



RESEARCH ARTICLE

THE PRINCIPAL-AGENT MODEL IN PUBLIC SERVICE EDUCATION, TRAINING AND PROFESSIONAL DEVELOPMENT

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ABSTRACT

The outsourcing and contracting policy-practice establish principal and agent relations in the environment of learning and development within the public service. The article applies the principal-agent model and determines the nature and extent of the contractual relations between government departments on the one side, and on the other, higher education and training institutions (HETIs) and independent individual contractors (IICs). This article argues that the interplay and mutual support of the different decisions within these collusive contexts combine with the outsourced contracting policy-practice contribute to multiple principals and agents across the components of education, training and continuous professional development (ETPD) provision in the public service. The principal-agent model provides opportunities for agency and self-interests behaviour in ETPD provision.

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INTRODUCTION

By encouraging market-led behaviour such as competition in the provision of public service education, training and continuous professional development (ETPD) realm, arguably services and goods will cost less, and that increase competition allows for great innovation and quality in the learning and development of public servants. So, the idea of internal markets and competition through outsourcing of functions of public administration promotes market related solutions to delivery of public goods, services and to resolving regulatory problems. "Internal markets" Lane (1994:149) argues, "enlarge the discretion of managers in the process of supplying goods and services". The discretionary proposition is that improve management autonomy reduces political interference in the execution of administrative affairs. Internal markets in the public service encourage "public managers to develop competition, solicit bids, rebid contracts, develop performance measures, and monitor and hold contractors accountable for contract goals, service quality and client satisfaction" (Van Slyke, 2006:160). The logic of internal markets is its ability to determine what public goods and services are outsourced commodities.

In this market-based process a multiplicity of suppliers – both public and private – compete for public sector contracts. The types of outsourcing contracts rely on competition that yields transactional costs efficiencies, risk shedding to contractors, to compensate for scarcity of resources, to address a lack of competencies and expertise, and to improve innovations and technologies in the provision of ETPD. As government seeks greater efficiency and turns to contracting, the need to ensure accountability generates transaction costs and maximisation of efficiency. The outsourced contract model, markets argue, contributes to enhancing the institutional capacity of the public service in the learning and development programme structure, content and accreditation. The outsourcing produces principal-agent relations in the ETPD provision to deliver on learning and development programmes. In this article the principals are government departments and agents are independent individual contractors (IICs) and higher education institutions (HETIs). The outsourced ETPD contracting produces typical principal-agent relationships, that is, relationships of authority between the state institutions such as departments (principals); the National School of Government (both agent and principal); and the G-SETAs¹ (principal and agent); and with IICs and HETIs

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¹The body responsible for quality assurance is the Quality Council for Trades and Occupation (QCTO) and hence of accreditation. It is this function that the QCTO may responsibility delegate to the SETAs, but not the accountability.

The SETAs have primarily a skills development mandate for their specific sector that is separate from an accreditation – quality assurance mandate. The accreditation competency is delegated responsibility to the G-SETAs from the Quality Council for Trades and Occupation for levels 1 to 4 for skills development² of public servants. SETAs in essence have a skills development mandate for their specific sector that is separate from an accreditation role. HETIs, responsible for qualifications from level 5 to 10, are accredited institutions within their own establishment law determinations of the South African Qualifications Authority's (SAQA) Council for Higher Education (CHE).

The independence of these institutions as part of the SAQA suite is aligned to domestic and international best practice of accreditation and quality assurance. Accreditation of qualifications is an important traction for contracting. The article focuses on agency theory in the outsourcing and contracting of public service ETPD. The internal markets encourage institutional complementarity, at least in the official policy, between departments, IICs and HETIs. Shapiro (2005, 267) suggests that these “inter-organisational relations” defines the principal agent model. The article argues that the principal-agent model influences, conditions and controls the strategic responsibility and accountability of departments as principals relative to the delivery agents in the ETPD delivery mode. The outsourcing contract of solidifies ETPD as a commodity, diminishes state control and provides opportunities for agency and self-interests behaviour. Outsourcing of ETPD provision in and for the public service and servants is premised on a number of pillars: a) reasons of efficiencies in the design, production and delivery of ETPD programmes; b) budgetary constraints through a reduction and rationing of high costs; and c) the limited capacity within and across the government in the ETPD provisioning of competencies for public servants. Three questions are examined in this paper: First, what public service contract practices are applied in the provision of ETPD for public servants? Second, what conditions affect the contract practices applied to IICs and HETIs in the contracting relationship? Third, to what extent are these outsourcing practices consistent with the tenets of agency theory?

Government ETPD Contracting Relationships

The public service ETPD are often characterised along several dimension by:

- individual-based approach based on the skills development plans of the departments are mostly generic and not specific to different employment levels and occupational categories
- delivery takes place mostly through private companies or independent contractors and higher education and training institutions

²The National Qualifications Authority Act of 2008 locates the responsibility and accountability for quality assurance with the Quality Councils. There are three Councils. A Ministerial determination of the National Qualifications Framework indications differing accreditation mandates: QCTO (levels 1-8); CHE (levels 5-10) and Umalusi (levels 1-4). The CHE is responsible for quality assurance so institutions must meet the quality assurance requirements of the CHE for all their qualifications. SAQA as the overarching apex body ensures that Quality Councils adhere to its regulations and policies.

- varied and problematic orientation to the demands of a transition and development-oriented public service by contractors and their trainers and facilitators
- quality and utility in content and structure of ETPD programmes and course modules focused on individual staffers development relative to institutional requirements, appropriateness and relevance
- costing and pricing of ETPD programmes and the mode of delivery influenced by late in-the-year public spending pressures on the part of departments leading to fiscal dumping

MATERIALS AND METHODS

This article draws on discussions, both strategic dialogue/meetings and one-on-one interactions, with members of Advisory Task Team responsible for the establishment of the National School of Government, the senior management services of at least 10 institutions comprising six national departments, two sector training authorities, two provincial training agencies, academics and representatives of public administration management (PAM) programmes at tertiary institutions and independent individual contractors. The first of these strategic dialogues was with a non-purposive selected group of service provider network (SPN) consisting of HETIs and IICs. The second dialogue was convened and facilitated by the minister³ of public service and administration consisting of more than 500 academics. The third dialogue was with a regional chapter of the South African Black Business Forum. In essence the strategic conversions traverse public policy and delivery environments.

