

# **The Governor's Dilemma: Competence versus Control**

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## **Abstract**

Most governance is indirect, carried out through intermediaries. Principal-agent (PA) theory views indirect governance primarily as a problem of information: the intermediary (agent) has an informational advantage over the governor (principal), which it can exploit for shirking, slacking or otherwise evading the governor's control. But indirect governance creates an even more fundamental problem of power. Competent intermediaries with the expertise, credibility, legitimacy and/or operational capacity to achieve the governor's goals are inherently difficult to control, even with complete information, because the policy benefits they can create (or the trouble they can cause) give them leverage over the governor. Conversely, tight governor control constrains these intermediary competencies. The governor thus faces a dilemma: if it emphasizes control, it limits intermediary competence and risks policy failure; if it emphasizes intermediary competence, it risks control failure. This "governor's dilemma" helps explain important and puzzling features of indirect governance arrangements: why such arrangements are not limited to PA delegation, but take multiple forms; why particular governors choose forms of indirect governance that appear counter-productive in an informational perspective; and why indirect governance arrangements are frequently unstable, subject to repeated tinkering and changes of form.

*The Merovingian kings were not much good at ruling. They had flowing hair and long beards and they did nothing but sit on the throne and parrot the words their advisors had taught them.... The actual governing was done by an able family [the Carolingians] to which Charles Martel belonged, as did Pepin, the father of Charlemagne. But Pepin wasn't satisfied with being a mere adviser, whispering instructions into his king's ear. He had the power of kingship and he wanted the title as well. So he overthrew the Merovingian king and proclaimed himself king of the Franks. (Gombrich [1936] 2008:124)*

## **1. Competence and control**

The Merovingian kings faced a tricky problem. They needed the Carolingians because they lacked key governance competencies the latter possessed: policy expertise, local legitimacy and operational capacity. Curtailing Carolingian authority would have endangered their rule, functionally through the loss of competencies and politically through creation of a powerful enemy. Yet by relying on the Carolingians, the Merovingians also risked (and ultimately sacrificed) their rule: their relationship further enhanced the Carolingians' expertise, legitimacy and capacity, empowering Pepin to topple them.

Over a millennium later, modern policymakers, rulers and “governors” of all kinds face similar trade-offs:

- Legislators must determine whether to provide executive agencies broad independence so that they can apply their policy expertise, or to retain tight control over those agencies to prevent policy drift (Bawn 1995).
- Elected officials must decide whether to entrust control over monetary policy to independent central banks, to gain investors' trust, or to retain control over monetary policy, so they can stimulate the economy whenever politically convenient (Majone 2001).
- Governments engaged in foreign state-building must decide whether to work through competent foreign leaders whom local populations consider legitimate, or to install leaders that have less local legitimacy but are more loyal to their foreign sponsors, and thus more easily controlled (Lake 2016).
- States must decide, after wars end, whether to help their former foes to rearm, so they can help respond to common threats, or to block their rearmament, so their former foes do not themselves pose resurgent threats (Large 1996).

These examples all reflect the same “governor’s dilemma,” which stems from the fact that no governor has the capabilities to govern single-handedly; all governors must rely on intermediaries.<sup>1</sup> Some intermediaries are internal to the governor, as executive agencies are, but often they are external: governments rely on professional associations for health and safety regulation; engage private contractors to provide public services and security; create independent central banks and constitutional courts; and conduct foreign policy through client states and international organizations (IGOs). IGOs engage non-governmental organizations (NGOs) to implement development projects and monitor state compliance with commitments.

Ideally, a governor would prefer to work through highly competent intermediaries. We define “competence” to include all the capabilities intermediaries can potentially contribute to achieving a governor’s goals. These include, most importantly, expertise, credibility, legitimacy and operational capacity. At the same time, a governor would prefer to control intermediaries’ activities. We define “control” as the set of instruments the governor can use to shape and constrain intermediaries’ behavior so that they pursue the governor’s goals and cannot subvert them; control encompasses both negative (e.g., sanctions) and positive (e.g., inducements) instruments.

