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Principals and Agents, or Principals and Stewards? Australian Arms Length Agencies' Perceptions of Arm's Length Government Instruments

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ABSTRACT

After the large-scale creation of arm's length agencies by governments around the globe, these governments now face the dilemma of how to manage, steer or control these arm's length agencies. Different instruments have been developed, based on either of two theoretical models: principal-agent theory or stewardship theory. Both are based on economic models of man with a principal charging an agent or a steward with a task. Principal-agent theory is based on the principal distrusting the agent to perform as agreed, leading to a need for extra monitoring and control. Stewardship theory is based on trust, and requires very different instruments to manage at arm's length. Using the perspective of arm's length bodies at federal level in Australia, we will describe how they perceive the instruments that have been implemented by their portfolio departments to manage and control them. Using survey data ($N=89$), we will test which of the two models is used most often in this country, one of the front-runners in agencification. Results show that arm's length agencies are more inclined to take a stewardship position, while a mixture of instruments from the principal-agent and stewardship model is applied. This could lead to problematic relationships.


KEYWORDS

arm's length agencies;
Australia; principal-agent
theory; stewardship

Introduction

One of the reforms that became known under the heading of New Public Management is the structural disaggregation of units of the government bureaucracy, for example ministerial directorates, turning them into semi-autonomous bodies or arm's length agencies (Hood, 1991). While this kind of agency creation, or agencification, was not a new development, it became a very popular way from the 1980s on in many western countries to slim down the government and put policy implementation at arm's

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length (Pollitt et al., 2004; Verhoest et al., 2012). Consequently, different legal types of arm's length agencies (ALAs) continued in prominence or growth, or were subject to managerial changes, in the 1980s and 1990s, also in Australia (Aulich & Wettenhall, 2012). ALAs are known under various labels, for example in Australia statutory authorities, in New Zealand Crown Entities, in the UK Non-Departmental Public Bodies and Next Steps Agencies, in the Netherlands ZBOs, and in Southern-European countries public establishments

ALAs were granted legal independence and managerial autonomy, in the expectation that they would operate more business-like and achieve more efficiency (Overman, 2016). However, agencification also created a new governance dilemma: as ALAs by definition involve devolved authority, and are generally interpreted not to be hierarchically subordinate to the government bureaucracy, how can governments monitor and control them to make sure that they carry out their task as intended? To this end, governments can and do make use of a variety of instruments for control and monitoring, some of which have been newly developed to deal with the nonhierarchical nature of the relationship.

The relationship between governments and ALAs is predominantly modeled on the principles of principal-agent theory (James & Van Thiel, 2011). We will explain this theory in more detail below, but the main message for this introduction is that it is based on goal divergence: the agent (ALA) may serve its own goals rather than those of the principal. Based on this premise, the government will prefer a very strict regime of control and monitoring using instruments like accountability requirements, detailed contracts and few degrees of freedom. More recently, an alternative model has been proposed – the stewardship model – that departs from an assumption of goal congruence: the interests of principals (government) and stewards (ALAs) are aligned (Schillemans, 2013; based on Davis, Schoorman & Donaldson, 1997; see also Bjurstrøm, 2020). As a result, managing ALAs becomes more a matter of trust, results orientation and indirect monitoring rather than direct intervention and control.

Empirically, we know very little about how ALAs are managed. Some case studies have been done, but for a limited number of countries (Flinders & Tonkiss, 2016 on the UK; Bertelli, 2006a, 2006b, Schillemans & Bjurstrøm, 2020 and Van Thiel & Yesilkagit, 2011 on the Netherlands; Van Thiel and Pollitt, 2007, on the Netherlands and UK: and Verhoest et al., 2010, on Ireland, Flanders and Norway; Bjurstrøm, 2020 on Norway). In this paper, we aim to investigate how Australian ALAs at the federal level experience and perceive the way in which they are managed by the government. Australia is an interesting case for two reasons. First, ALAs remain a significant organizational form in Australia with recent recalibrations in

types of ALAs and their governance. Second, Australia has a strong track record in devolving management authority, including to ALAs (see more below, Mulgan, 2002; Smullen, 2010, 2014; Smullen & Clutton, 2021; Wettenhall, 2005;). Lessons can therefore be learned from the Australian experience, both for academia and practice.

Next, we will describe the two models for management at arm's length, identifying which and what kind of instruments fit with the two approaches. Then we will introduce the Australian case and test which instruments and hence which model is in use, and how the ALAs perceive this. For the analyses we make use of data from a survey that was held among ALAs at the federal level from November to December 2017 (Smullen & Fawcett, 2018; Schillemans et al., 2020). The method section describes the survey, data and method of analysis. After presenting and discussing the results, we will draw conclusions and offer some suggestions for future research.

Management at arm's length

In this section we will first go into the two models for the relationship between ALAs and governments and the type of instruments that fit within these models. This will lead to a number of expectations about the use of the models and instruments.

Two models for arm's length management

Principal agent theory is part of the neo-institutional economics (Besley, 2006; Laffont & Martimort, 2002; Pratt & Zeckhauser, 1991). Originally, it was used to model the relationship between shareholders and CEOs of a company. In Public Administration the model is interpreted slightly differently (Miller, 2005): it portrays a dyadic relationship between a political principal (here: minister or portfolio department) and an agent (here: arm's length agency). The principal pays the agent to carry out a specific task. The model assumes both actors to act rationally i.e. in their self-interest. As principals and agents may have different interests (goal divergence), there is a potential conflict. This is facilitated by the information asymmetry: the agent is the expert and has much more information about what the task involves and what is needed to carry it out. The principal therefore runs the risk to agree to disadvantageous conditions when hiring the agent (adverse selection) such as paying too high prices, or the risk that the agent can shirk in carrying out its task (moral hazard). To compensate for the lack of information and to avoid these risks, the principal will choose to monitor and control the agent, for example through accountability

requirements, evaluations, audits, and so on. However, monitoring is costly, adding onto the costs of hiring the agent.

The application of principal-agent theory onto the relationship between political principals and ALAs is not without criticism (see Van Thiel, 2016, for an overview). One of the most important points of critique concerns the assumption of goal divergence (see e.g. Albanese et al., 1997; Arthurs & Busenitz, 2003; Dicke, 2002). The critics argue that goal divergence does not always have to occur. Particularly in the public domain policy makers and policy implementers can be expected to have shared goals: that of making and implementing good, effective policies and thus contribute to societal values. This line of critique has led several scholars (see e.g. Schillemans, 2013; Van Thiel et al., 2018) to turn to a different economic model for the relationship between political principals and ALAs: stewardship theory.

