived autonomy (Christensen & Lægreid, 2006) or the actual autonomy (Maggetti, 2007). The actual extent of steering from the minister may be very different than what is described in the formal statutes. In addition, the agent may have learnt how to cope with steering and how to safeguard its autonomy. Second, focusing on the independence from politicians (and regulatees) alone may be insufficient, because the regulatory constellation, of which the organization is a member, may affect the autonomy of individual regulators as well. When actors have overlapping functions and share competencies with others, the capacity of single regulators to intervene will be constrained by the mandate and powers of other actors in the arena. No actor has the full competence over a sector, so that actors become dependent upon each other. This mutual dependence creates a (legal) obligation to exchange information, to co-ordinate each other's actions and sometimes take joint decisions. As a result, regulatory arrangements are the outcome of negotiations and compromises between interdependent actors (Black, 2002; Black, 2008).

Hence, a detailed and more nuanced picture of autonomy requires the integration of two components: relations with the minister on the one hand and relations with the constellation on the other. For both components, both the formal and actual relations should be taken into account. The next section introduces how these different kinds of autonomy can be defined.

First component: relations with the minister and ministerial department

Formal relations with minister and ministerial department[2]

In order to describe formal relations between minister and regulator, we rely on commonly used concepts from principal-agent theory, with 'control' and 'autonomy' as the central concepts.

Autonomy

Several kinds of formal autonomy can be discerned. Firstly, agencies may have decision making competences that are delegated to them from the oversight authorities concerning the choice and use of inputs or organizational resources. This is the *managerial autonomy* of agencies. According to Verhoest (2002) managerial autonomy concerns *"the freedom of the agency to choose and use the inputs for the primary organizational processes. It is about structuring and developing the secondary organizational processes"*. An agency can have managerial autonomy with respect to several types of organizational inputs or resources such as financial resources, human resources, or other production factors like logistics, organization, and housing and infrastructure. The extent to which an agency enjoys managerial autonomy will be determined by the extent to which it is steered on the use of these organizational resources by the oversight authorities. As such, the concept of managerial autonomy can be refined conceptually into operational managerial autonomy (which occurs when the agency can choose about the use of organizational resources in individual cases) and strategic managerial autonomy (which occurs when the agency can decide about the principles of and rules for how to use organizational inputs or resources) (Verhoest 2002). The second kind of organizational autonomy refers to decision making competences of the agency in policy-issues, or the *policy autonomy* of the agency. According to Verhoest (2002) policy autonomy is *"the freedom to decide on content or results of the primary organizational process.* The extent to which an agency enjoys policy autonomy will depend on the extent to which the agency is steered by its oversight authorities on processes, outputs or effects. Having policy autonomy means that the agency can take decisions about the processes and procedures of the primary process, about the choice of policy instruments, about the outputs that should be delivered by the policy and about the desirable societal effects of the policy. Also, the concept of policy autonomy can be refined conceptually into operational autonomy (which occurs when the agency can take decisions about the set of activities and procedures in the primary

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[2] This section is largely based on Verhoest (2009) 'Case study protocol on "Ministers, parent departments and agencies: Balance of autonomy, control and coordination". Accessed at
http://soc.kuleuven.be/io/cost/act/20090420.htm#pgm

organizational process) and tactical and strategic autonomy (when the agency can decide on outputs, outcomes, instruments and target groups of the policy). F*inancial autonomy* refers to the extent to which the agency depends on governmental funding or own revenues for its financial resources, and the extent to which it is responsible for its own losses.

Control

Public organizations can be steered and controlled in several ways. Ex ante control is the formulation of rules and standards by the oversight authorities that give direction to the agency so that the desired output (from the viewpoint of the oversight authority) will be achieved (Verhoest 2002). In the case of ex ante control, the oversight authorities thus control the agency *a priori* and can do this in two ways. Firstly, the oversight authorities can set general or detailed rules that constrain the autonomy of the agency in its use of the organizational inputs and resources. In this sense ex ante controls can take the form of authoritative mandates, rules, or regulations that specify what the agency must do, may do, or must not do (Thompson, 1993). This form of control can be measured by looking at the scope of rules that are issued by the oversight authority to which the agency is subject with regard to agency's use of inputs or the agency's processing of these inputs. Secondly, the oversight authority can control ex ante by taking the major decisions itself or by subjecting the decisions that are taken by the agency to ex ante approval. This way of control can be measured by looking at the number of instruments that are at the disposal for the oversight authorities for ex ante approval or nullification of organizational decisions.

Ex post control of organizational results (or results control) deals essentially with checking whether the intended goals have been achieved by the agency and whether there is a need for future corrective actions (Wirth, 1986). Result control encompasses the on beforehand setting of the desired organizational results (norm setting), checking whether the results meet this norm or not, and eventually the adaptation or continuation of the organizational practice (Ouchi, 1979). The intention of these after the fact controls is to motivate the subjects of the control (the agencies) to perform well by making the agency responsible for the consequences of their decisions. These consequences are monitored by controlling the results of the agency and by eventually sanctioning and rewarding the agency (Thompson, 1993). Result control can further be conceptualized as a cycle that consists of several interrelated sub-systems: a planning system (setting organizational goals and norms for the agency), a monitoring system (measuring the organizational results ex post) and an evaluation and feedback system. Furthermore, in many cases also an audit system is crucial in the result control cycle (Verhoest 2002).

Structural control can be considered as control by the oversight authorities via influencing the agencies' decisions through constructing hierarchical and accountability lines towards for the agency management or through installing a supervisory board for the agency. Another operationalization is the extent to which members of the supervisory board represent the political oversight authorities or other parties instead, and the extent to which these members are appointed by the government or by these other parties (e.g. stakeholders, interest representation).