The methodology also follows a review and analysis of official and unpublished reports, documents, ministerial speeches and contracts such as registers of contractors of the government training institutions. It draws on: a) review and analysis ETPD contracts, b) open-ended discussions with selected politicians, officials and staff from government and contractors working in learning and development of public servants at all three levels of government c) sending and receiving of emailed open-ended questions and answers with the strategic management (chief directors and deputy directors-general) of the government departments or institutions responsible for education and training; (d) strategic dialogues with key ETPD stakeholder interests holding both public and private sector interests. In this paper I develop a simple model with five different scenarios based on the components of the value-chain of ETPD function. These components are formulated in a simply mathematical formula to describe the agency relationships derived from the total ETPD function and outsourced components.

Outsourcing of public service ETPD provision

Government departments⁴ as principals, because of regulatory economic, political and administration conditions, outsource

³Breakfast Meeting with Academics convened by LN Sisulu, MP, Minister of Public Service and Administration at a Sandton Convention Centre, Johannesburg, 20 May 2013

⁴Government departments are part of the organs of state as per the Chapter 10, Section 195 the Constitution of the Republic of South Africa, 1996.

contract ETPD for the public service for reasons of concentrate on its core business. The outsourcing of the ETPD for the public service has an internal and external dimensions, where internal is to an organ or entity within the public administration, and where external refers to individual independent contractors. "Organisational capacity and effectiveness costs", according to the markets, are the causation for an outsourcing contract as a "method for dealing with transaction costs" (Gailmard, 2010:36). Outsourcing is an optimal policy choice where the public administration "organization lacks the expertise or resources required to produce a good or service and that the cost of hiring or developing that expertise in-house exceeds the costs associated with contracting for the expertise" (Van Slyke, 2006: 162).

Outsourcing of public goods and services are consistent with the state competency decline and the consequent "expanding role of market forces and competition in determining state economic policy"(ibid). The decline of the state, according to Rankin (2001:20), is about the "transformation from state-led to market-led" resulting in the "loss of state capacity or the political hollowing out of the nation-state". This decline led to the state being "reduced to deregulating or liberalizing distinct national economies to facilitate the flow of capital and the competitiveness of markets (ibid)". In short outsourcing of public goods, services and works have helped growth and development in the domestic economy through internal markets in the public administration. It's has also helped government departments to deliver public goods and services.

The principal-agent model

Agency or the principal-agent model is a theoretical exposition for "structuring and managing contract relationships and to explain the behaviours of principal and agent" (Van Slyke (2006: 162). Agency takes place in the "temporal-relational context of action" (Emirbayer and Mische, 1998:970) and assumes of "social life as a series of contracts" (Perrow, 1998:224). In this principal-agent relationship, Braun (1993:17) suggests the principal give up "its own actions and decisions but is gaining the right to control the action and decisions of somebody else in return", whereas the agent "gains the right to act and decide for somebody else in return". Agency within the state is embedded in a "regulatory bureaucracy relationship" (Waterman and Meier, 1998:174), amounting to not only an "authority relationship", but also being a "recursive one" (Coleman, 1990 cited in Braun, 1993:137). The principal-agent models, according to Van Slyke (2006, 162) focuses on ...information asymmetry (when one party has information the other party does not possess), adverse selection or *precontractual opportunism* (when one party knows more about attributes of a product or service than another and, as a result, the uninformed party runs the risk of purchasing a product or service of low quality), and moral hazard or *postcontractual opportunism* (when a party to the contract uses

information and expertise and acts opportunistically, in its own self-interest, to the exclusion of the agreed upon contract goals).

The agency between the principals and agents is like a "contractual relationship between buyers and sellers" (Waterman and Meier, 1998:174). In this relationship, the authority to produce or deliver goods and services is transferred from the principal to the agent. The "principal's problem" mentions Leruth and Paul (2007) "is to design the contract that most efficiently forces the agent to meet the requirements. The contract must therefore specify a level of output (depending on the state of nature) associated with a certain level of transfer, as well as some control and sanction parameters." However, agents, argues Plaatjies (2007:43) "have their own interests and preferences that could diverge from their principals." Agency theory assumes fundamental problems of goal diversion and conflicts of interests the result from "economics of asymmetric information"(Stiglitz, 2003).

However, Lane (2000:237) suggests that the "principal-agent structure of the state is characterized by ambiguity, opportunistic behaviour, moral hazard and adverse selection". The combined effect is goal conflict and an "interest divergence" according Leruth and Paul (2007:3), "between those who perform task (the agents) and those on whose behalf tasks are performed (the principals)." Stiglitz (1987) suggests that "whenever human interaction involves considerable transaction costs due to the inter-temporal nature of interaction as well as the complexity of the agreement involved, principal-agent problems arise". Human behaviour, according to Laffin (1997:46), "is best understood by reference not to ideas or social values but to self-interest"... motivated by a desire to remain in power". The contracts are therefore instruments to accomplish the goal of making sure that principals "manipulate and mould the behaviour of agents so that they will act in a manner consistent with the principals' preferences"(Waterman and Meier, 1998:174). The principal is motivated by a desire to remain in power by maximising fiscal and regulatory resources to increase its legitimacy over the delivery of contracted public goods and services. It is within the learning and development, temporal-relational context, that principals and agents engage in "voluntary and benefit-seeking" with and expectation of "remuneration" (Braun, 1993:137).