Stewardship theory incorporates elements from psychology into the model (Davis et al., 1997). It also assumes a dyadic relationship, but now between a (political) principal and a steward (agency). All actors are still assumed to be rational, but there is no goal divergence. The interests of the principal and the steward are aligned, focusing on the best organizational result. Risks like adverse selection and moral hazard are therefore absent, even though there is still an information asymmetry between the two parties. Important to note, however, is that a steward is intrinsically motivated and will not respond positively to hierarchical monitoring by the principal, as that will be perceived as distrust. Therefore, other instruments are needed to manage the steward and ensure its good performance.

When Davis et al. (1997) presented stewardship theory as an alternative for principal-agent theory, they stated that the optimal situation is if both actors choose the same model for their relationship. If the principal and the agency each choose a different model, this will lead to suboptimal results and dysfunctional relationships. However, several authors have questioned whether this claim holds, both on theoretical grounds (see e.g. Pastoriza & Arino, 2011) and through limited empirical testing (see e.g. Van Slyke, 2006; Dicke, 2002). Some of these authors have proposed that instead of a dichotomy there is a continuum, ranging from a principal-agent approach to a stewardship approach. Governments can choose a position on this continuum and change it over time or depending on the situational conditions (Arthurs & Busenitz, 2003; Pastoriza & Arino, 2011). It is however not clear yet how this continuum would work (cf. Grundeij, 2008); do principals start out in a principal-agent modus, which could over time become a stewardship-like relationship, or do principals mix instruments for autonomy and control from the start? Empirical research on the use of the models is scarce but there are some first indications that show

that governments use a mix of the two models (Schillemans & Bjurström, 2020; Van Thiel et al., 2018). This would contradict the dichotomous nature of the models as emphasized by Davis et al. (1997, cf. Grundei, 2008) and, based on the prediction of Davis et al. (1997), could lead to dysfunctional relations. However, there is insufficient evidence to draw conclusions just yet. More studies have to be done, and our study on Australian federal ALAs aims to contribute to this goal. We will test which model and instruments the federal government has put in place to manage ALAs, and how this is perceived by the ALAs. In doing so, we deliberately place the two models opposite of each other, to make for a clearer analysis.

Instruments for arm's length management

If a principal-agent (PA) approach is used to manage ALAs we would expect a preference for hierarchical instruments, based on the need to monitor and check the agent. Therefore, in this approach ALAs will probably not be allowed to have an independent board. They will also not be granted many degrees of freedom, financially and otherwise. Instead there will be an intense regime of reporting, for example using multiple performance indicators, frequent contacts and detailed legislation. In a principal-steward (PS) approach very different instruments will be used, based on a trusting relationship. Management and control will be truly at arm's length, focused on outputs and results. ALAs will be granted autonomy to manage themselves and their task. Contacts will be less frequent than in a PA approach but not absent, and legislation will be less detailed (more framework or principle based instead of rule based). Supervision/oversight may be carried out by independent boards, regulators or inspectorates. The Table below summarizes these two approaches and instruments (Table 1).

Below we will present findings on which instruments are in use in the case of federal ALAs in Australia, and how they perceive this, for example in terms of trust, the quality of interactions and goal convergence. Together the results can be used to determine what type of relationship is in use, at least according to the ALAs.

Arm's length agencies in Australia

Australia is a (Westminster) parliamentary federation with a long tradition of ALAs, particularly statutory authorities (Wettenhall, 2005; Weller, 2007; Maley, 2017; Smullen & Clutton, 2021). Through the rise of New Public Management in the 1980s and 1990s Australia saw both efforts for greater assertion of political authority over administrative entities, together with devolution of management responsibilities (see Aucoin 1990, 2012;

Table 1. Instruments for management at arm's length.

Instrument	Principal agent (PA)	Principal steward (PS)
Board	<ul style="list-style-type: none"> No board, or only a small board and members appointed by the principal 	<ul style="list-style-type: none"> Professional board, independent, with legal competencies
Monitoring/Accountability	<ul style="list-style-type: none"> High frequency of reporting, audit, evaluation, etc. Focus on input No horizontal accountability 	<ul style="list-style-type: none"> Low frequency of reporting, audit, evaluation, etc. Focus on output and outcomes Horizontal accountability
Performance management	<ul style="list-style-type: none"> Part of monitoring: high number of indicators, imposed by principal, focus on input 	<ul style="list-style-type: none"> Indicators report ex post about results (output), ALA involved in developing indicators
Contacts	<ul style="list-style-type: none"> High frequency of contacts, indicative of distrust 	<ul style="list-style-type: none"> Moderate frequency of contacts, in trusting atmosphere
Finances	<ul style="list-style-type: none"> Government funding, low degree of financial autonomy (e.g. no multi-annual budgets, shifting budgets) 	<ul style="list-style-type: none"> Funding through tariffs and fees, high degree of financial autonomy (e.g. multi-annual budgets, shifting budgets)
Involvement in policy development (policy autonomy)	<ul style="list-style-type: none"> Low degree of policy autonomy (focus on implementation, low on involvement in development) 	<ul style="list-style-type: none"> High degree of involvement in development of policy, even initiating new policies
Legislation (legal basis, generic legislation)	<ul style="list-style-type: none"> Detailed legislation, both generic and agency-specific 	<ul style="list-style-type: none"> Framework legislation, both generic and agency-specific

Halligan, 2000; Smullen, 2010). This was characterized by more direct relationships between ministers and ALAs, greater formalization of management responsibilities and the application of different kinds of financial, management and structural instruments to oversee political-administrative relationships, including those affecting arm's length agencies. Most recently, some of these initiatives specifically identify a stewardship role in legislation, with authority being dispersed based (at least rhetorically) on a principles (rather than detailed rule) approach to protect the strategic capability of the public service (PSA 1999/2013; PGPA Act, 2013 (Canberra); see Podger, 2016). Part of this vision included public servant stewardship of civil society providers of public functions (PGPA, 2013; O'Flynn, 2019).