Actual relations with minister and department

The executive agency literature shows substantial differences between formal and actual autonomy. Agencies with the same formal-legal status, may have a very different extent of actual autonomy. These differences can be caused by two factors: behavior from the minister and behavior from the agent.

First, the steering of the minister may differ across agencies. Some ministers are not interested in exerting control on agencies or lack the capacity to use such formal instruments (Verhoest, 2002; Huber & Shipan, 2002). Instead, they may maintain subtle ways of influence by making use of their power to appoint agency managers, developing informal networks of influence, and tying agencies to them via annual budget allocations (Flinders, 2004; Pierre, 2004). Politically-salient agencies have been said to experience micro-management and are often overwhelmed with questions from politicians (Hogwood et al., 1999). Standard operating norms sometimes continue to prevail and still resemble the hierarchical norms of pre-agency status (Talbot, 2004).

Secondly, the factual autonomy may also differ because of the agencies themselves. Agencies do not passively undergo these external pressures but learn to cope with steering (van Thiel, 2004). Verschuere (2006; 2009: 37) provides an overview of literature exploring how agencies safeguard their autonomy. For instance, according to Carpenter (2001) the autonomy of a body is premised on its organizational reputation and the networks that support it. Agencies will actively engage in networks to build up a reputation. They will also present themselves as experts by increasing the organizational capacity and expertise, resulting from strong leadership, talented offices that are coherent, and offices in which turnover is minimized (stability, experience). Similar claims about the importance of organizational capacity and expertise were advanced by Hammond and Knott (1999), who argued that specific leadership and skills of the management may be a prerequisite to advance the preferred policy of the agency. Krause (2003) argued that organizational stability is important for the agency to be able 'to handle' discretion, and Hawkins and Jacoby (2006) have argued that agency-expertise and

knowledge of the agency may be important resources for the agency to be able to have discretion or autonomy in (implementing) policy.

In order to describe these mechanisms, we cannot rely on concepts of formal control from principals alone. Rather, the studies mentioned above suggest that we need a framework where both actors influence each other: not only does the minister steer the agent, but the agent also responds to steering by 'forging' its autonomy. Furthermore, rather than using force or formal powers, actors seem to rely on *persuasion* to influence each other. Ministers persuade agencies through informal contacts and 'subtle ways of influence'; whereas agencies persuade ministers by building networks that support the agency and building reputations.

Second Component : Relations with other regulators

The literature on interorganizational relations suggests that horizontal relations may have an impact on individual actors as well. The central characteristic of regulatory constellations is fragmentation, which creates some degree of interdependence between regulatory bodies. Interdependence implies that decisions of bodies have an impact on the matters that are also the object of the decisions of other bodies. One actor is no longer capable of fully determining a certain outcome, since the range of options may be constrained or shaped by the decisions of other actors. Rather, what is determinative is the constellation of bodies, of which the actor is only one member (Scharpf, 1997). Constellations consist of multiple bodies, who are more or less autonomous from each other and who each have their own capabilities, resources and preferences. Hence, interdependent actors operate in institutional settings in which they are much less free in their actions than autonomous actors might be (Scharpf 1994). Actors are restrained by institutional norms that limit their legal competencies (i.e. tasks). This forces certain actors to interact. However, actors are boundedly rational, meaning that they are generally aware of their interdependence on other actors. They are aware of which actors they are dependent from and will respond to and even anticipate the moves of those other actors. They will respond to the rules set out by the institutional structure (i.e. co-ordinating when this is required by the legal task division), while still aiming to realize their goals. Although actors are not omniscient, they can be expected to actively pursue their preferences with intentional action.

Aggregating these assumptions to the constellation means that constellations are composed of multiple, purposeful actors who each have their own (institutionally determined) capabilities and preferences. The institutional structure forces them to interact, but this interaction is strategic. Therefore, when studying organizations in a fragmented environment Scharpf recommends the following steps: "Explanations using the interactions of actors need to combine the specification of a

particular *actor constellation* and a particular *mode of interaction*, with the specification of a particular *institutional setting* (Scharpf 1994:31).

Formal relations with constellation

Drawing from the literature on networks, the following steps can be followed to describe horizontal interorganizational relations (Voets, 2008). Similar to Scharpf's suggestion, the first step is to *map the multi-actor constellation* of which the regulator is part, including the modes of interaction with other actors. The constellation in a specific sector is composed of all organizations that have at least one regulatory task in that sector. Such a mapping could be done by using the legal statutes and task descriptions of regulatory bodies. The bodies that can be included are the same as the ones defined in figure 1.

The mode of interaction refers to the co-ordination mechanisms between the organizations. Several kinds of co-ordination mechanisms are possible. In order to define the mechanisms, we can draw from existing typologies (e.g. typology of hierarchy – market – network-like instruments; typology of Scharpf 1997). It is likely that different types of interdependence result in different types of co-ordination mechanisms. In addition, different types of co-ordination mechanisms may have a different effect on the discretion of the body. For instance, weaker mechanisms such as consultation or information exchange will probably have a smaller effect on autonomy than stronger forms (e.g. veto-power, joint decisions,…).

The second step is to link these other members with the regulator whose autonomy is studied, by *defining the interdependencies* that characterize each relation. The concept of 'interdependence' holds that decisions of other organizations have an impact on the regulator under study. Hence, in order to define how the regime influences the regulator, we should map with which organizations the regulator is notably interdependent. Defining these interdependencies consists of two substeps.