The mutual benefit-seeking relationship of the principal and the agent is both "contingent" and "constitutive of action" within context (Emirbayer and Mische, 1998:970). The principal resolves to handover discretionary powers, decision-making or control to the agent because it considers itself to be sufficiently powerful within the regulatory bureaucracy. This is the established public value of the principal. In an agency relationship characterized by mutual trust and confidence at least from the principal-side, it is assumed the agent's loyalty to and that it acts in the interest of the principal, thus following complying with the requirements of the contract. The assumed attributes of agency suggest no conflict exists between the agent's own interests and those of the principal. However, the agent can also maximise its material returns (Laffin, 1997) by charging higher rates than what is expected or warranted. The maximisation on the part of the contracted agent happens

Government departments are public administration functionaries employing public servants in terms of the Public Service Act, 1996 and where appropriate in terms of the Public Finance Management Act and associated Regulations to the public service. The omnipresent obligation on the public administration, the department, is recruiting, employing and make strategic interventions to ensure and develop a competent, ethical and professional competent public service.

because of an information asymmetry. Legrain and Auwers (2006:3) suggest that the “principal would like to get maximum results while devoting little resources as possible, whereas the agent’s objective is to maximise its resources while minimising its obligation with regard to the principal”.

The existence of multiple principals and multiple agents increase the informational asymmetries, goal competition and conflicts, and difficulties of monitoring and evaluation (Shapiro, 2005). Agents, that is, multiple agents, have competing interests. The interests of some agents may be more congruent with those of their principals than with other agents. Where this congruence occurs there are “no goal conflicts”, suggests Kivistö (2007:18), and that “the existence of information asymmetries would not matter and the agent would automatically choose the actions which would accord with the preferences of the principal”. The produce and exchange of goods and services from the agent to the principal, requires the principal to “trust the expertise and professional know-how of the agent”. Agents, argue Legrain and Auwers (2006:3) by their “specialisation and many contracts with the policy environment...masters the field of expertise and the assignments stipulated in the contract much better than the principal. In a rather Machiavellian way, the agent...tends to limit or even deliberately manipulate the flows of information given to the principal”.

Multiple-principal multiple-agent in public service ETPD

The public service ETPD realm produces several principal-agent relationships, that is, multiple principals, multiple agents and common agency⁵. In the instance of the ETPD common agency occurs where more than one principal delegates to an agent out of a common or same pool of preferred providers. The selection of an agent takes independent from other principals. The principal can alter its own contract with the agent without the consent of other principals. Also, as Lane (2000:237) asserts, the “principal-agent structure in no way prohibits the agent [such as the PALAMA] from reversing the relationship and regarding itself as the principal”. However, the possibility of reversing the principal and agent roles increase the urgency “that institutional mechanisms be found that limit the range of opportunistic behaviour as well as the dangers of moral hazard and adverse selection”(Lane, 2000:237). These relationships are significantly influenced and controlled by the choices made by units of human resource management in departments. By and large these units decide what agents – institutional or individual independent contractors – are to be contracted. The human resource development units wield sufficient authority to “prestructuring the choices” (Braun, 1993:136) of public service ETPD providers.

There are two types of agents in the delivery of public service ETPD: individual independent contractors (IICs) and higher education and training institutions (HETIs). The number of IICs, by and large, outstrips the number of HETIs. IICs are predominately contracted to do training for the intermediary

⁵Common agency – where more than one principal delegates to an agent - is everywhere in politics. Voters delegate to legislators, legislators delegate to party leaders, politicians delegate to bureaucrats, bureaucrats delegate where it is allowed to either public entities or private companies.

agents. These agents are broadly contracted on a) the design of curriculum programmes; b) development of course teaching and learning materials; and c) research on systems, products and tools of an effective and efficient public administration. The total public service ETPD function is located both in law and public service legislation with the substantive principal (government department or entity). The institutions directly responsible for skills development of public servants in the state are the Public Administration Leadership Management Academy (PALAMA) and G-SETAs.

The relationship between principal departments, the PALAMA, PSETA and LGSETA is characterised by multiple principal contracts sequentially and non-cooperatively with the same agent. The PALAMA is a principal and an intermediary agent given its role of an interlocutor between a government department and other agent contractors. The PALAMA is in a “cooperative and almost symbiotic relationships with the recipients of programmes” and its utility as an intermediary agent “becomes a double-edged sword for policy makers [policy making departments and entities who are the essential contractors]” (Braun, 1993:137). There are seven components of the ETPD value-chain, in Figure 1, can either be outsourced by the Government-principal⁶ or implemented internally depending on capacity. In practice, research and design; development and resourcing is outsourced while financing sits with the principal. Although performance monitoring is a critical function of the principal, it is currently not being done. Figure 1 characterises principal-agent relationships in the ETPD. The various government departments represent multiple principals refer to as substantive principals independent of one another and each holding a discrete and independent contract with the same agent such as PALAMA.

The Model

ETPD by the state are outsourced based on the components of the ETPD value-chain from design, production to delivery responsibilities. The outsourced contracting by government departments is considered in five different scenarios where not only the components contracted out are different but the nature of the principal-agent relationship also changes. I attempt to formulate mathematical formulas to describe the relationships.

