

Fifty Shades of Accountability: *Governmental-Nongovernmental Hybrids*

by Rae André, PhD

Careful study of GSEs and quangos can help guide thinking about hybridity in the nonprofit sector. The concerns raised about accountability and governance in these “gray sector” organizations apply equally to all hybrids, and lead to the essential question of—as the author describes it—“which types and sets of organizations are most likely to populate a society that is responsive to its citizens.”

Editors’ note: *Accountability and governance systems are very different sectorally, and, as the author suggests, the result may be an organization that has insufficient accountability to anyone or that is subject to odd makeshift governance and accountability systems. This brings up one of the core counterbalancing concerns we should all have about hybrids. This article was first published in the Journal of Business Ethics, under the title “Assessing the Accountability of Government-Sponsored Enterprises and Quangos.” It has been abridged, but the full article can be accessed at <http://link.springer.com/article/10.1007%2Fs10551-010-0509-y#page-1>. We thank JBE, Springer, and the author for their kind permission.*

THERE EXISTS TODAY IN WESTERN DEMOCRACIES A unique organizational sector that is often described as neither fully private nor fully public. This sector is comprised of quasi-autonomous nongovernmental organizations (quangos) in the United Kingdom and elsewhere,

and government-sponsored enterprises (GSEs) in the United States. These organizations have been established by governments to serve the citizenry as a whole through targeting the needs of particular groups or fulfilling specific functions. Examples are: in the United States, the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the California Public Employees’ Retirement System (CalPERS); in

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Britain, the strategic health authorities created by the National Health Service; and, in Australia, the Australian Broadcasting Commission. In this article I examine the processes by which organizations in this sector are held accountable for implementing the missions established for them by the governments that created them.

Organizations with both public and private sector characteristics have been called, among other things, government-sponsored enterprises, hybrid organizations, public authorities, and quangos.¹ As a group, they have been termed quasi-government, public government, the fourth branch of government, and an unelected state.² The concerns related to this lack of consistent terminology have been discussed extensively elsewhere, and indicate both the heterogeneity of this organizational sector and the challenges of understanding it.³ While quangos and government-sponsored enterprises are not exactly the same, neither, typically, is each quango or each GSE exactly like the next. In light of this heterogeneity, and to include both quangos and GSEs in this analysis, I follow Carston Greve and refer to this set of organizations simply as the “gray sector,” and to the organizations themselves as “gray sector organizations” (GSOs).⁴

Many individual GSOs—and, also, the set of GSOs—have become important centers of influence in society. Arguably, they acquire power because they are not accountable to their stakeholders in the traditional ways that either governments, through elections, or private businesses, through markets, are accountable.

Why GSOs Are Unique

To characterize organizations in the gray sector, two useful arrays have been suggested by British and U.S. researchers. Matthew V. Flinders and Hugh McConnell array quangos on a continuum based on the degree to which they are public versus private entities and the degree to which they are independent of politicians.⁵ Examples of the British organizations Flinders and McConnell place in the gray sector are the Bank of England, the British Broadcasting Corporation, and the U.K. Atomic Energy Authority. An American view characterizes organizations the authors refer to

as “hybrids” on three dimensions: public versus private ownership, public versus private funding, and polyarchy versus market control.⁶ The first two variables are self-explanatory; the third refers to the type of control applied to the organization. Governments and most hybrids are controlled by polyarchy (e.g., political control), while private enterprises and some hybrids are controlled by the market.⁷ A set of U.S. hybrids that exemplify these criteria includes Fannie Mae, Freddie Mac, the National Railroad Passenger Corporation (Amtrak), and the U.S. Postal Service.

Taken together, these British and American conceptualizations suggest that GSOs differ from governments and businesses in three important ways. First, their legal standing is unique. Not only is a GSO established by legal parameters that differ from both public and private sector organizations, but, in addition, typically each is separately created, with its own unique combination of legal and financial characteristics. Also, unlike businesses, GSOs can be legally redesigned or abolished by government at any time. A second major difference is that their funding and capitalization may blend a variety of government and private sources. Some GSOs are fully funded by the government, while others receive no monies from government, and still others have stockholders and/or bondholders. Finally, some operate as government monopolies while others compete as businesses in the business sector.