The first substep is to identify which *resources* are constrained. Interdependencies are created by the institutional norms (e.g. laws defining task divisions between bodies) that constrain the resources of the actor. In the context of public administration, resources can mean different things (Koppenjan and Klijn, 2004). Financial resources refer to money or funds (subsidies, funds, fiscal capacity). If financial capacities of government actors are limited, they may be forced to collaborate. In the context of intergovernmental relations, financial interdependence may imply that one layer is responsible for managing the funds and another level is responsible for spending it. For instance, such interdependence may arise in energy regulation, when one level is responsible for setting criteria with
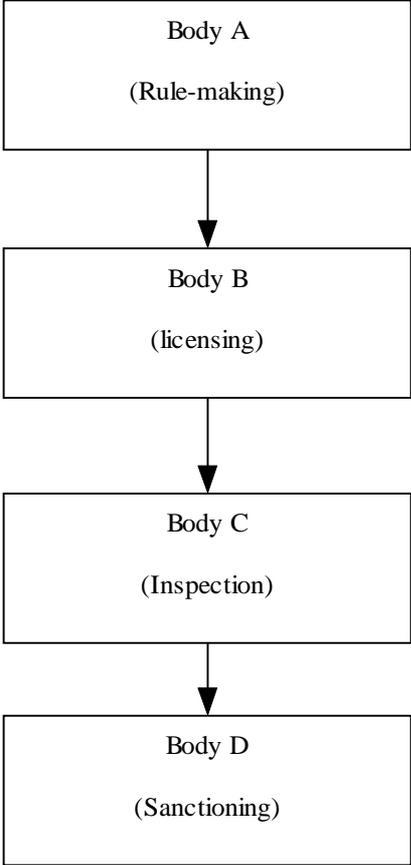
respect to distributional aspects (e.g. criteria for renewable energy production, social tariffs for lower income groups) and another level is responsible for managing the funds that are used to compensate the loss of profits that firms experience because of the distributional rules (see Verhoest et al., 2008). Production resources refer to the availability of personnel. Knowledge refers to expertise regarding new developments, information on behavior of the regulatees,... which may be dispersed across multiple bodies. Probably the most important resources are the competencies, referring to the formal authority to decide, regulate, grant or prohibit certain behavior. Interdependence may arise when organisations need to co-decide or consult with others (in the case of shared competencies), or when other organisations can place veto's or overrule decisions. This kind of interdependence can be examined using the legal statutes of organizations.

The second substep is to identify the *type of resource dependencies* (Benson, 1975; Thompson 1967). Pooled interdependence refers to resources combined into a shared pool to achieve a common strategic goal. This implies that actors are in a more or less coherent organizational structure in which they contribute to a joint purpose without explicitly bargaining and negotiating resources. The second type is sequential interdependence and indicates that one activity is required before another activity can be done. This type is considered to be more costly in terms of coordination. The third type is reciprocal interdependence and holds that each unit is simultaneously dependent on the other because its outputs are the other's inputs. This kind is more interactive and requires ongoing mutual adjustment by both units and continuous adaptation to each other's circumstances.

Considering our conceptualization of regulation as a cycle of four tasks, different types of interdependencies are possible in regulatory regimes. Fragmentation means that tasks are spread across multiple organizations. A high extent of fragmentation will result in a low extent of encompassment: if tasks are spread to a high extent, one regulator will be active in a small number of tasks. Consider the most extreme example, where a body is competent for only one task. In figure 2 body C is an inspectorate that is only active in monitoring. It will be dependent from body B, which is responsible for licensing, because B will give the assignment to C to inspect a certain regulatee. If it is B who determines who should be inspected, and C executes this assignment, then there is a *sequential interdependence* between B and C: the output of B (i.e. the list with regulatees that need to be inspected) will be the input of C. Furthermore, C may be (indirectly) dependent on the other bodies as well. When checking whether the regulatee still complies with the legal criteria, C will have to use the criteria that are determined by A. In addition, the output of C (i.e. the inspector's report) will be sent to the sanctioning body (D). It is likely that C and D will have to find an agreement (e.g. on what needs to be included in the report; timing of the report, …) Hence, an organization that has a limited legal
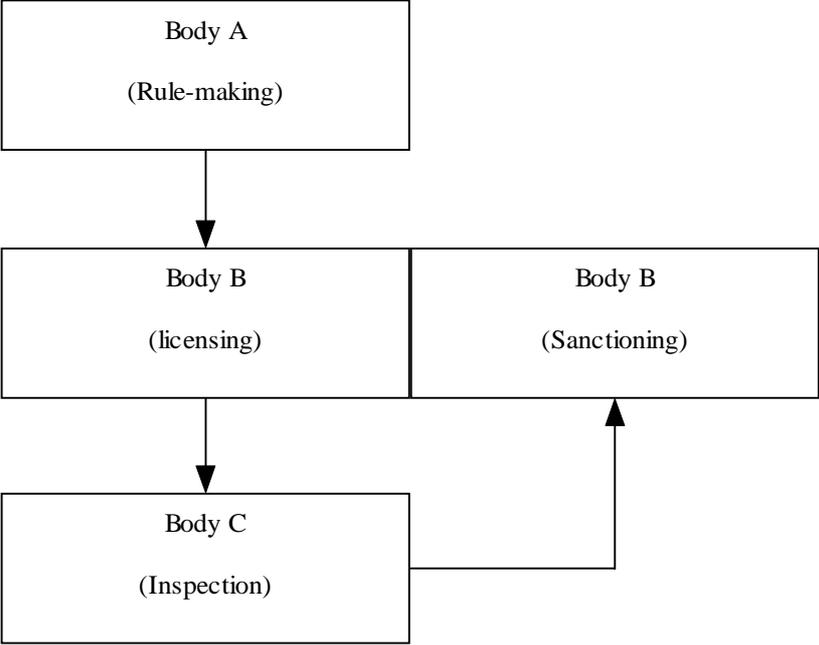
mandate (low encompassment) will be very dependent from other organizations. We assume sequential interdependence between organizations that have a different place in the regulatory chain.