The ETPD function

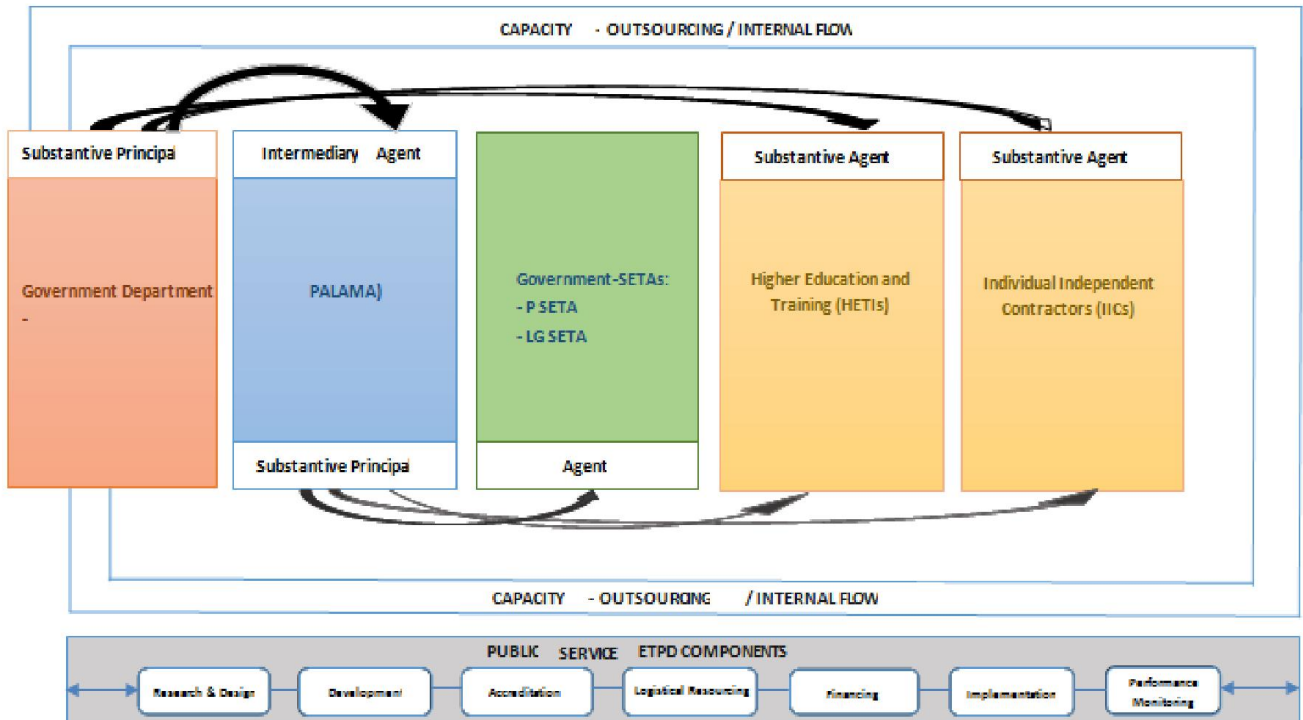
The ETPD function as shown in *Figure 1: Principals and Agents in Public Service ETPD* comprise seven components, all having an equal weighting within the ETPD value chain, namely research and design (*RD*); development (*D*); accreditation (*A*); logistical resourcing (*LR*); financing (*F*); implementation (*I*); and performance monitoring (*PM*). The total ETPD function can be summarized as $ETPD = RD + D + A + LR + F + I + PM$.

⁶Government-principal, depending who outsources a component of ETPD value-chain can either be a government department, entity, PALAMA, LGSETA or PSETA. However, Government-principals, such as departments and entities contracts the PALAMA or G-SETAs to deliver the services associated to the outsourced component. Given further outsourcing practices by the PALAMA and the G-SETAs, these institutions of the state are considered intermediary agents where HETIs and IICs are considered as non-state agents.

Table 2. Outsourcing of Components of ETPD

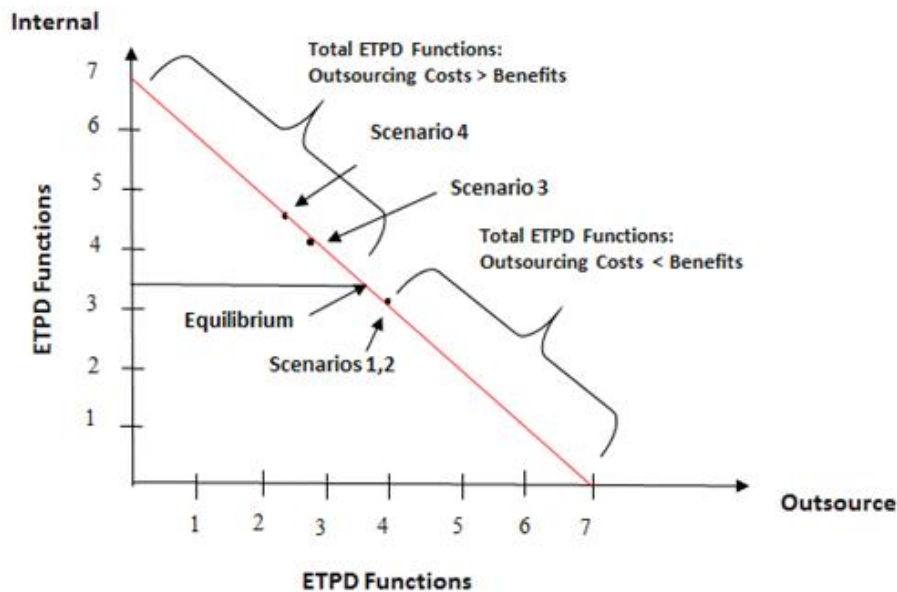
Institutions	Functions / Components							
	RD	D	A	LR	F	I	PM	
Departments	O	O	O	O	I	O	I	
PALAMA	O	O	O	O/I	I	O/I	I	0 - outsource
PSETA	O	O	I	I	I	O/I	I	I - Internal
LGSETA	O	O	I	I	I	O/I	I	
	RD	D	A	LR	F	I	PM	
Outsourced	4/4	4/4	2/4	1.5/4	0/4	2.5/4	0/4	
Internal	0/4	0/4	2/4	3.5/4	4/4	1.5/4	4/4	
Outsourced	1	1	0.5	0.375	0	0.625	0	
Internal	0	0	0.5	0.625	1	0.375	1	