The Modern Prominence of GSOs

The GSOs in the United States perform such critical functions as managing turnpikes, bridges, airports, and convention centers, and financing housing, health, and education. Specifically examining GSEs in the United States, there are, at the federal level, approximately fifty such organizations, and there are many more at the state and local levels.⁸ In the state of Rhode Island, for example, there are some thirty GSEs, most of which were created in the two-decade period from the early 1970s through the early 1990s.⁹ In Massachusetts, there are 509 GSEs; in recent times the state and regional authorities alone had employed twelve thousand people and spent more than \$2 billion annually.¹⁰

In the United Kingdom, since the late 1980s, the growth of those GSOs known as quangos has been called “spectacular,” especially at the local level, where most of the U.K.’s 6,500 appointed organizations are found.¹¹ At one point more than seventy thousand individuals were sitting on their boards. The National Health Service runs numerous quangos, some local schools are quangos, and quangos have advised government on issues as crucial as the safety of nuclear-powered warships.¹² At this time, in the United Kingdom, the size and impact of the population of quangos continues to be a significant political issue.¹³ Countries with similar organizations and concerns are Australia, Denmark, France, Italy, the Netherlands, and Sweden.¹⁴

The population of GSOs is vital because these organizations serve a variety of government interests. To begin with, governments may want to establish organizations that are independent of politicians: GSOs remove controversial issues from party politics, thereby reducing the workload of legislators.¹⁵ They may introduce new, more efficient and less costly management techniques and business practices. GSOs can attract experts who might not choose to work for a government department due to its inferior pay, facilities, or opportunities. GSOs may engage the public through boards and committees, act in important advisory capacities to government, and sometimes allow taxpayers to allocate a restricted amount of funds to ventures of interest without being responsible for full financial support.¹⁶

Finally, GSO operations are typically off budget, thus cloaking their affairs and expenditures from public scrutiny. Sometimes the organizations’ very existence is obscured. Jonathan G. S. Koppell has pointed out that in the United States, for example, no one really knows how many federal GSOs exist.¹⁷ In Congress, terms like “agencies,” “foundations,” and “corporations” are used interchangeably. One investigative study of U.S. government corporations, which are a subset of GSOs, relied upon the organizations themselves to choose their organizational category, and excluded them if they did not choose to call themselves government corporations. Similar obfuscation exists in

Britain, where governments often use the term “non-departmental public bodies” (NDPBs) to refer to quangos. Since many public bodies escape being thus classified, one in six NDPBs escapes the oversight of a key regulator.¹⁸

The population of GSOs also serves specific purposes of the business sector. Since some state projects are inherently risky financial ventures, creating organizations that reduce liabilities attracts private investors. Also, banks, bondholders, and lenders want maximum security (i.e., government security) in return for their investments. Sometimes government-backed loans are cheaper, as well. In addition, some GSOs advance particular business projects, such as real estate developments and infrastructure expansions. Finally, GSOs present opportunities for individual business and government leaders to acquire money and prestige.

In sum, GSOs are unique organizations that serve many interests of governments and businesses, and as a result their use is widespread. In the next sections I define accountability and examine concerns about the extent to which GSOs are accountable to the governments that established them.

Accountability Defined

Fundamentally, accountability is the process of judging an organizational action or result against a standard, and then acting on that judgment. The standard by which GSO processes and outcomes are measured is the extent to which they advance their mission to serve the public good. A GSO that deviates from its mission will be referred to here as “unresponsive,” or, equivalently, “corrupt,” while one that fulfills its mission is “responsive,” or, somewhat more loosely, “accountable.” I use the term “corruption” here to mean deviation from the standard, a definition that captures the essence of the term as used in recent research. Specifically, one common definition of corruption is “the illicit use of one’s position of power for perceived personal or collective gain,” and inherent in this definition is an implied judgment against a standard: the use of the term “illicit” suggests that someone has stood in judgment on this use of power.¹⁹

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Accountability is multidimensional, including upward accountability to government and the public, downward accountability to the clientele, and lateral accountability to peers and other reference groups.²⁰ There are many ways to hold an organization accountable, including the establishment of watchdog agencies, an independent and accountable judicial process, an independent and healthy civil society, and the criminalization and prosecution of corrupt behaviors and acts.²¹ Although governments are the main actors holding GSOs to account, other organizations and interest groups have some power to do so. For instance, clients and other stakeholders can hold GSOs accountable either for their particular interests or for the public good. They can take their business elsewhere, develop competing or countervailing organizations, involve the press, or lobby their elected representatives. Accountability is also characterized by a variety of activities that must occur at different points in time—such as during the process of establishing a GSO, while the GSO is performing, and when evaluating the organization's performance.²²