Types of semi-autonomous ALAs in Australia

Before setting out arm's length agency types, or rather principal¹ "entities" in Australia's recent reform parlance, it is important to clarify some etymology, since the term "agency" in Australia is widely (and with a long historical pedigree) used to describe a range of government entities, including departments (Smullen, 2010). A standard departmental distinction drawn² is that between the "central agencies" (Department of Prime Minister & Cabinet; the Public Service Commission – which is a "Non Corporate Commonwealth Entity" [NCCE, see definition below] within the portfolio of Prime Minister & Cabinet, Treasury, and the Department of Finance),

and specialized “line agencies” – all the other departments with portfolios for policy, regulation and service delivery in specific policy sectors (e.g. Department of Health, Department of Communication and the Arts, et cetera).³ This use of the “agency” term, and a very small “executive agency” uptake in the 1990s/early 2000s (as compared to the Next Steps program in the UK), has led numerous commentators to argue that Australia has focused more upon central coordination mega-departments and financial/personal devolution to line managers rather than agencification⁴ (Halligan, 2000; Podger, 2016). But this ignores that much of the financial devolution was equivalent to aspects of executive agency reforms elsewhere (such as the Netherlands and the UK, Smullen, 2010) and that they often, certainly most recently, went together with distinctive organizational identities, and with legislative or regulatory mandates.

In the contemporary administrative landscape, both the Public Governance, Performance and Accountability Act (PGPA, 2013) and the Public Service Act (Public Service Act (PSA), 1999, amended in 2013 (Canberra) have been significant in distinguishing boundaries between different types of “entities”, their location within the core public service (or not), and the rules, governance designs and values that apply to them (see Podger, 2016 for a more detailed account). Key distinctions recognized in the PGPA Act is that between Non-Commonwealth Corporate Entities (NCCEs), Commonwealth Corporate Entities (CCEs), and Commonwealth Companies (the latter is excluded from this analysis) (Smullen & Fawcett, 2018).⁵ Importantly, all government departments (thus central and line agencies) come under the PGPA Act as NCCEs, but they also have other NCCEs within their portfolio (and some that are not and thus part of the department NCCE), for example the Aged Care & Safety Quality Commission is an NCCE in the portfolio of the Department of Health, while the Therapeutic Goods Administration is part of the Department of Health, and not its own NCCE. This has the effect that NCCEs within a Department’s portfolio have a separate organizational identity, but are still legally and financially part of the Commonwealth (core of legal state). More examples can be found on the Australian Commonwealth Department of Finance website (<https://www.finance.gov.au/resource-management/governance/#flipchart>).

By contrast, CCEs also generally work within a department’s portfolio, but have a separate legal personality from the Commonwealth (for example to enter into contracts and own property). A number of contemporary CCEs previously fell under the CAC Act 1997 and generally have a board, with members appointed by the responsible portfolio minister. The PGPA Act replaced both the FMA and CAC Acts and in the period leading to that, many statutory authorities initially under the CAC 1997, particularly

those dependent on significant government funding, were subjected to the FMA or were privatized (Edwards et al., 2012).

According to most recent data (July, 2020), there are currently 98 NCCEs, 71 CCEs and 18 Commonwealth Companies – considered principal bodies of the Australian administrative state both within the APS and the Commonwealth (Department of Finance, 2016). This appears as a relatively lean state. Indeed, it was recently reported that the APS, i.e. those employees falling under the Public Service Act, has shrunk to its smallest size in 12 years (SMH, 2018). Austerity measures instigated from the mid-2010s, and managed through the Department of Finance, did see rationalization of different entity types, this escalated with consolidations, mergers, and terminations during the period 2013–2016 (Commonwealth of Australia, 2014). However, the figures reported exclude employees for non-APS bodies and the use of contracting private actors/firms. For the purpose of this research, we classify as ALAs NCCEs other than ministerial departments and CCEs; while statutory office holders were included in the survey, they are not included in our analysis as ALAs, nor are government companies.

Managing at arm's length in Australia

In terms of describing the nature of the relationships between political and bureaucratic masters and their “entities”, or rather ALAs in Australia, a range of instruments have been introduced from performance measurement to board design prescription and capability reviews with a long-term strategic objective. These include formal proclamations of shifting to “principle based” management such as in Australia’s PGPA Act 2013. Podger (2016) argues that many of these financial and management reform initiatives follow a consistent trajectory, rather than U-turns, that in general reinforce political priorities with devolved management authority, such as to attain “results”.

Elsewhere, including in Podger’s scholarship, there is concern that this has occurred alongside too much demand for “political responsiveness” which potentially undermines devolved management (Aucoin, 2012; Maley, 2017). Politicization in Australia is argued to have occurred through minister’s appointing officials on partisan lines (such as departmental secretaries, of chairs and members of agency boards, or heads of executive agencies), also with the consequence and practice of reinforcing new lines of reporting directly from ALAs to ministers.⁶ For example, as opposed to, or as well as through, the bureaucratic hierarchy with departments. Australian Administrative Arrangement Orders (defining ministerial responsibilities) distribute functions according to portfolios, with most ALAs within a

portfolio directly responsible to their portfolio (assistant) minister. Departments have coordination responsibilities for ALAs in their portfolio remit, such as for budget and performance reporting. There is concern that increasing politicization undermines recent objectives for agency managers (and even departmental secretaries) to be long term strategic risk takers, as opposed to being subject to political opportunism in a contested environment (also where ministers receive advice from their political advisors, see also Maley, 2017).

Against the background of a suite of management reforms pertaining to ALA's in Australia, both with horizontal dimensions pertaining to devolution of management and shared values (stewardship), as well as hierarchical dimensions with respect to (re)asserting political authority (principal-agent), it is timely to evaluate the degree to which a stewardship model of monitoring and management is perceived among ALAs.

Method and data

The data used in this paper originates from the Calibrating Public Sector Accountability international survey which was administered online in the period of November – mid December in 2017 to top management officials within federal ALAs in Australia, (of NCCEs other than ministerial departments, CCEs and statutory office holders). The international survey focused on top-level managers and staff in ALAs and their accountability toward portfolio departments. The survey consisted of four parts with questions focusing upon the accountability regime (such as reporting and monitoring activities), institutional control variables such as size, type and task of the agency, questions to assess the “felt accountability” of respondents, and their managerial behavior. A number of features of the survey drew from existing quantitative research and surveys of ALAs, in particular the COBRA study (www.soc.kuleuven.be/io/cost). The Australian survey was composed of 26 questions, including some information about the respondent.