Source: Author

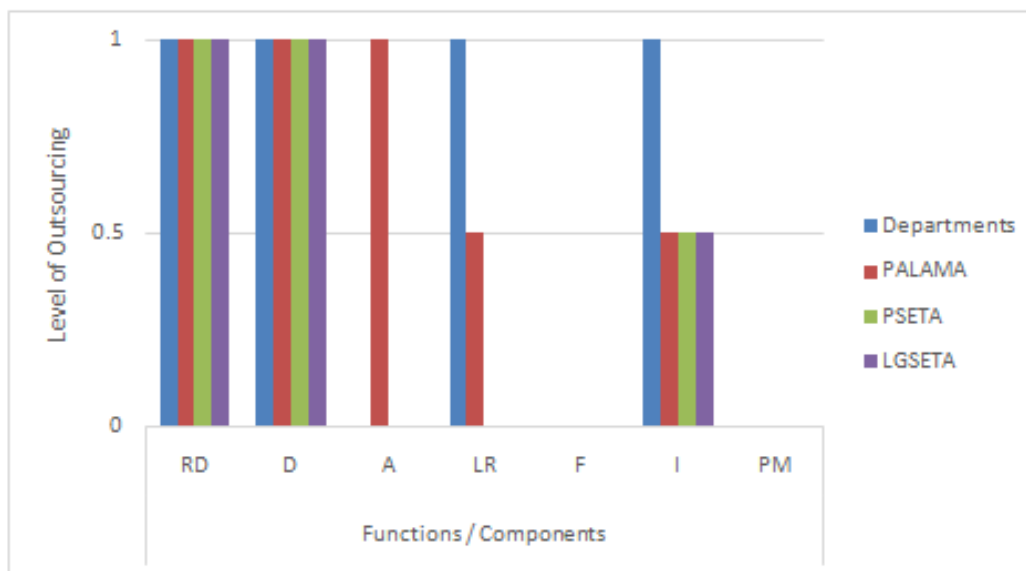


Source: Author (2014)

Figure 1. Multiple Principals and Multiple Agents in Education, Training Professional Development



Graph 1. Impact on public service ETPD



Source: Author (2014)

Graph 2. Components of ETPD Function – Outsourced

The department may choose to outsource all these components, except the financing and performance monitoring which serves as its contracting leverage.

Scenario one The parts of the total ETPD function are contractually outsourced by the substantive principal to the PALAMA. The PALAMA, given its mandate, is considered better able to find a suitable HETI and IIC because it has more information and exposure to the different and potential contractors, historic relationships and proximity to contractors, than the various government departments. As a government entity, the PALAMA acts as an intermediary agent. The components outsourced to PALAMA are invariably: research and design; development; logistical resourcing; and implementation. The mathematical model suggests $ETPD = RD + D + LR + I$. The departments contract the PALAMA which in turn contracts out to HETIs and IICs due to its own limited capacity.

Scenario two At least five components of the total ETPD are outsourced by the substantive principal to the higher education and training institutions (HETIs) and IICs. In this process the National School of Government is by-passed. These four components are given as $ETPD = RD + D + LR + I$. The specific department is therefore in a direct principal-agent relationship with the HETIs and IICs.

Scenario three It is important to recognize that the PALAMA is also a substantive principal having legal and policy responsibility and accountability for ETPD in the public service. Given the PALAMA's end to end limited capacity on the ETPD value-chain, the PALAMA chooses to retain certain components either fully or partially. In this scenario, the PALAMA only outsources a fraction, ψ , of the logistical resourcing and implementation components. The components outsourced are given as $ETPD = RD + D + \psi LR + \psi I$ where $0 < \psi < 1$. The PALAMA fraction of the components retained, that is logistical resourcing and implementation are

more about a binding resource constraint than capacity. Therefore, independent from the substantive principal (government department), the PALAMA in its own legal right has now assumed the roles of a substantive principal and as an intermediary agent that contractually outsources to the HETIs and IICs. The PALAMA as an intermediary agent purchases or negotiates ETPD services on behalf of the principal as a contractual obligation or as part of building strategic capacity.

Scenario four This scenario is identical in all respects to scenario three but differs fundamentally in that the substantive principal is the Public Service SETA and Local Government SETA (G-SETAs). The G-SETAs outsource the RD and D components while internally retaining the implementation and outsourcing only a fraction, ψ , of logistical resourcing. The components outsourced are given as $ETPD = RD + D + \psi I$ where $0 < \psi < 1$. The graph below illustrates the level of outsourcing of ETPD functions by the principals. The two main functions outsourced are research and design (RD) and development (D) followed by implementation (I).

The summary of the outsourced components of scenario 1 to 4 is shown in Graph 2: Components of ETPD Function – Outsourced shows a comparison between the different entities in the outsourcing of components. While *Table 2: Components of ETPD - Outsourced*, indicates where *O* refers to the outsourced component and where *I* refer to the component retained within the institution. The proportion based on the number generated of each component performed internally by the principle is estimated as $1 - \text{proportion of the component outsourced}$, for example, for the RD component: internal=1-1=0. The financing component comprising of contracting, pricing and costing of contracted programmes is an internal fiduciary responsibility of the government department. Performance monitoring is not outsourced and is an internal responsibility of the department. The number of components outsourced increases the unequal relationship between the principal and the agent in the production, management and delivery of public service ETPD. The extent to whether these

components are provided internally by the department or contracted out to agents - *Graph 1: Impact on public service ETPD*— shows, the majority of components will only be provided internally should the outsourcing costs of service provision be greater than its benefits. Alternatively, should outsourcing costs be less than its benefits, the majority of components are outsourced to agents. At this point of equilibrium the costs associated with outsourcing is equal to benefits, hence the total ETPD components are shared equally between the substantive principal(s) and agent(s). The Graph 1 below reflects the impact of the different scenarios. The components that are partly outsourced, a score of 0.5 is allocated, hence the two partly outsourced components are equal to 1 (i.e. $0.5+0.5=1$) as in the case of scenario 3. As more ETPD components are outsourced, service delivery efficiencies may improve, however risks associated with moral hazard and adverse selection also increases. The capabilities of the departments, PALAMA and G-SETAs to provide the outsourced the ETPD components in future may also diminish. Clearly, a case of hollowing out of components of ETPD function within departments, thereby systematically contributing to a decline to non-existent ETPD capacity. The number of components outsourced relative to that kept inside Government departments, the PALAMA and the G-SETAs are not simply a case of mathematical prevalence, but rather a preoccupation with and outsourcing. Mathematically, the aggregate endgame can be represented as

$$\sum ETPD \text{ Function} - \sum \text{Components outsourced} \\ = \sum \text{internal components (Govt, NSG \& GSETAs)}$$