Figure 2: Sequential interdependence in regulatory chains

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└─────────────────────────┘
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Several variations of this (extreme) case are possible. First, when C is active in more tasks of the chain, its dependence will be smaller. If it is competent to do sanctioning, it is no longer dependent on D. If it is involved in rule-making, it will no longer be dependent from A. The more encompassing the regulator (i.e. the more tasks in the chain), the smaller the dependence is likely to be. Hence, fully encompassing bodies will probably be less dependent than bodies with low encompassment. A second variation is when licensing and sanctioning are performed by the same body. Here, the inspectorate will be dependent from the licensing body, but the output of the inspectorate will in turn be an input for the sanctioning body. This case resembles more the situation of *reciprocal interdependence* between B and C.

Figure 3: Reciprocal interdependence in regulatory chains

```
┌─────────────────────────┐
│         Body A          │
│                         │
│      (Rule-making)      │
└─────────────────────────┘
             │
             ▼
┌────────────────┬────────────────────┐
│     Body B     │      Body B         │
│                │                     │
│   (licensing)  │    (Sanctioning)    │
└────────────────┴────────────────────┘
        │                    ▲
        ▼                    │
┌────────────────┐           │
│     Body C     │───────────┘
│                │
│   (Inspection) │
└────────────────┘
```

Fragmentation may not only imply that tasks are spread but also that they are duplicated by multiple organizations. Consider the situation where monitoring is a *shared competence* between two bodies (C and G in figure 6). Both will have to find an agreement on who will perform the inspection and which methodology will be used. Similar to reciprocal interdependence, this situation requires continuous negotiation and adaptation between both bodies. Note that, if sectors are shared by multiple levels, regulators can be found on different levels. Hence, it is possible that regulatory chains run across multiple levels of government or that competencies are shared by multiple levels (e.g. figure 4: suppose that bodies A-D are on the regional level; E –H on the federal level. In this example both levels have their own competencies with respect to rule-making, licensing and sanctioning but must work together in monitoring (because it is a shared competence), leading to complex intergovernmental relations.

Figure 4: interdependence created by shared competences

```
┌─────────────────────┐              ┌─────────────────────┐
│      Body A         │              │      Body E         │
│   (Rule-making)     │              │   (Rule-making)     │
└─────────────────────┘              └─────────────────────┘
           │                                    │
           ▼                                    ▼
┌─────────────────────┐              ┌─────────────────────┐
│      Body B         │              │      Body F         │
│    (licensing)      │              │    (Licensing)      │
└─────────────────────┘              └─────────────────────┘
           \                                   /
            \                                 /
        ┌─────────────────────┬─────────────────────┐
        │      Body C         │      Body G         │
        │    (Inspection)     │    (Inspection)     │
        └─────────────────────┴─────────────────────┘
            /                                 \
           /                                   \
┌─────────────────────┐              ┌─────────────────────┐
│      Body D         │              │      Body H         │
│   (Sanctioning)     │              │   (Sanctioning)     │
└─────────────────────┘              └─────────────────────┘
```
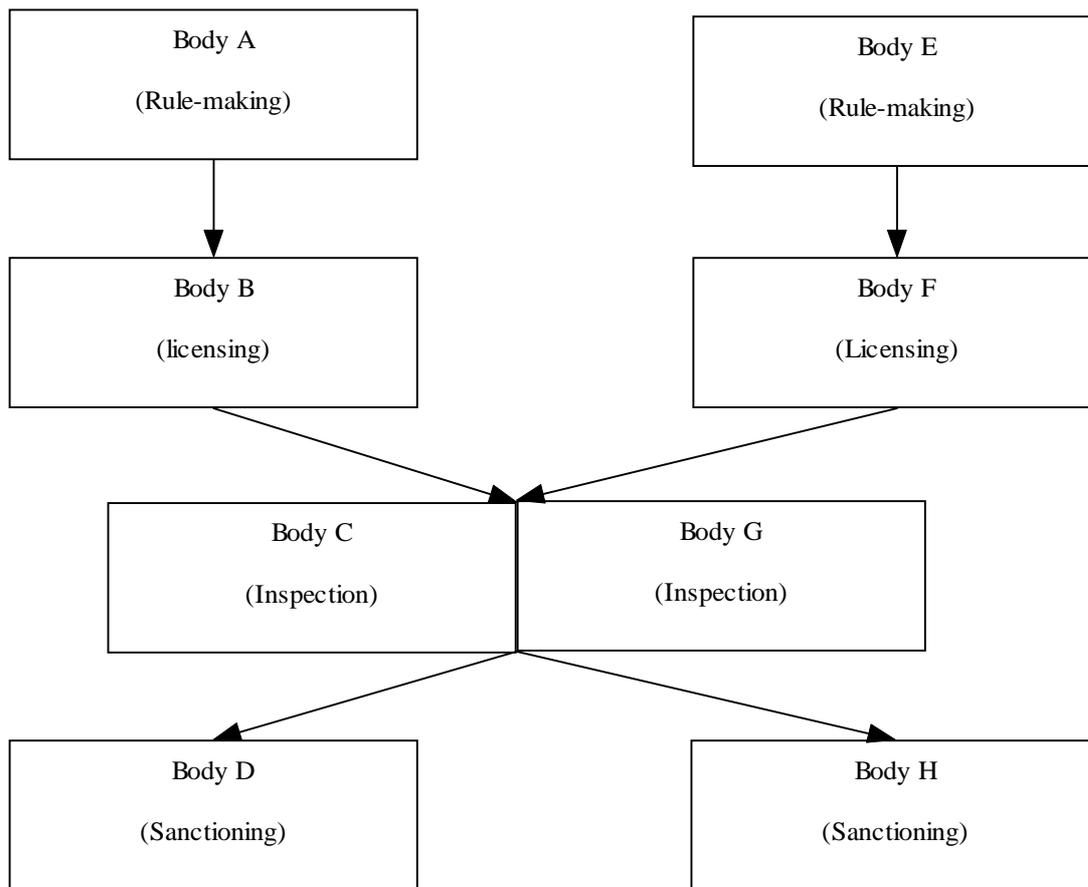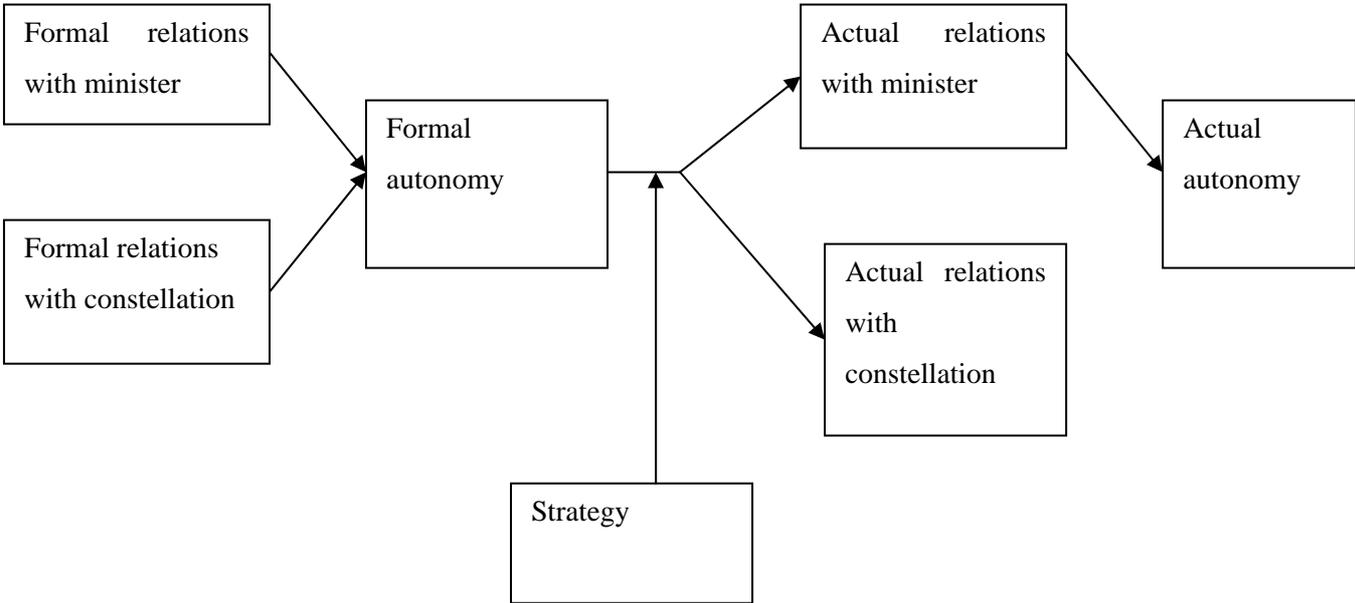
Actual relations with constellation