Response rate

The survey was sent out to 169 ALAs (excluding the departments) and addressed to targeted respondents among the agency's management team. An email with a link to the online survey was generally sent to the CEO, and although only one member of the executive team was asked to respond the link could be forwarded within the organization. The survey was open for 40 days and three email reminders were sent to respondents throughout this period. Furthermore, a research assistant telephoned respondents to

inform them of the survey and remind them of the deadline. Ultimately, 89 respondents filled out the questionnaire, which makes the response rate 52%. Most respondents were top managers, such as CEOs, chief finance officers or other key executives. Having only one respondent per agency is one of the limitations of the data: however, we assume that these respondents are the best informed, given their top position, about the use of instruments in the relationship between the agency and the portfolio department. Asking more respondents from one and the same agency is no solution in this case as the questions about instruments relate mostly to factual topics. We do acknowledge however that the validity of our conclusions would be served by doing more research, using other methods (like interviews) and data sources. In a few instances we have complemented the survey data with information from other sources (legislation, annual reports, websites), for example on the policy sector, task and size in terms of personnel and budget.

Operationalizations

For this paper, we make use of those questions in the survey that capture the use of different instruments as discussed above, such as the use of audit and monitoring, the presence of horizontal relationships, stakeholder engagement, and quality of contacts with the portfolio department. Other survey questions probed perceptions of the agency managers about their relationships with departmental/political principals. The [Supplementary Appendix](#) provides an overview of the questions and items that were used in this article.

Sample representativeness

Four types of ALAs were included in the survey: 41 Non-Corporate Commonwealth entities (NCCEs -executive arm's length agencies), 43 Commonwealth Corporate Entities (CCEs, primarily statutory bodies) and there were a small sample of Statutory Office Holders (independent legislative officers) and Commonwealth Companies in the study. The statutory office holders and companies will not be included in our analyses below because of their small number and some missing data, so total $N = 84$.

Compared to the population (based on publicly available documents), the sample is representative in some aspects (e.g. type of body) but not in all aspects. For example, the number of ALAs in the sample is in accordance with the division in the population in most cases, but there are slightly less ALAs in the sample than in the population in the fields of the Prime Minister, Health and the Attorney General, while there is a slight

Table 2. Composition and representativeness of sample of arm's length agencies ($N = 84$).

	Population*	Sample
Type of body		
CCE	68	43 (=63%)
NCCE	73	41 (=56%)
Portfolio department		
Agriculture and water resources	8	6
Attorney General	16	6
Communication and arts	13	8
Defense and Veteran Affairs	8	7
Education and Training	7	5
Employment	9	7
Environment and Energy	7	3
Finance	4	3
Foreign Affairs and Trade	4	1
Health	17	8
Human Services and Social Services	3	3
Industry Innovation and Science	7	4
Infrastructure and Regional Development	7	7
Prime Minister and Cabinet	15	5
Treasury	16	11
Average year of establishment	1989	1991
PS Act applicable	93 (no 49)	55 (no 27)
Average staff	564	730
Budget in m-dollars	282	406
Max. number of board members	7.7	8.4

*Line departments, commonwealth companies, and statutory office holders are not included. NCCEs and CCEs total $N = 141$ in this table (out of 169). Table is based on 2018 data.

overrepresentation in the fields of Employment, Infrastructure and Social services (Table 2). The ALAs in the sample are also slightly younger and larger in terms of personnel and budget. They also have on average a larger board, who are also more often paid for their position (68 versus 56%, not reported in the table). This could be interpreted as an indication that the ALAs in the sample are a bit more professionalized (larger, more resources) than the average body. However, the differences are not extreme and concern small numbers, but should be taken into account nevertheless, when interpreting the results from the analyses.

Table 3 presents the data for task. These results are based on researcher (double) coding of the relevant population (of NCCEs and CCEs, excluding statutory office holders and companies) that received the survey, and, the sample of (relevant NCCE and CCE only) respondents. When coding for task, only the primary task type was counted, though the agency may traverse more than one category. Among agencies coded as policy task were policy advisory bodies, for example about (expert) infrastructure or economic issues. There were a number of agencies coded with regulatory or payment tasks, although they also work in the intergovernmental sphere. Within the category of Public/Professional services, there was a mix of outward facing (professional) services to citizens or businesses, as well as inward facing services to other agencies, such as digital or financial services.

Table 3. Task of arm's length agencies.

Task	Population	Sample
Public/Professional services	45 (31.9%)	23 (27.3%)
Supervision, regulation, control	34 (24.1%)	18 (21.4%)
Payment/collection money	18 (12.7%)	14 (16.6%)
Tribunal	8 (5.6%)	7 (8.3%)
Research	18 (12.7%)	11 (13.1%)
Information communication	2 (1.4%)	1 (1.2)
Policy task	11 (7.8%)	7 (8.3%)
Quality assessment	3 (2.1%)	2 (2.3%)
Intergovernmental relations	1 (0.7%)	0 (0%)
Registration	1 (0.7%)	1 (1.2%)
Total	141	84

$N = 169$ for the complete survey. We have excluded statutory officeholders and Commonwealth Companies in the above table.

The (coded) results show the vast majority of ALAs in the sample are charged with public services, regulatory services, financial transactions and research. There appears to be some underrepresentation of ALAs with research tasks and slight over representation of payment and tribunal entities compared to the population. Noteworthy, were important differences between how the researchers coded agency tasks as compared to respondent's perceptions of their tasks. For example, policy tasks were rated much higher among survey responses, and a large portion of respondents rated their task using the option "other", which was not found necessary with researcher coding. Examples of tasks listed as "other" by respondents included, among others, operating a museum, natural park conservation, and investigation of complaints. Most of "other" responses in the survey were recoded public services.

Data have been analyzed using SPSS 25. Most analyses are descriptive. To test differences between types of ALAs, their tasks and portfolio departments we have used ANOVA. The numbers are however small for certain variables, so the results should be interpreted with caution.

Results

This section presents the findings from the analyses on the different instruments from [Table 1](#) for CCEs and NCCEs, the two types of ALAs at federal level that are included in our analysis. Thereafter, the perception of the relationship by these ALAs is discussed. We only report statistically significant findings when these have been found (this applies for example to task effects, which are mostly absent).

Board

The majority (67.1%) of ALAs have a board. However, there is a statistically significant difference ($F = 14.575$, $p < .000$) between the different types

of bodies: almost all CCEs (36 out of 39, 92.3%) have a board, while less than half of the NCCEs do (19 out of 43, 44.2%). The CCE boards are on average much larger (12.7 members) than the NCCE boards (4.5 members). CCE board members also get paid more often (81.7%) than NCCE board members (51.2%). CCE respondents indicate that they meet between 6 and 11 times a year with their board.