I apply a scoring system where a function that is outsourced = 1, partial outsourced function = 0.5 and internal = 0. It is assumed all functions have equal weighting. The scoring is applied to all three principals (i.e. Government departments, PALAMA and GSETAs) and an average score for each function is estimated across the three principals before normalizing the scores to one. The functions remaining internally with the principals can be summarized as:

$$\sum ETPD \text{ Function} - \sum (RD + D + 0.5A + 0.375LR + 0.625I) \\ = \sum (0.5A + 0.625LR + F + 0.375I + PM)$$

The decision to contract is influenced by a number of factors. More compactly, $DC_t = f(IC_t, RC_t, NF_t, \dots)$ where DC denotes the department's decision to contract at a given time t and is essentially a count variable taking the value of 0 if the department decides not to contract (this is essentially the case with the financing function), 1 if the government decides to fully contract having assessed its situation across a number of variables.⁷ DC takes a value of 2 where the department partially contracts out either directly or indirectly via the PALAMA. IC denotes the internal capacity of the department at time t . Large departments such as health and education generally lack the internal capacity to do some of the components due to the sheer nature of size, complexities and obligations of their core business as public goods. These departments therefore find it

much more efficient to contract out. RC is the resource constraint faced by the respective department during time t . NF denotes the nature of the function to be contracted out. The nature of the components can therefore be expressed as: $NF_t = f(ETPD, F, \dots)$ where F denotes the frequency with which the function has to be performed. Once-off activities do not justify carrying out the function internally in most cases. The NF denotes other factors that might influence the decision to contract but are not explicitly outlined here. More fundamentally, the decision to contract is a balance between the costs of outsourcing and the benefits with the cost being incurred in the current period while benefits are spread into the future. In equilibrium, the department would therefore continue contracting out as long as the benefits outweigh costs.

Agency experiences in public service ETPD

As mentioned above, the financing and performance monitoring components are not outsourced to an outside agency, though through a transfer agency mechanism funds are by contract transferred by department to intermediary agents within the state. Agents, IICs and HETIs, also do their own performance monitoring. There is a divergence in intent to protecting self-interests in the design and production chain and the control of intellectual property. Respondents from government principals confirm that performance monitoring though not outsourced is not adequately focused on by the principals or the contracts do not identify the specific areas to be monitored. Given the lack of a consolidated focus on performance monitoring by principals, including intermediary agents, IICs and HETIs complain that:

The issue of training [ETPD] and its impact cannot be the responsibility of the institution providing training; participants should be interested in training [ETPD] and be willing to be trained. The training institution should then develop training content that is aligned to the needs of the people. The hearts of the participants sometimes are not in the training they are receiving which means that the objective of the training [ETPD] intervention is already defeated before it even begins⁸. Agents indicate that "information from performance monitoring enhance inputs into content and delivery modes, though it is not always shared with the principals because they are not part of the design and development of programmes". The performance monitoring information gathered in the delivery of outsource contracted ETPD service, according to a respondent "helps to inform other programmes designed for the graduate and professional executive development programmes." Performance monitoring is therefore embodied in the service provided by the agents and is not explicitly modelled to enhance the principal's capacity.

The information from performance monitoring, from an agent's perspective, helps with future contracting on similar and advance programmes to be delivered for the same or new principals, thereby maximising resource mobilisation opportunities. In fact, the information also gives the specific

⁷The government essentially would like to contract out something for which it can easily monitor the agent or can be able to offer a well specified contract to the agent. The decision to contract is therefore more than an assessment of internal resources, capacity etc.

⁸Notes of *A Round Table Discussion with PALAMA ETD Partners convened by the Advisory Task Team appointed by the Minister of Public Service and Administration*, 30 April 2013

agent a competitive edge relative to other agents, leading one to conclude that ‘the agent that holds the information on cutting edge programmes holds the future’. More specifically, agents⁹ are of the view, that government institutions contracting HETIs “are in charge of what should be taught and how – not the universities [HETIs] and should not blame the universities [HETIs] – there is too little interaction” and that it is “within the mandate and responsibility of [government departments and their training entities] to guide and assess the work of universities [HETIs] – if we did not measure up, it is up to [government departments and their training entities] to deal with this”. In support of this sentiment expressed by HETIs, the review of contracts of the G-SETAs and PALAMA with IICs and HETIs indicates an over concentration on the number of officials (students) certificated by the end of the programme as opposed to the outcomes of the learning and development experience relative to the institutional demands. Arguably, departments and where appropriate, intermediary agents, pay for the number of certificated officials as a performance measurable on ETPD delivery. The social networks are influential in the public service ETPD environment. These networks originates from combined historic and current familiarity with the principal’s core business, strategic and operational management challenges, and how ETPD interventions can contribute to dealing with organisational capacity deficits. Agents have, however, expressed that:

Partnerships with universities and service providers can developed into more beneficial and productive relationships than they are currently. PALAMA needed to give more leadership in this relationship, but did not have the capacity to engage higher education and training institutions¹⁰. There are incidences where principals’ approach to IICs or HETIs have acquired either the full or part knowledge¹¹ of the context and content of specific public goods and services to draft an initial concept document or proposal. This gives the initial drafting agent a comparative value dividend. This dividend combines a) in the first part of work the specific agent gets advantaged; b) the instrument of assessment allows for continuity of contractors – previous experience or continuation in and of a particular project; c) in the tender document the proposal or concept document becomes the substance of Tender Request for Proposals; d) already having exposure and knowledge as an agent inside the department about the expectations of the proposal, thereby almost operating becoming an ‘in-side trader’.