Similar to relations with the minister, mapping formal relations alone will not be sufficient. In addition to looking at which coordination mechanisms are used, we should also look at the actual functioning of these mechanisms and its effects on the regulator. For instance, when coordination mechanisms are formally required but are not realized in practice, the interdependence may not exist *de facto*, leaving the autonomy of the regulator unaffected. Furthermore, it may well be that some actors in the regime are considered by the regulator as being more influential than others (Yesilkagit & Van Thiel, 2008).

RESEARCH MODEL AND RESEARCH QUESTIONS

The factors described in the previous sections can be integrated into a new research model to study the autonomy of regulators. First, external actors will influence the agency. Previous studies have mainly focused on how ministers and their departments delegate autonomy and control their agents. In addition to these vertical principal-agent relationships, horizontal relations may affect the autonomy of

agencies as well. When multiple bodies are forced to co-ordinate, due to fragmentation, the discretion of single actors is restrained. However, for both types of relationships, the formal relations may differ substantially from the actual relations. Assuming bounded rationality and intentional action, agencies may deploy their resources (e.g. expertise, legal competencies, relational networks) and develop a strategy to safeguard their autonomy. This strategy mediates the relation between the formal-legal autonomy and the daily, actual autonomy. This research model is shown in figure 5.

Figure 5: research model

```
┌─────────────────┐
│ Formal relations│
│ with minister   │──┐
└─────────────────┘  │      ┌──────────────┐              ┌─────────────────┐
                     ├─────▶│ Formal       │─────┬───────▶│ Actual relations│──┐
┌─────────────────┐  │      │ autonomy     │     │        │ with minister   │  │  ┌──────────┐
│ Formal relations│  │      └──────────────┘     │        └─────────────────┘  └─▶│ Actual   │
│ with constellation│─┘              ▲            │                                │ autonomy │
└─────────────────┘                  │            │        ┌──────────────┐        └──────────┘
                                     │            └───────▶│ Actual       │
                                     │                     │ relations    │
                                     │                     │ with         │
                              ┌──────────────┐             │ constellation│
                              │ Strategy     │             └──────────────┘
                              │              │
                              └──────────────┘
```

This research model allows to derive certain research questions. Since little empirical data is available on the general features of regulatory constellations, the first research question refers to a cross-sectoral analysis of these constellations. One subquestion is more descriptive, whereas the second is more explanatory. The second main research question refers to the autonomy of regulators and can be divided in several subquestions, regarding the relations with the minister and regarding relations with the constellation. Focussing on what kind of strategies agencies develop may be particularly relevant for the study of the behaviour of agencies. In theory, it seems possible that relations with one type of actors (e.g. constellation) affects the relations with another actor (e.g. minister), for instance when several regulators form coalitions to lobby with a minister:

- RQ1: What are the characteristics of regulatory regimes (cross-sectoral)?
    o RQ1a: Descriptive analysis: What are the main features of regulatory regimes, i.e.:
        ▪ Which types of organisations are involved?
        ▪ To what extent is there multi-level regulatory governance?
        ▪ To what extent can we observe fragmentation of tasks?
        ▪ What are important differences between sectors?
    o RQ1b: Explanatory analysis: How can differences between sectors (e.g. regarding the extent of delegation, extent of fragmentation) be explained?
- RQ2: How autonomous are regulatory bodies (sectoral analysis)?
    o RQ2a: What are the relations with the minister:
        ▪ What is the formal independence of the regulator vis-a-vis the minister and how is the regulator controlled?
        ▪ What is the actual autonomy of the regulator and how is it steered in practice?
    o RQ2b: What are the relations with the constellation:
        ▪ Which formal mechanisms are used to co-ordinate with other actors?
        ▪ What are the actual mechanisms used to co-ordinate with other actors?
        ▪ How does such co-ordination affect the autonomy or daily discretion of the regulator?
- RQ3: Which strategies do agencies develop to safeguard their autonomy and how do relations with one actor affect relations with another actor:
    o How do relations with the minister affect the position in the constellation ?
    o How do relations with the constellation affect the autonomy from the minister?

Theory-building regarding which kind of strategies regulators deploy seems particularly underdeveloped. The next section introduces 'reputation-building strategies' as one specific kind, but research should also explore which other kinds of strategies are used (e.g. power-based strategies)

ANALYTICAL FRAMEWORK FOR STUDYING REPUTATION-BASED STRATEGIES

Assumptions

In building such a framework, we start from two assumptions. First, actors are boundedly rational, meaning that they use intentional action to pursue their preferences. When actors engage in an inter-organizational relation, they are purposeful and have their own capabilities and preferences. However, rationality is bounded as actors are not omniscient and interactions are partly determined by institutional settings (e.g. legal statutes defining the legal mandate of the regulator) (Scharpf, 1997). The second assumption is that, when actors engage in a relationship, they rely on signs in the behavior of the other actor with respect to the stability of the relationship. Relational signals are 'behavioral clues that allow us to make inferences about other people's interest in maintaining a mutually rewarding social relationship'. Signalling is an interactive process between both actors, where actor A generates actions that function as signals to actor B, who on the basis of these signals attributes a salient frame to actor A and selects a frame for his own response, which in turn generates actions taken as signals by A (Six & Nooteboom, 2005).

These assumptions imply that both actors have their goals, but since capabilities are limited, these goals can only be reached by engaging in a relationship with another actor. Hence, agencies and ministers each have their own preferences. The minister may want to achieve a policy goal whereas the agency may want to be autonomous. However, the capabilities of both are limited: the capabilities of the minister are limited by the legal mandate of the agency, which guarantees a certain extent of autonomy; whereas the agency is limited by legal constraints on its autonomy. Therefore, both actors need to maintain a relation with each other. In order to know whether the agency is committed to the same norms and goals as the minister, the latter will look at the signals sent by the agent. If these signals are perceived as corresponding to the preferences of the minister, the minister will maintain the relationship and grants some autonomy. In turn, agencies also look for signals sent by the minister (Worsham, 2003) and will actively respond to these preferences by generating actions.

Trust model

Trust means that an actor is confident that another actor will not behave opportunistically, despite uncertainty and risk (Gambetta, 1988; Lyon, 2006). Although the literature on inter-organizational relations traditionally applies the trust concept on relations between fully equal partners, we argue that it is also useful in describing the relations between autonomous agencies and ministers, for two reasons (Rommel & Christiaens 2009):

1. In bureaucracies, predictability of behavior mainly comes rules and routines. However, post-bureaucratic environments are different because they are characterized by participative management styles and consensus-building. Hierarchical rules alone are no longer sufficient to increase the predictability of daily agency behavior. Since predictability no longer comes from rules alone, actors must engage in some form of 'self-making' to render them predictable. Hence, trust is particularly effective in post-bureaucratic environments (Grey & Garsten, 2001; Hudson, 2004: 79-80). It can be argued that agencification creates such an environment. After the disaggregation of tasks in (semi-) autonomous agencies, the discretion of the minister decreases. The minister no longer has the full command and control over agencies. As autonomous agencies become distinct from ministers (because of the need for credible commitment), relations must be based more on equality instead of hierarchy. In such a context, actors are forced to rely on 'management by negotiation' (e.g. performance contract) and diplomacy instead of hierarchical orders (Rhodes, 2007). Trust becomes an essential condition for co-operation between a trustor (the actor that has to let go of the task, i.e. the minister) and the trustee (the actor to which the task is delegated, i.e. agency).

2. Trust and control are essentially alternative mechanisms with the same objective, since they are both aimed at increasing predictability (Knights et al., 2001). They both aim to reduce uncertainty, by assuring partners that certain types of behavior (i.e. opportunistic behavior) will not be displayed. Control and trust serve as governance mechanisms that co-ordinate expectations and interactions between actors (Bachmann, 2001). However, the trust literature argues that formal controls are costly. This is in line with the studies that suggest that some ministers lack the capacity and will to adequately use controls (Verhoest, 2002; Huber & Shipan, 2002; Pollitt, 2002). Furthermore, a neo-institutional economics perspective fails to capture the embeddedness of social relations and the personal relationships that exist between actors (Muthusamy & White, 2005: 417; Ring & Van de Ven, 1992: 492). Studies suggesting that ministers develop informal networks are in line with the idea that personal relations are important. Finally, a dynamic model of trust-building allows to study how actors influence (rather than control) the behavior of others, by suggesting that actors engage in some form of

'self-making' (Grey and Garsten 2001). The need to look at influence rather than control is confirmed even by studies that adopt a traditional principal-agent perspective, as there is now a 'consensus that it is more useful to focus on factors that effect political *influence* of agency actions, rather than *control*" (Worsham 2003: 2, emphasis added).