There are also some small differences between ALAs with certain tasks: ALAs with public service or policy tasks almost always have a board, while tribunals never have a board. Boards have been established most frequently in the policy fields of Communication, Defense and Infrastructure, regardless of the type of agency. These differences concern small numbers of ALAs though and should not be overgeneralized.

The presence of agency boards has a long history in Australia but they have been most common for statutory authorities and companies (Smullen & Clutton, 2020), which were later most likely to be defined as CCEs or Commonwealth companies (enterprises) under the PGPA Act. Appointments to boards are generally made by responsible ministers, although specific legislation for a given agency or task may specify appointment of particular types of experts or by other actors such as state jurisdictions (see Edwards et al., 2012 p. 131). In general, NCCEs have only advisory boards.

The omnipresence and larger size of the boards in CCEs seems to suggest a more PS type of relationship for this type of body than is the case for NCCEs.

Financial instruments

Table 4 shows the funding sources for the two types of ALAs. NCCEs are very reliant on budgets that come directly from the government while most CCEs have combinations of funding sources, including own income sources. The average budget of NCCEs is much lower than that of CCEs: expenses by the department are on average 192.4 m (AU\$) dollars for NCCEs, 681.7 m (AU\$) dollars for CCEs.⁷

Table 4. Funding of arm's length agencies at federal level ($N = 82$).

	CCE		NCCE	
	No.	%	No.	%
Annual budget allocated by the government	5	12.8	20	46.5
Other sources of income	8	20.5	2	4.7
Tariffs paid by users	3	7.7	3	7
Multi-annual budget allocated by the government	2	5.1	2	4.7
Combination of funding sources	21	53.8	16	37.2
Total	39	100	43	100

Table 5. Financial autonomy of arm's length agencies at federal level ($N = 82$).

	CCE			NCC		
	Yes	If*	No	Yes	If*	No
Take loans	9	9	21	0	5	38
Set fees	28	4	7	13	13	17
Create legal entities	7	15	17	2	3	38
Shift personnel and running budgets	29	6	4	34	3	6
Shift budgets over time	15	20	4	1	30	12

*If: only after approval of the portfolio department.

NCCs also have lower degrees of financial autonomy (Table 5): most cannot take out loans, create legal entities and shift budgets. When we aggregate the 5 items used to measure financial autonomy into one index score (ranging from 0 no autonomy to 10 full autonomy on all items), the average score for the whole sample is low at 4.68, although CCEs have a significantly ($F = 28.864$, $p < .000$) higher average score (5.9) than NCCs (3.6). About 49% of CCEs score 6 or higher, while only 4.6% of NCCs achieve such a positive score. These numbers hold regardless of which portfolio department an agency belongs to, or which task it has.

These findings indicate a rather tight financial hold upon ALAs, particularly NCCs but also in half of the CCEs. This is more congruent with a PA approach than stewardship.

Legislation

Generic legislation concerns the PSA and PGPA acts, as explained above. Significantly, commentary preceding both acts highlighted their “principle based” features meant to codify standards within a more devolved and flexible environment. This is frequently contrasted with earlier “compliance-based” legislation and would suggest formal exoneration of a stewardship role for agency officials. However, provisions, directions and operations relating to both pieces of legislation still host compliance-based practices (Alexander & Thodey, 2018; Maley, 2018).

In theory, the PGPA Act applies to all NCCs and CCEs. It replaced the former FMA Act 1997 and CAC Act 1997, identifying types of entities in a slightly different way than before and under a single integrated framework. Among the objectives for this integration of different entities under one act was accommodation of diverse organizational structures with shared governance and accountability principles. PGPA allows entities discretion to adopt “fit for purpose” management systems, while recognizing all affected entities, irrespective of type or form, manage public resources and should operate as part of a coherent whole.

Initially PGPA architects envisioned a system of “earned autonomy” whereby the Minister of Finance approves different or relaxed governance

provisions depending on entity risk profile and performance (Parliament of the Commonwealth of Australia 2013). Key provisions of the PGPA that furnish a principle based approach include recognition of an “accountable authority” with a uniform set of duties wherein the accountable authority (either CEO or board) has discretion to design how these duties will be achieved by the entity. For example, among prescribed duties are “establish and maintain an appropriate system of risk oversight and management for the entity” or the “duty to encourage cooperation with others”. Any discretionary innovation of duties occurs within established protocols and time-frames for budget statements, corporate plans, and annual reports.

A recent review of the PGPA reveals that compliance-based orientations have not been dismantled though (Alexander & Thodey, 2018). It found variation with respect to entities’ engagement with risk management and that (discretionary) development and tracking of performance regimes was wanting. Smaller agencies found prescriptions in the PGPA such as requirements around audit committees particularly cumbersome, while CCEs generally exhibited better risk practices than NCCEs. Another important finding of the review was that the risk appetite of ministers and parliament had to date not led them to support ALAs in a stewardship role, and there was a recommendation to strengthen the role of the Secretaries’ board to drive improvements in operationalizing the PGPA.

According to the respondents the PSA applies to almost all NCCEs, but only to 38% of CCEs; this difference is statistically significant ($p < .000$). There are no differences with regard to task or portfolio department though. This shows that the PSA Act is of primary relevance to NCCEs, although some NCCEs fall outside of this legislation. In general the government has sought to bring more NCCEs (and sometimes then changed the status of CCEs into NCCEs, for example regulatory ALAs with coercive powers) under the PSA Act because it sets out APS values and a code of conduct (Podger, 2016). There has been some debate about the values introduced in the 1999 PSA Act as it included “responsiveness” to the elected government and achieving results for management performance, alongside Westminster principles such as nonpartizanship, impartial, and merit. The Act was amended in 2013 and the term “responsive” was removed from legislation. Impartial and Committed to Service were now identified as values pertaining to entities’ relations with ministers, although responsive remains in the Australian Public Service Commissioner’s directions about the APS values (Maley, 2018). A key concern and discussion around these changes included greater attention for the stewardship of the public service and specifically the Departmental secretary as a steward protecting the long-term capability of the APS.

Many entities, particularly CCEs, but increasingly NCCEs also, have their own formation statutes or statutes that they may administer in a given policy or regulatory field. In general, this agency-specific legislation can protect and enable its policy autonomy, for example a regulator by giving them enforcement powers or other legislative authority.