Principal-agent (PA) theory, the dominant approach to indirect governance, likewise begins with the assumption that principals need competent agents to achieve their goals: “Even ‘solo’ street performers have their skills” (Pratt and Zeckhauser 1985:2). PA presumes that any agents a principal selects will be (and remain) competent (Bendor et al. 2001:237); it therefore focuses on principal control. The key obstacle to control is imperfect information about agents’ intentions and actions, which the principal cannot observe. The principal can, however, construct contractual incentives, sanctions and other mechanisms that allow it to control agency slack or slippage. Crucially, PA does not centrally address the possibility that these controls may undermine agent competence, or that agent competence may undermine control.

As the examples above illustrate, however, there is often a tradeoff between intermediary competence and governor control. Competent intermediaries are difficult to control, because the competency-based policy benefits they provide (or withhold) give them leverage over the

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<sup>1</sup> For simplicity, we assume that governors and intermediaries are unitary actors, fully recognizing that often they are not. We also assume a single governor, and for the most part do not problematize the goals and agency of targets, but take these as given. It is usually intuitively easy to distinguish governor from intermediaries in a governance arrangement. For example, the head of a bureau (the governor) is the leader of the arrangement; her staff (intermediaries) are the followers. The head defines the bureau’s governance goals, the staff assists in their pursuit. The staff may attempt to influence the bureau’s goals or divert its activities towards other goals, but it cannot overturn the goals set by the head. Occasionally, however, the distinction becomes blurry. For example, when the WHO and the Gates Foundation collaborate on governance, it is not always easy to say who is leader and who is follower (see also section 2 below on orchestration).

governor. Conversely, tight control by the governor erodes intermediaries' competencies or constrains their development. This competence-control (CC) tradeoff creates the governor's dilemma: the governor can obtain either high competence or strong control, but not both. If it supervises intermediaries so tightly that they cannot fully exercise their competencies, or engages less competent intermediaries more amenable to control, it risks policy failure. But if it engages competent intermediaries and allows them space to exercise their competencies, it may enable the intermediaries to act in ways that subvert its goals or challenge its authority.

Importantly, better information does not eliminate the dilemma. Even with complete information about Pepin's plans, the Merovingians could not have kept the Carolingians in check, because the Carolingians had key competencies neither the Merovingians nor any alternative agent possessed. Dependence on these competencies created a power asymmetry that undermined the Merovingians' control: formally they could threaten to rescind Carolingian authority; factually the threat was empty.

Empirically, of course, the CC tradeoff varies in intensity across settings. In some relationships, intermediary competence demands relaxed governor control, so the tradeoff is steep, as where a powerful governor uses an intermediary as a commitment device. In others, the tradeoff plays a limited, even insignificant role, as where governor and intermediaries share identical goals. Yet as we show below, the tradeoff is a common condition of indirect governance and a source of many governance problems across issue areas (e.g., security, economic and social), types of governors (e.g., public or private), and governance domains (e.g., domestic or international). Thus, even where the tradeoff appears to be absent, explanation is required.

In this paper, we theorize the CC tradeoff and its implications for the comparative statics and dynamics of indirect governance. Our competence-control theory makes three important contributions to the literature.

First, CC theory explains why the forms of indirect governance are so varied; doing so creates connections among scholarly approaches to indirect governance. PA theory focuses primarily on a single mode: delegation, in which the principal exercises hard controls over the agent ex ante and ex post. Yet governors seeking to mobilize intermediary competencies often eschew hard controls, as in the examples above. Section 2 introduces three alternative modes of indirect governance – cooptation, trusteeship and orchestration – in which hard controls are relaxed ex ante, ex post and

both. Each has been addressed in a separate literature,<sup>2</sup> but CC theory brings them together with PA delegation in a unified framework, facilitating comparative analysis of modes and choices among them.

Second, CC theory helps explain, in comparative statics terms, when and why particular governors choose modes of indirect governance that sacrifice control or forego available competencies. For example, why do authoritarian rulers frequently employ family members and cronies with manifestly limited competencies (Egorov and Sonin 2011)? Why does the Trump administration disable some intermediaries by refusing to appoint officials to executive agencies<sup>3</sup> or international bodies?<sup>4</sup> Why does the European Commission engage transnational regulatory networks but forego hard controls over them (Blauberger and Rittberger 2015)? CC theory explains these choices in terms of the governor's preference between intermediary competence and control. Section 3 considers factors that lead a governor to forego the control advantages of PA delegation by choosing a mode that offers less control. Section 4, conversely, considers factors that lead a governor to select less competent intermediaries or prevent intermediaries from fully exercising their competencies.