Dynamics of trust

Trust is dynamic and develops with time. Zand's (1972) 'spiral reinforcement model of trust' predicts that high trust behavior will lead to more trust, whereas distrusting behavior will lead to more distrust. When the initial level of trust is high, actors will share information, accept influence and decrease control over partners. When trust is low, actors will impose controls on partners, which will be retaliated by a similar distrusting behavior of the partner, resulting in a lower level of information exchange.

<u>Relations with the minister and department</u>

Role of the trustor

Trust is a *relational* concept. A 'trustor' (i.e. minister) will consider whether to place trust with a potential 'trustee' (i.e. agency). The trustor takes the particular trustee into account by considering several characteristics of the trustee. Trust will only be placed when the trustor perceives the trustee as being trustworthy.

Trustworthiness of a trustee encompasses three forms of trust, which can be combined as antecedents of trust (Zaheer et al., 1998; Brashear et al., 2003; Becerra & Gupta, 2003). First, the trustor will consider the competences of the potential trustee to assess the latter's credibility. This is referred to as *competence-based trust*. The second form of trust is based on routines and processes and is called *process-based trust* (Lane & Bachmann, 1996). This form of trust is more behavioral and arises from previous exchanges with the partner. As partners exchange information, they will gradually learn more about the other's reputation. Information about previous behavior is used as an estimate for future behavior. The trustor assumes that, if partners have not behaved opportunistically during previous exchanges, they will not do so in the future either. Thus, trust increases when more information is exchanged and partners learn to know each other. This form of trust is less calculative than competence-based trust and is based on intuition and implicit information instead. Third, *goodwill-based trust or identification-based trust* means that a trustor believes in the good intentions and the integrity of a trustee. The trustee is believed to have internalised the trustor's norms and values, so that both partners share a common identity. Such identification-based trust will be high when partners know and share each other's interests, norms and values (Lyon, 2006; Maguire et al., 2001). The above-mentioned studies on the actual steering from principals suggests that principals seek such

kinds of signals, in addition to using formal controls. The finding that many principals retain informal ways of influence and prefer to maintain frequent informal contacts, suggest that principals seek frequent exchanges with the agent, so that the latter needs to demonstrate its routine-based trustworthiness. The finding that many politicians have used their capacity to appoint agency managers could be interpreted as a use of an ex ante control instrument. However, it can also be interpreted as ensuring a sufficient level of identification-based trust, especially in the case of political appointments. By appointing a trusted CEO from the same party, the principal can be confident that the CEO has more or less similar values and goals, so that the chance for opportunistic behavior may be reduced. Political appointments of CEO's have been intensely used in the case of independent regulators as well (Thatcher 2002a: 139). The result of informal controls has been that the degree of conflict between regulators and governments has been very limited in the initial stages of agencies' lives (Thatcher 2002a: 139).

In sum, the trustor will look for signals that give information on the capacity of the trustee, its identity and its behavior. The trustor will then produce actions that are a response to these signals. Two responses are possible. First, when the signals are compatible with the trustor's objectives, trust will be high. The trustor will not feel a need to impose strict controls, leaving considerable autonomy for the trustee and resulting in a deeper form of collaboration between partners (Ring and Van de Ven 1992; Das and Teng, 2001). However, there remains an inherent risk that the other actor violates this trust and behaves opportunistically. Das and Teng (2001) distinguish relational risk and competence risk, which jointly determine total risk. Relational risk refers to the probability and consequences of opportunistic behavior of the partner. Such behavior may include shirking, cheating, distorting information or appropriating resources. Conflicts arise because of diverging interests. Actors may seek private benefits for themselves or may have hidden agendas, such as secretly learning valuable know-how from the partner. Performance risk is the risk of bad performance of the partner, due to a lack of skills or resources. In such case, the trustor will prepare a different response. If the trustee does not pay off the debt and behaves opportunistically, the trustor may retaliate through the use of sanctions (e.g. placing the trustee back under hierarchical control or changing the legal mandate) (Bottom et al., 2006).

Role of the trustee

A trustee (e.g an agency) that wants to be autonomous should make sure that it is considered as being trustworthy. Trustees are not merely passive actors in the process by which repeated interaction leads to increased trust. Rather, they can be very active in creating and manipulating these processes. Actors play a crucial role in initiating, shaping, sustaining and changing trust (Möllering, 2006: 79). Trustees

may partially determine themselves which signals are being broadcasted and how the relationship with the trustor is maintained by communication, interaction and interpretation of the signals (Giddens, 1994).

Trust-building mechanisms may then be situated within the different dimensions of our trust model. For instance, organisations can signal their competence (competence-based trust) or increase their visibility so that the trustor learns to know them (process-based trust). To increase identification-based trust, they may appeal to the norms and values of the trustor by 'constructing' a shared identity (Phillips & Hardy, 1997). This is done by gift-giving and conforming to the opinion of the trustor (see Bottom et al., 2006; Lawler & Yoon, 1996).

The literature on bureaucratic autonomy can be linked to these specific antecedents of trust. For instance, the finding by Hammond and Knott (1999) that specific leadership and skills of the management may be a prerequisite to advance the preferred policy of the agency, refers to signalling the credibility or competence of the agency (Krause, 2003). The argument advanced by Hawkins and Jacoby (2006) that agency-expertise and knowledge are important resources for the agency to be able to have discretion or autonomy in (implementing) policy, also refers to increasing the competence (and hence, decrease the competence risk perceived by the minister as trustor). Engaging in networks also increases the competence, especially when these networks contain influential actors (e.g. supranational networks of regulators who exchange innovative solutions) (Carpenter 2001). Carpenter's (2001, emphasis added) claim that 'the autonomy of a body is premised on its organizational *reputation*' closely resembles the notion of a reputation of trustworthiness, as discussed for process-based trust, and is also assumed to increase autonomy.