In sum, despite formal legal efforts to promote a stewardship role for ALAs through the principle based (stewardship) PGPA and PSA, which have been ambiguous, a compliance-oriented relationship with government (principal-agent) is still apparent. This compliance orientation is more apparent among NCCEs than CCEs.

Performance management

Unfortunately, the survey included only two items related to performance management, so more research is necessary here, such as analysis of contracts and annual reports. The two items asked respondents whether they should meet measurable quality and performance targets and whether it is important that they comply with legal norms (agreement measured on a 7-point Likert scale). In both instances, large majorities of respondents (>95%) agreed or strongly agreed with these propositions. This did not differ between different types of agency, nor their task and portfolio departments. The high level of agreement suggests that most ALAs' opinion on the importance of their performance is in line with the preferences of the principal and thus suggests a stewardship approach by the ALAs – even though both measurability and compliance are both more PA-instruments.

Involvement in policy development

There are not many clear patterns regarding the policy autonomy of ALAs. Overall, there appears to be a relatively large degree of autonomy. There are no differences between categories of ALAs based on task, portfolio department, or type.

Based on the five items in [Table 6](#) we have created an index score (ranging from 0 no autonomy to 10 full autonomy on all items). The average score is 6.4 (s.d. 1.44). Again, there are no statistically significant differences between types of ALAs, portfolio departments, and tasks. This implies that most ALAs have a moderate degree of policy autonomy, and can take decisions on goals, target groups and policy instruments. In case of decisions about communication and priorities the degree of autonomy is even higher. These findings are more in line with a stewardship model than a principal-agent relationship.

Table 6. Policy autonomy of arm's length agencies at federal level ($N = 82$).

Who decides on ...	CCE			NCC		
	Self	Input*	Other	Self	Input*	Other
Overall goals	12	25	1	20	22	1
Identification target groups	23	14	0	20	20	1
Choice policy instruments	21	16	1	18	23	1
Public communication	25	12	0	29	13	0
Prioritization of tasks	24	13	1	29	13	1

*With input from other stakeholders.

Note that not all items were applicable to all arm's length agencies.

Table 7. Contacts between arm's length agencies and portfolio department, minister and agency board ($N = 82$).

	Department		Minister		Board	
	No.	%	No.	%	No.	%
Does not apply	3	3.7	4	4.9	16	19.5
Never	4	4.9	4	4.9	0	0
Once every few years	0	0	2	2.4	0	0
Once a year	4	4.9	9	11.0	1	1.2
2–5 times a year	37	45.1	43	52.4	16	19.5
6–11 times a year	16	19.5	7	8.5	22	26.8
Every month	9	11.0	8	9.8	15	18.3
Every week	9	11.0	5	6.1	12	14.6

Contacts

In response to questions about the frequency of meetings between the portfolio department and ALAs, we found that most meetings occur 2–5 times per year. [Table 7](#). This frequency applies to contacts with the minister and the department (i.e. civil servants), formally and informally.

Most respondents meet with the department or the minister 2–5 times a year, while other frequencies (once a week, once a year, never) are all reported by about 10% of the respondents. These findings indicate that a reasonable frequency of contact is maintained with most ALAs. Meetings with boards are very common and frequent provided a board is present.

As we do not have information about the content of the interactions with ministers and departments, it is difficult to say whether there is a PA or a PS type of relationship. Interestingly, a large number (59.8%) of respondents reports that there is a designated unit for contacts between ALAs and their departments, at both ends – which would be in line with a stewardship approach. However, 18.5% respondents state that neither agency nor department had such a unit, so it is not a standard practice yet.

Monitoring

Survey questions about (1) the frequency of periodic reports to the minister and/or portfolio department, (2) external audits and (3) formal evaluations were used to gauge level of monitoring. Higher levels of monitoring, from

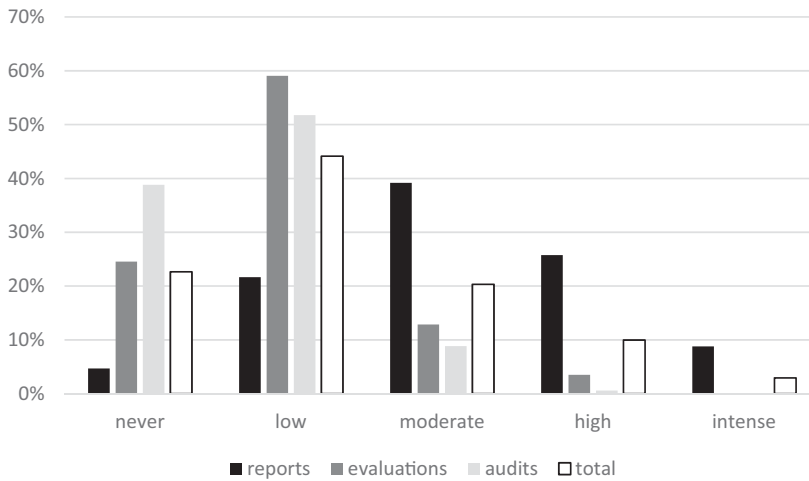


Figure 1. Degree of monitoring of federal arm's length agencies by ministers/ministries ($N = 89$). Low: once every year/every few years, Moderate: 2–5 times a year, High: 6–11 times a year or every month, Intense: every week/every day

6 to 11 times per year and more, indicate a strong principal-agent ethos in the relationship. [Figure 1](#) shows the degree of monitoring.

Submitting periodic reports to the minister or portfolio department is quite common, indicating a moderate to high degree of monitoring. Evaluations and audits are carried out less often: evaluations are mostly done once a year, audits even less as one third of the ALAs reports that this never occurs. This is perhaps not surprising since the latter forms of monitoring are more extensive, but arguably more qualitative, with greater potential for stewardship qualities of building cultural capacity and focus on higher level organizational and policy goals. Furthermore, although capability reviews of ALAs were introduced in 2011, their use has been quantitatively limited and stalled for a period. Although capability reviews are to recommence, their limited uptake to date would indicate limited stewardship qualities in the relationship.

When we add up the three instruments, we see that most ALAs are confronted with a low to moderate degree of monitoring overall. There is also other evidence to indicate that ALAs have extensive input in defining their own performance reporting measures, though sometimes within a (often ambiguous) political strategy set by departments/government (cf. Alexander & Thodey, 2018). Without full knowledge of the level of detail of these types of monitoring it is difficult to say whether this points more to a principal-agent or stewardship model of relationships. However, the types of monitoring most commonly to occur appear to focus more upon time-limited performance measures as opposed to building long term strategic capacity. This observation would need to be further examined through more detailed qualitative data of performance reporting (Taylor, 2020).