When assessing an organization's accountability, modeling both process accountability and outcome accountability is crucial, because the connection between an accountable process and an outcome that can be described as accountable is often broken. For instance, if policy advice is secret and a GSO's operations are concealed from independent inspections, even though its outcomes can be measured its process accountability cannot be.²³ Finally, both too little and too much accountability can be problematic: in some cases, an organization's mission is impeded by excessive accountability requirements.²⁴

In political science, the issue of organizational accountability is couched as finding the "proper balance between administrative discretion and indirect popular control of government."²⁵ In the United States, this conceptualization can be traced to Woodrow Wilson's view that elected representatives set policy whereas their appointed bureaucrats administer it. Wilson's view is similar to an early distinction drawn in Australia between "executive" and "administrative" work.²⁶

However, Wilson believed that separating policy-makers from administrators is only workable when both the policy-makers and their administrators have similar (i.e, clear and corresponding) views of the purpose of government, and since such convergence is rare, there is always a tension between legislators and administrators.²⁷ With GSOs, the environment is typically more complex, with three parties involved: legislators set the policy, the GSO administers it, the regulator watches the GSO, and legislators watch the regulator. This more complex situation makes Wilson's notion of a workable interaction that much more difficult to achieve.

A Systems Model of GSO Accountability

Since GSOs are created by governments to serve their citizens, the fundamental standard against which GSOs are judged is the extent to which their activities advance the public good. In general, when observers describe lack of responsiveness and corruption at Fannie Mae, they are concerned with that organization's excessive risk taking, its highly paid executives, its monopoly power in the housing finance sector, its lobbying power in Congress, and its general "lack of accountability." Each of these criticisms implies a standard: that a GSO should not take risks like a business, that its executives should not be paid salaries like top CEOs, that monopoly power is unacceptable, and so forth. Often, these standards embody attitudes, beliefs, and moral judgments about what good government should be.

Public standards for GSOs do not necessarily rise to the level of embodiment in law. For instance, in 2003 the head of the New York Stock Exchange resigned after a series of trading scandals and widespread criticism of his \$140 million compensation package. While the compensation package may have been in line for the head of a major corporation, it was considered if not illegal then inappropriate for the head of what was at that time a quasi-public regulatory institution.²⁸ In 2004, after a history of irregularities, the management of Fannie Mae was found to have misapplied accounting principles, and was required to resubmit financial statements for the previous four years;²⁹ its auditor, chief



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executive, and chief financial officer were fired;³⁰ and its CEO was sued by the government to return certain bonuses (but he was not criminally prosecuted).³¹

Today, there is widespread concern that, in comparison with government departments, the entire gray sector is unresponsive to public standards.³² The most serious implication is, as Koppell writes, that government dependence on GSOs “insulated from the public and their elected representatives, threatens the very legitimacy of a democratic political system.”³³ One important question is just how far should a GSO be allowed to deviate from the standard of fulfilling the public good?

Organizational Design Accountability

The organizational design of a GSO can be either responsive or nonresponsive to its mission. For example, an elite might deliberately encourage mission corruption by employing hierarchical power to implement it,³⁴ or top management might limit information and responsibility among employees and establish nonresponsive norms that are then rewarded.

Organizational design is the “process of specifying optimal combinations of organizational characteristics to achieve organizational outcomes.”³⁵ As in the private sector, GSO managers manipulate the variables of organizational design—structure, decision making, control and motivation, work design, and culture—to achieve their goal. The limited research on the relationship between organizational design and accountability suggests that some aspects of organizational design enhance the probability of an organization’s being accountable, while others reduce it.³⁶ For example, centralization has been shown to be related to secrecy, and ethical climates (i.e., cultures) have been shown to vary from different types of organizations.³⁷ In general, it is believed that one way that regulatory and bureaucratic controls work is by their influence on an organization’s design.