The above suggests that the principals and agents interact more than once and that actions are taken by the agent in early periods that affect the information available to the principal in later periods. This can give rise both to ratchet effects (which reduce effort in early periods) and to career concerns (which do the opposite). Ratchet effects can also arise if agents know

more about the principal’s technology than the principal itself. This practice, though not allowed by procurement policies and legislation, contributes to agents developing a monopoly over the components of the public service ETPD value-chain. These developments – by design or default – consequently lead to a) an unfair distribution of government procurement of ETPD provision and b) social networks of relationships formed between officials responsible for scheduling of ETPD programmes to be procured. There is also no automated process of scheduling and for the rotation of sourcing ETPD, which encourages self-interest behaviour among and between the agents and their staff. The net-effect is that certain contractors, as common agents, get pulled into the different components of the ETPD value-chain or, with possible potential reaches in other areas of the institution, including future work. This practice has led to monopolies due to personal, professional and geographical proximity of officials and their departments to certain HETIs and IICs. A respondent confirms that “personal-professional relationships based on past liaisons and familiarity of programme and course materials” play an important influence in choosing an agent on a specific component or all the components of the ETPD value-chain. More concretely, the respondent suggests: The [A] tender was approved and a number of institutions [IICs & certain HETIs] bid in the process – so you need to understand that there was a tender around research design – and then another on developing and piloting – and a third on the delivery. The numbers would vary, and depending on the nature and scope, the HEI would be pulled into the next and the next contract – using a specific clause related to familiarity of the programme.

Many contracted research and rapid appraisal case and studies on the operational management functions of departments have influence and linkage to learning and development. However, background data collected and the systems applied are in many instances, not necessarily, shared or requested by the principals. Principals and agents confirm that given the nature of policy and programme decision making of departments, principals are mostly focused on the utility of recommendations of studies. Agents have in these initiatives assured their own utility longevity and comparative advantage in the specialisation and knowledge production area of the principal. The information asymmetry derived from this knowledge production process by a specific agent enhances the status, exposure, research findings and tools. This is so regarding other agents and principals access. Agents can then use the case studies and its exposure to the public service to market new products and programmes.

These case studies, including rapid appraisals, for example, deal with business cycle processes; institutional and organisational development; and strategic performance monitoring and evaluation. The combination of contracts on case studies and that of ETPD contracts increases self-interest behaviour on the part of agents. A respondent, for example, mentions:

The pull factor – an IIC that in general offers training in performance management and development is used as a trainer for Compulsory Induction Programme. During the training session when they discuss performance agreements and

⁹Notes of *A Round Table Discussion with PALAMA ETD Partners convened by the Advisory Task Team appointed by the Minister of Public Service and Administration*, 30 April 2013

¹⁰Notes of *A Round Table Discussion with PALAMA ETD Partners*, 30 April 2013

¹¹ Internal knowledge of the deliverables are not only acquired through the strategic and annual performance plans, budget documentation (Estimates of National Expenditure) and skills development plans (SDPs) but also through an interplay of personal, professional and political interactions.

performance appraisals it becomes clear to the trainer that the department may benefit from additional training in this area. The trainer may then “make it known” that they are able to provide this service. The IIC is then “pulled” into training because of the opportunity that the department or PALAMA provides. Though this behaviour [self-interest] in the briefings to the IICs and HETIs is strongly discouraged, there is no way to police this – especially where specialised training service is required and departments are under pressure [to deliver public good and services].

The lack of an institutional integration and cohesion across the departments on an ETPD strategic approach, structure, content, and course materials, provide opportunities for expansion of self-interests behaviour of agents and their staff. In short, contracts identify the programme to be delivered, the number of course modules to be covered and the costing and pricing of the contract. However, ownership over the intellectual product belongs to the IICs or the HETIs. Yunus Ballim (2013), former deputy Vice Chancellor (Academic) of the University of Witwatersrand for instance suggests:

“The design and development of the content of curriculum and its course materials are in the control space of the university as a service provider. That is, the ownership and intellectual product – you pay for nothing other training delivery and certificated individuals.”

There has been shirking on the accreditation, a critical contracting traction. There is consensus among HETIs that “contracted ETPD programmes with departments “must be liked with university qualifications” and though “accreditation drives individual motivation, a low percentage complete these programmes successfully”. However, the non-delivery of the accreditation expectation at delivery point is also prevalent given the not only the lack of knowledge but also the extent of information asymmetry on accreditation and the quality assurance. Several agents do not deliver the promised accredited qualification and credits that allows for vertical articulation into advance programmes. This has been discovered when successful learner-public servants apply for admission to enter a higher or advance level of ETPD. A respondent reveals:

I’ve already reported the matter to the Director General and he has responded to say it is a waste of money if the courses are not accredited by SAQA so this requires to be addressed as expeditiously as possible and requires working together of affected parties to resolve the matter.

The PALAMA and the G-SETAs as multiple principal-agents are competing with each other on two accounts. It competes with government departments (the principals) on an equal platform by bidding or making proposals for an increase share in budget allocation through its annual appropriation from the national fiscus. On the second account, it competes with other external agents, the IICs and HETIs to get the education and training business of departments. The HETIs, in particular, possess a developed and wider education and training infrastructure. In practice, the department can either directly source the PALAMA to deliver on its ETPD service needs.