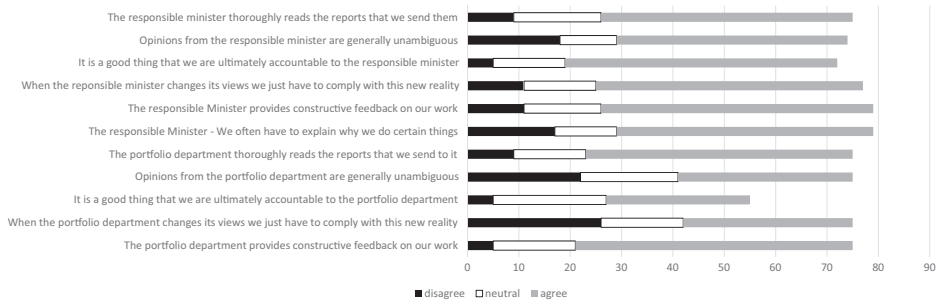


Figure 2. Propositions about the relationship between federal arm's length agencies and the minister/portfolio department ($N = 82$).

Horizontal accountability

Some ALAs indicated to report to “other stakeholders” (17 out of 89). When asked about these stakeholders, they mention the Australian National Audit Office most, and sometimes parliamentary or intergovernmental committees and independent review bodies. Industry and businesses or clients are mentioned three times. Only these latter stakeholders could be seen as a form of horizontal accountability, so overall the ALAs do not seem to engage much in it. However, when confronted with propositions about this topic, the majority (over 80%) of the ALAs agrees that (1) performance information should be publicly available to all stakeholders and (2) that the agency should regularly meet with stakeholders from civil society on a strategic level. This suggests that ALAs may want to engage in horizontal accountability (fitting with a stewardship approach), but in fact do not do so through reports and evaluations. There is evidence (in annual reports) that stakeholder engagement and consultation occurs but perhaps ALAs do not conceive of this as a form of accountability.

Relationship between agency and minister/department

A number of propositions was used to ask respondents about their relationship with the minister and/or portfolio department.⁸ Figure 2 presents the results, in which we have merged the original 7 point Likert scale to a 3 point scale: (strongly/somewhat) disagree, neutral, (strongly/somewhat) agree.

Overall, ALAs seem pleased with the feedback they get when they send in information or account for their performance, either to the minister or the department. However, ALAs also agree in large numbers to propositions that seem to express a lack of attention or memory on the side of the minister (“we often have to explain why we do certain things”) and that point to an uneven distribution of power, with the minister/department clearly having the upper hand in the relationship (“when the minister/department

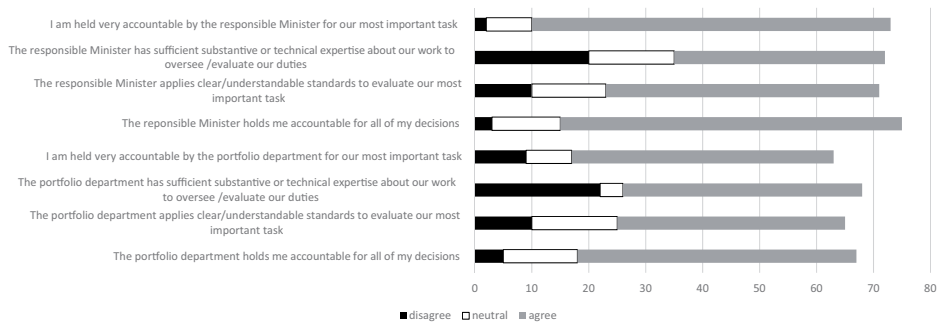


Figure 3. Propositions about the capacity and skills of the minister and department to monitor arm’s length agencies at federal level ($N = 82$).

changes its mind, we have to accept the new reality”). This is a generic picture; there are no statistically significant differences between types of ALAs, their task or the portfolio department with which they are dealing. In an increasingly adversarial political context where top-level administrative officials can and are changed with a change of government, it does not however bode well for a long-term steward relationship and even may point to dysfunctional relationships.

When asked about the skills of the minister/department in monitoring ALAs, the respondents indicate that these are generally good. For example, they agree that the ALAs are generally being held accountable by clear and understandable indicators. However, the ALAs’ respondents are less convinced that the minister/department have the substantive expertise needed to be able to evaluate the agency (see Figure 3). This is in line with the assumed information asymmetry between principals and agents or stewards, and therefore in itself does not point to either of the two models being applicable here.

Goal convergence

The most important difference between a principal-agent and principal-steward approach concerns the assumption of goal divergence or congruence. The survey contained two items on this topic, which render interesting results. Respondents were asked to respond on a 7-point Likert scale (from strongly disagree to strongly agree) whether they are willing to work in the interest of (i) the portfolio department and (ii) the minister. The majority of all respondents agree with this proposition (87.8% agrees on the first, and 96.0% on the second proposition) regardless of type of ALA and task. And although not statistically significant, the NCCes are on average more negative about most propositions than the CCEs. This is an interesting finding since NCCes in general are more likely to be subject to the Public Service Act (1999, amended in 2013) and are therefore part of the core of the APS. In both a legal and financial sense, NCCes can be vulnerable to (potentially

unexpected) political demands of the minister and government, in spite of any agreed performance measures although their employees are more likely to be permanent public servants and instilled with values of merit and expertise. While such unexpected political disruptions can also occur with CCEs, their more extensive (legal and financial) autonomy can shield against this or indeed be deemed consistent with a potentially “politically appointed” board.

All in all, these findings seem to suggest that most ALAs perceive themselves more as a steward than an agent, but CCEs more often than NCCEs.

Discussion and conclusions

Table 8 summarizes the findings. It is important to recognize that our findings are drawn primarily from the survey responses. More research with other sources of data and methods is necessary to further substantiate our conclusions.

In general, the type of instruments examined and how they are deployed appear to favor more a principal-agent model of monitoring, and this is most strongly experienced by NCCEs (see e.g. their low degree of financial autonomy) as compared to CCEs. These are tentative findings and lend greater weight to the features of some of the instruments, for example, the tight financial controls of NCCEs, the limited number of NCCE boards and (bespoke) political appointments to CCE boards, the limited use of audit, evaluation, capability reviews (according to respondents) as compared to the frequency of performance reporting.