One common rationale for establishing GSOs is that they will be designed to implement more effective procedures than are possible in government—for example, they will be designed to

be more accountable than government departments. It is often stated that GSOs replace “government bureaucracy” with “business efficiency.” Translating this into the language of organizational design researchers, the rationale for creating a GSO is that when certain traditional, systematic organizational designs used by governments are ineffective, they should either be changed or their work should be outsourced to a new organization that either implements the original design more effectively or operates under a new design that will be more effective. In practice, legislators may have little confidence in improving upon an existing government design. For example, they may not believe that a government department can change from a bureaucracy into a more flexible and organic organization—the type of organization I will refer to here as an “enterprise.” Instead, they prefer to replace the government department with a GSO that promises to be better designed. Such beliefs can be summarized as follows: government bureaucracy is bad; government flexibility is impossible; and any GSO design, whether bureaucracy or enterprise, is likely to be an improvement. There is little evidence that GSOs are designed to be enterprises, however. From all accounts and criticisms, and like most businesses, most GSOs are bureaucracies.

Just as the universe of organizational designs for businesses is defined by a continuum from bureaucratic/mechanistic to enterprising/flexible/organic, so the designs of GSOs can be similarly arrayed. On the face of it, it appears that GSO responsiveness could be attained more readily from enterprise designs, which are inherently more participative, involving, and transparent than bureaucracies—and, sometimes, even more democratic.³⁸ For example, Flinders and Martin J. Smith suggest that a new kind of GSO design might offer a variety of channels for participation.³⁹ They would make at least one factor of quango design (decision making) more organic and thus make quangos more responsive. However, researchers should use a contingency approach to determine which type of GSO is more effective in enhancing accountability: a centralized system with many rules, regulations, and

directive leadership, or a decentralized system characterized by employee participation that responds to customer feedback—or some combination of the two.

In sum, just as they are used to analyze and determine a business organization's path to effectiveness, so might these organizational design factors be used to analyze and determine a GSO's path to accountability. In practice, however, the governments that create GSOs focus primarily on crafting legal parameters and designing an external regulatory process, and they are likely to view any attempt to influence organizational design as undermining management prerogatives and motivation. In stark contrast, when the public eye turns to GSOs, it wants to see inside them—to see what people are paid, what kind of people are running the organization, and whether the system is fair. The public not only cares about outcomes, it cares about process. One reason for this vision is that the public sees the organization through a moral as well as a legal lens, and perhaps the public has a point: it is likely that organizational design is a factor, perhaps a major factor, in establishing GSO accountability.

Bureaucratic Control of the Heterogeneous GSO Population

Several systemic factors make bureaucratic control and oversight of GSOs difficult. To begin with, because there are no unified standards for the design of GSOs, legislatures have promulgated a heterogeneous organizational sector that is difficult to categorize. Second, the growth in the number of GSOs compounds this complexity. Adding to the problem, some GSOs are constantly in flux, increasingly adding or, as recently occurred with Fannie Mae, subtracting privatizing features, and sometimes evolving into fully private companies.

In addition, whether despite or because of their heterogeneity, GSOs as a population represent power centers that may self-identify, and they might further enhance their power by identifying themselves as a class of organizations that have interests in common.⁴⁰ GSOs sometimes argue that, as a unique class of organization, they

should receive unique legal and other treatments. To illustrate, there is a growing body of case law that deals with such issues as whether GSOs, as quasi-government organizations, have immunity from certain lawsuits, and whether, as quasi-business organizations, they must follow the laws that cover businesses.⁴¹

It remains to be seen whether the growth and evolution of the GSO population itself is an improvement for citizens. One might argue that the more complex, diverse, and changing the population of GSOs, the more bureaucratic control becomes difficult and the higher will be the level of corruption. It would follow that homogenizing GSO organizational designs might reduce that corruption. On the opposite side, one might argue that it is precisely the diverse population of GSOs that will serve the particular needs of the citizenry. Ultimately, the fundamental question is, what is the best mix of organizations?

Conclusion

Jone L. Pearce has pointed out that in the management literature to date, the study of the variety of existing organizations has been neglected.⁴² GSOs are influential organizations that serve commercial as well as societal purposes, create return for stockholders, contract with businesses, and compete in the private sector. They impact businesses, governments, societies, and economies. Today we know that we who study and work in the business sector neglect the study of GSOs at our peril. In order to clarify the relationship between business and government and advance public policy, this article furthers systemic understanding of the ways in which GSOs can deviate from their fundamental mission to serve the citizenry as a whole. Such understanding can help guide thinking about which types of organizations—whether public, gray, or private—and which sets of organizations are most likely to populate a society that is responsive to its citizens.⁴³ In my opinion, there is no organizational design issue of more ethical importance than one that touches on the viability of democratic governments—which the existence of this powerful organizational gray sector certainly does.

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