Alternatively, a competitive balancing approach is undertaken by government departments to approaching agents directly as part of its list of preferred providers in terms of the public procurement policies. In this instance, comparative costing and pricing becomes important. Given the PALAMA capacity considerations many of government departments prefer to go directly to an IIC or HETI to avoid additional transactional costs from the PALAMA. The behaviour from line departments demonstrate PALAMA’s institutional proximity to other government departments seems to be of no consequence. The proximity, which ought to provide a comparative advantage doesn’t yield any real benefits to the PALAMA, especially in the content of ETPD programmes.

There is a structural problem in the learning and development environment of the public service. Agents’ control over the ETPD components entrenched in public service professionalization. These agents have become overtime the philosophical hegemon and content providers to the intellectual space of learning and development for the public service. The political economy of the state and the content of ETPD course materials are written from the perspective of IICs and HETIs with limited influence from departments. The consequence is an expanding outside market-led influence over supply and demand of ETPD for the public service. It is this influence that consolidates the agents’ hegemonic influence over the programme structure, content of curriculum, course materials, and the mode of delivery. The contactors, as a result, became the transporter of and bring to bear on the public administration their theory of the state, thereby influencing strategic and ideological orientation of values, principles and policies.

In most instances, principals expect that the accreditation of programmes will be the platform for their employees’ access to higher academic and vocational studies. Accreditation becomes the commodity and traction for contractors. The consequence is that agents are automatically and by design provided with an almost available target group of vocational potential students on successful completion for future occupational-specific training and academic programmes. While this might be at the request of the principal, it maximising future ETPD service delivery opportunities for the agent. The maximisation on the side of agents is mostly observable through the competitive, but high costing and pricing of ETPD programmes and course for departments. Government departments and especially the PALAMA is often referred to as a “cash-cow for a quick bucks [money]”. Government departments and the PALAMA, according to respondents from these institutions, repeatedly pay for the design and production of course materials, even when it is repeated, including infrastructural support provided by the principals.

Over the short term significant economies of scale, maximisation of scarce resources, yielding of efficiency gains and savings could be achieved by establishing a central contracting agency and system for public service ETPD. Such agency located with an intermediary agent, such as the new National School of Government (NSG)¹² has the potential to

¹²Before the PALAMA contracts out, it has to find out information about each of the interested IICs and HETIs. The costs of doing so are irrecoverable whether they later decided to contract with an IIC or HETI or not. Given this, if

create a platform for universal converge in the learning and development environment for the public service. The potential of such a central function with an intermediary agent located in the public administration could potentially narrow the information disadvantage of the public service departments relative to IICs and HETIs. The benefits of centralised negotiating, contracting and contract management are the potential iterative process and balance of uniformity to be achieved in standards with varied innovations specific to a department and public good sector; the control of the ETPD value chain, especially regarding inputs, outputs and throughputs related to research and design; better management of the contested, but public financed intellectual property and branding of programmes and courses.

Such a centralised contract management function must have the expertise to strategic assist departments in the selection of its officials for programmes and courses, and have competencies of providing throughput support, quality assurance, performance monitoring and evaluation. The central contracting could serve as a gatekeeper to repeated contracting, experience and relationship consolidation of the same agent. Principals, generally agree, that repeat contracts within common agents increase maximisation and efficiencies given that with these contracts and common agents

...turnaround time is quicker because agents are familiar with the organisational challenges of the specific department, including the way of work of intermediary agents – PALAMA and G-SETAs – regarding the content of programmes, the requisite administration and the support to learners (officials) without which agents will not be paid.

The outsourced ETPD model has increased government's dependence on IICs and HETIs. However, the outsourcing contract model of public service ETPD is flawed and leads to sub-optimal skills development outputs and outcomes. The practicalities of the assumptions assumed that underpins the principal-agent type model are:

- The market for on-board and other forms of public service ETPD is competitive and that there are many quality training providers who can compete and thus lower costs. In SA, there are only a few training providers and they tend to be either academic (and often out of touch with the varied complexities of the public service workplace context) or private providers (which are often low quality fly-by-nights).
- The individual departments are "principals" in their own right and can monitor and evaluate the impact of learning and development effectively. This is manifestly not the case. Government departments have structural and functional ETPD capacity deficits, and therefore cannot articulate their own education, training and professional development needs. As such, there is a proliferation of inappropriate qualifications that do not add any real

organisational value to a post-conflict public administration and transition state.

- The nature of the ETPD product, structure, content and course materials are such that IICs are considered identical to HETIs providers though lacking innovation, entrepreneurial and responsiveness. But the product may be more than mere skills, it may be public sector values, esprit de corps, common identification with the public service and the structure of the system and processes of public professionalisation.
- The influence of internal market forces in the public administration and the solidification of principal-agent relationships have a combined effect of ETPD being a commodification. This commodification does not, as one would expect, contribute to the institutional differentiation of learning and development interventions.

Conclusion

The nexus of market-led economic decisions in the public administration and decisions taken in the political and administrative contexts have led to internal markets in the public administration. The outcome has been a system and with mechanism of internal markets undergird by regulatory conditions that encourage outsourcing and contracting of public service ETPD. The outsourcing contract leads to principal-agent relationships in the public service professionalization through ETPD. The reasons to outsource ETPD have been consistent across the various institutions, with efficiency gains as the main motive. The wide capacity of especially HETIs has brought higher returns and improved competencies to the public servants.

This article shows how the state's public administration strategic capacity for ETPD has declined and hollowed out through outsourcing. The outsourcing contracting model provided opportunities for agents' self-interests behaviour. In fact, outsourcing and contracting, consolidated the collective hegemonic influence of agents over principals in the professionalization of the public administration. The more control that veers to agents in the ETPD value chain the harder it has been state institutions to reclaim the strategic function for public service ETPD. This makes it increasingly difficult for both the principals and intermediary agents to maintain their persuasive and established value, including legitimacy in the provision of education, training and continued professional development of the public service.

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the government departments and entities also contract directly, it has to secure the information about the agents as well and incur the related cost. If government goes through the PALAMA then they do not need to invest anything to know more about the private agents as the PALAMA has already done so.

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