Third, CC theory explains why indirect governance relationships are frequently unstable, subject to repeated tinkering or more substantial modifications over time. Instability appears odd from theoretical perspectives such as PA or historical institutionalism, which predict tendencies towards stability and equilibrium. Yet instability often characterizes governance relationships with intermediaries, from central banks to client governments, police forces to international organizations. As we argue, the CC tradeoff can create endogenous feedback effects that modify the initial balance of competence and control, and hence the character of indirect governance arrangements. Section 5 identifies key feedback mechanisms that can erode or enhance governor control or intermediary competence over time, upsetting the initial equilibrium. The final section highlights the ways in which CC theory enriches our understanding of indirect governance.

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<sup>2</sup> For delegation, see Bendor et al. 2001; Eisenhardt 1989; Hawkins et al. 2006; Miller 2005; Pollack 2003. For cooptation, see Selznick 1949; Dickson 2000; Gandhi and Przeworski 2006. For trusteeship, see Majone 2001; Alter 2006, 2008; Stone Sweet and Brunell 2013. For orchestration see Abbott et al. 2015, 2016.

<sup>3</sup> James Hohmann, "Trump has no nominees for 245 important jobs, including an ambassador to South Korea," Washington Post, January 12, 2018, [https://www.washingtonpost.com/news/powerpost/paloma/daily-202/2018/01/12/daily-202-trump-has-no-nominees-for-245-important-jobs-including-an-ambassador-to-south-korea/5a57cce830fb0469e8840085/?utm\\_term=.e2ca0bc631a7](https://www.washingtonpost.com/news/powerpost/paloma/daily-202/2018/01/12/daily-202-trump-has-no-nominees-for-245-important-jobs-including-an-ambassador-to-south-korea/5a57cce830fb0469e8840085/?utm_term=.e2ca0bc631a7)

<sup>4</sup> Manfred Elsig, Mark Pollack and Gregory Shaffer, "Trump is fighting an open war on trade. His stealth war on trade may be even more important." Washington Post, Sept. 27, 2017, [https://www.washingtonpost.com/news/monkey-cage/wp/2017/09/27/trump-is-fighting-an-open-war-on-trade-his-stealth-war-on-trade-may-be-even-more-important/?utm\\_term=.5d47167d86d7](https://www.washingtonpost.com/news/monkey-cage/wp/2017/09/27/trump-is-fighting-an-open-war-on-trade-his-stealth-war-on-trade-may-be-even-more-important/?utm_term=.5d47167d86d7)

## 2. Varieties of indirect governance

The competence-control tradeoff has important implications for the architecture of indirect governance arrangements. Because governors cannot generally maximize control without sacrificing competence, or maximize competence without sacrificing control, they must strike a delicate balance between competence *and* control. This forces them to consider more varied arrangements than PA and other theories suggest.

PA assumes that a principal will select competent agents, and focuses on control: the “informationally disadvantaged principal” must “impose incentives” on agents that align their self-interest with the principal’s goals (Miller 2005:204-206). The implicit assumption is that such controls will not affect agent competencies: there is no tradeoff.<sup>5</sup> PA’s emphasis on control is reflected in its focus on delegation (Hawkins et al. 2006: 7), a mode of governance in which the principal grants authority to the agent *ex ante*, imposing hard controls through the contract, and exercises hierarchical control over it *ex post*.

In fact, however, governors must often compromise on *ex ante* or *ex post* controls, or both, to mobilize intermediary competencies. Thus, as the cooptation and orchestration literatures highlight, not all indirect governance begins with a grant of authority that includes hard *ex ante* controls; similarly, as the trusteeship and orchestration literatures demonstrate, not all indirect governance involves hierarchical *ex post* controls. We integrate these diverse modes into a unified framework by distinguishing two sources of intermediary authority (granting or enlisting) and two ways of managing intermediary authority (hierarchical and non-hierarchical).