Agencies may also seek to increase their visibility, for instance by extensive reporting or seeking informal contacts with the principal (Rommel & Christiaens, 2009). In addition, showing an open and consistent attitude towards the principal (Verhoest 2003) may be interpreted as a signal that the agent corresponds to the same norms as the principal, because it accepts the latter's steering. This model for building a reputation of trustworthiness is shown in figure 6.

Figure 6: initial trust model for building reputation of trustworthiness
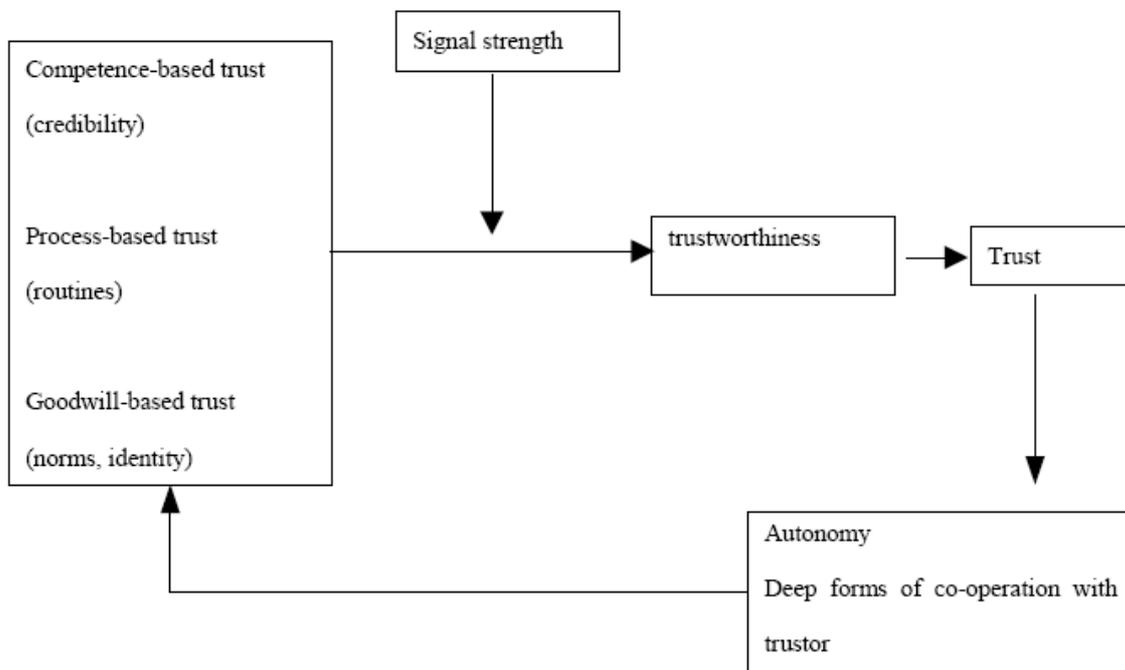
Relations with other regulators (the constellation)

In order to describe these relations, we can build upon the same framework as the relations with the minister. Relations can be conceptualized as inter-organizational relations between distinct actors that are more or less autonomous from each other (especially in the case of agencies). Moreover, they are hierarchically equal to each other. Hence, co-ordination will imply at least some negotiation and collaboration, instead of hierarchy. This does not mean that co-ordination is only voluntary. Rather, it means that, even if the law forces actors to co-ordinate, both actors will still have to find an agreement on how the co-ordination will function in practice. Since relations can be characterized as collaborative rather than hierarchical, trust becomes crucial in describing the actual functioning of formal co-ordination mechanisms. In order to achieve high mutual trust, actors wil produce signals about their expertise, visibility and identity. Partners will also agree on mutual norms (e.g. reciprocity, information exchange). High trust is assumed to lead to stronger forms of collaboration (e.g. joint production, personal relationships, network-like structure). It may even be that the outcomes of this trust process (strong collaboration) form the input for the trust relation with the minister, because it

shows that the agent can build networks, which functions as a mechanism to build a reputation of experts (see Carpenter 2001).

Alternatively, if mutual trust is low, this will lead to weaker forms of collaboration (e.g. information exchange; not putting formal co-ordination requirements into practice). Low trust can be caused when an actor is perceived as untrustworthy, for instance because it is considered incompetent (competence risk) or displays opportunistic behavior, thereby threatening the autonomy of the regulator (relational risk). When actors in such a case are still legally forced to co-ordinate, they may consider each other as competitors. These may then go into a state of 'ceaseless semiotic warfare', with signals being created, protected, undermined, changed and faked, so that trustees are no longer able to signal their own trustworthiness (Bacharach & Gambetta, 2001: 176). They may even present the competitor as untrustworthy with other partners, so that the competitor is sanctioned or even excluded from the group (Maguire et al. 2001; Rommel and Christiaens, 2009). Thus, not putting formal co-ordination requirements into practice could be considered as a form of competitive behavior, where actors prevent each other from sending signals because the alleged (competence or relational) risk would be too high when they would put the co-ordination into practice.

CONCLUSION

Although the regulation literature has emphasized the importance of regulatory regimes or constellations, it remains unclear how these constellations affect the position of single organizations. Drawing from the literature on networks and interorganizational relations, it can be argued that the position of any actor in the constellation may affect its autonomy. By fragmenting competencies across multiple bodies, regulators become mutually dependent and are forced to co-ordinate their actions with multiple organizations. Hence, in addition to steering from the minister, relations with other bodies in the constellation may affect the autonomy of regulators as well. However, it is unclear whether the constellation has a positive or a negative effect on the autonomy. Actors are assumed to be boundedly rational and are aware of their interdependencies with other bodies. They may develop a strategy, so that the actual autonomy differs from the formal autonomy. Hence, this study proposes a research model that integrates these two elements. This may contribute to the understanding of how agencies behave in a complex, fragmented environment.

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