Nevertheless, there are also indications of stewardship features to the relationships and the potential for this kind of arrangement. For example, the majority of respondents, whether NCCE or CCE, indicate a moderate (and arguably good level of) frequency of contact and a moderate degree of policy autonomy. Furthermore, ALAs generally have input to and even design their performance reporting requirements and plans, and the generic legislative frameworks (PGPA) commit to a principle based governance. The practice of these latter arrangements still requires further empirical examination, as do the designated units for contacts.

Most ALAs perceive the relationship with the portfolio department and minister in a positive way, but also report a lack of interest or attention as well as a lack of capability to process all information provided. This fits with the information asymmetry that is characteristic for the principal-agent/steward relation. Therefore, in itself this does not say much about the perceived quality of the relationship; that would require more research.

In sum, we find that there is not one of the two models in use, rather a mixture of instruments and features from both. While ALAs seem more inclined to embody a stewardship approach (see the findings on goal

Table 8. Summary of findings.

Instrument	Findings	Are findings more in line with PA or PS?
Board	Minority of NCCEs have boards compared to almost all CCEs. CCE boards are larger, and have more often paid members. CCE boards generally have legal competencies and expert appointments, they appoint the agency CEO. Appointment of board members are mostly done by the minister. Recently there is increasing evidence that CCE board appointments are becoming politicized.	PA for NCCEs and PS for CCEs, although recent evidence of politicized board appointments points to increasing PA for CCEs
Monitoring/Accountability	Moderate degree of monitoring for NCCEs and CCEs but primarily routinized financial and performance reporting (input/output orientation not examined). Limited use of evaluation, audits and capability reviews for NCCEs and CCEs.	More PA than PS
Performance management	Almost all ALAs agree on importance of measurability and compliance.	PA instrument (but small evidence base)
Contacts	Majority of respondents meet once per month or every two months with portfolio department or minister. Almost 60% report having a designated unit for departments and ALAs. No pattern in frequency of contacts on basis of agency type or other variables.	Moderate frequency of contacts. Because of lack of information on content of contacts no conclusion on PA/PS.
Finances	NCCEs are more reliant on direct government funding than CCEs. NCCEs also have lower degree of financial autonomy. Budget size does not affect other variables.	PA for NCCEs, PS for CCEs
Involvement in policy development	Moderate degree of policy autonomy for all ALAs, no clear patterns for task, legal type or portfolio department.	PS
Legislation	PGPA Act and PSA Act seek to provide generic and value/principle based framework legislation.	PGPA aims for PS relationships

congruence), the Australian federal government mixes elements and instruments from the two approaches, despite the intended shift to stewardship entombed in the PGPA Act. These findings offer more support for the idea of a continuum between both models rather than a dichotomy. Similar findings have been reported for other countries (Schillemans & Bjurstrøm, 2019; Van Thiel et al., 2018, but see Bjurstrøm, 2020). Although the number of studies is still small, further theory development is necessary to determine whether there are any typical mixes, under which conditions these are developed and used, and how they are affected over time and by multiple interactions between ALAs and governmental principals (cf. Grundei, 2008).

Furthermore, following the claim by Davis et al. (1997) the mixing of instruments would be expected to lead to dysfunctional relationships. Our findings on how ALAs perceive the parent minister and portfolio department seems to suggest an overall positive relationship, but with some points for concern such as the level of attention and the capacity of the responsible minister and department. This could be interpreted as indicative of some problems, but more qualitative studies are needed to reveal whether there are indeed dysfunctional relationships.

Finally, some limitations of our research and recommendations for future research need to be mentioned. The survey contained limited information about some of the instruments, such as the use of performance measurement; this could be complemented by an analysis of the formal accountability arrangements such as annual reports and accounts. More qualitative research would be needed to go into the results regarding policy autonomy, boards and the content of contacts between ministries and ALAs. Also, it would be good to survey the portfolio departments as well, to get data from their side of the relationship. Replication of this study in other countries and/or in Australian states would also be called for. While the findings on federal ALAs in Australia resonate with findings in other countries, the number of countries under study is still very small. Agencification has however occurred all over the world, making research into the relationship between governments and agencies a topic of global interest.

Ethical approval

Ethics approval for the Australian project was obtained by the Human Research Ethics Committee ANU (protocol number 217/559).

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Data availability statement

Other information about the Calibrating Public Sector Accountability project, within which the Australian project was embedded, is found at www.accountablegovernance.sites.uu.nl.

Notes

1. Here the term “principal” has nothing to do with principal-agent theory – it is how the Department of Finance describes the main type of administrative bodies of the APS and Commonwealth.

2. This distinction also indicates that not all ministers are entirely equal in cabinet decision-making processes with ministers of DPM&C and Treasury seen as holding greater authority/sway over others. Though this does not prevent other ministers from fighting for the departmental turf or being more in tune with the details of their departments and portfolio of responsibilities.
3. The entrenched application of this use of agency (as departments) in Australia, and other arcane distinctions, led Professor Roger Wettenhall to prefer the term *Non Departmental Public Bodies* but there are a number of different types and legal/financial/normative requirement boundaries that these traverse, and some are arguably equivalent to executive agency/other comparative distinctions (Podger 2016; Smullen 2010; Van Thiel 2012).
4. Perhaps a more accurate description of these commentators argument, which they have also espoused, is that Australia has not per se embraced a commitment to separating policy from implementation, where ALAs simply deliver services. Public bodies, including core departments, have been seen as integral to contributing to both policy and implementation. The cumulative trajectories of organizational reforms affecting Centrelink is illustrative of this.
5. We exclude Commonwealth Companies, often referred to as Government Business Enterprises (GBEs), which are companies the Commonwealth controls, such as the Australian Railway Track Corporation. The PGPA describes relevant companies, but they are also governed by a separate Act, the Corporations Act. There are currently 18 Commonwealth Companies.
6. Direct relationships between CCE Chairs and/or boards, or rather what were formally statutory authorities or corporations, with ministers has a longer precedent. With the insertion of 'executive agency' into the PSA Act direct reporting between the agency CEO and minister, then for ALAs with less formal independence (eg. NCCEs) was routinized.
7. Budget numbers are based on annual accounts. We have not included the Treasury and the Tax Office (outliers).
8. The Australian survey was distinguished among the other seven countries surveyed in the Calibrating Public Sector Accountability study in that survey questions posed about relationships, contacts and reporting to a political/bureaucratic 'principal' asked respondents to distinguish and rate their experiences between reporting to their department and reporting to their minister.

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