First, a governor can initiate an indirect governance relationship by either granting or enlisting authority.<sup>6</sup>

- A governor grants authority by devolving some of its own authority to intermediaries, empowering them to perform specified governance tasks on its behalf (Thatcher and Stone Sweet 2002:3-4). The grant (e.g., a contract or legislative act) specifies the extent of the intermediaries’ authority and defines their tasks, terms of reference and remuneration. Granting authority gives the governor a measure of hard *ex ante* control. It can shape the

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<sup>5</sup> We discuss exceptions to this assumption in section 3A below.

<sup>6</sup> “Authority” refers to a recognized claim to govern combined with some capacity to govern. A claim to govern is recognized if there is a generalized expectation among governance targets of compliance with rules and policies. Capacity to govern encompasses the ability to make rules and policies and promote compliance by targets. Both elements are necessary; neither is alone sufficient. The governance competencies we consider often contribute to authority: all four of those competencies can enhance the capacity to govern, and all four can support recognition of a claim to govern. Yet possessing certain competencies does not automatically convey authority, as authority must be recognized by targets. Not all competent actors have authority and not all authorities are competent.

intermediaries' goals through incentive-compatible terms and their competencies through the authority and resources it provides. It may even shape intermediaries' identity by structuring their mission, organization, funding, sources of information, decision procedures and personnel selection (McCubbins, Noll and Weingast 1987). Yet granting authority limits the intermediaries' remit to the scope of the governor's authority: the governor cannot grant authority it does not have.

- A governor enlists authority by gaining intermediaries' agreement to use their pre-existing authority to perform mutually beneficial governance tasks (Abbott et al. 2015:4). Here the intermediaries do not owe their authority to the governor, but derive it from independent sources. Enlisting authority thus allows the governor to tap into capabilities it does not possess: the intermediaries' remit can extend beyond the scope of the governor's authority. But the governor's ability to shape intermediary goals, capabilities and identity is constrained. While it can exert limited ex ante control through promises of conditional support, it must rely primarily on the authority of the available actors, on terms acceptable to them.

The initiation of indirect governance, then, concerns the primary *source of intermediary authority*. The governor is the primary source to the extent it grants authority; this is the domain of PA theory and its extension to trusteeship. Intermediaries are the primary source in enlistment settings; the governor enrolls collaborators that possess independent authority. This is the domain of cooptation and orchestration theories. Many governance arrangements include elements of both relationships, e.g., where a governor grants additional authority to intermediaries with some pre-existing authority.<sup>7</sup>

Second, a governor can manage intermediaries' behavior over time in two general ways, with and without hierarchical controls.

- A governor exercises hierarchical control when it can (threaten to) remove the intermediaries' authority should they fail to perform as expected (Hawkins et al. 2006:7). In some cases (e.g., professional self-regulatory bodies), this can be done by withdrawing official recognition of the intermediary's authority. In other cases (e.g., indirect colonial rule), it involves the forcible removal of the intermediary's competence and power. The power to remove encompasses a spectrum of lesser controls: for example, the governor

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<sup>7</sup> Granting and enlisting can each be exercised vis-à-vis either purpose-built or pre-existing agents. Euro area states transferred monetary authority to the newly-created ECB in 1999; they granted it additional authority for banking supervision in 2013 (Schelkle 2017). British colonial authorities often enlisted incumbent local rulers, but sometimes installed new ones; the contrast is nicely described as "British assiduity in trying to discover chiefs, or invent them" (Crowder 1964:199).



may “revise or nullify policy choices the [intermediary] makes..., make threats of costly ... budget reductions or withering contumely in [public] hearings...” (Gailmard and Patty 2013:5). If the threat of hierarchical intervention is credible, the “shadow of hierarchy” (Miller 2005:210; Scharpf 1997) may be sufficient to keep intermediaries in line.

- Where a governor lacks hierarchical controls, it can deploy positive inducements to nudge intermediaries towards using their authority and competencies as the governor desires.<sup>8</sup> Inducements include persuasion, to shape intermediary goals; negotiation, to reconcile divergent goals; lenience, to increase trust; and material and ideational support, to increase loyalty and competencies (Abbott et al. 2015). Inducements can also be negative. For instance, a governor can publicize an intermediary’s underperformance or disloyalty or cut its material support to the intermediary. Unlike hierarchical control, inducements do not threaten intermediaries’ authority, but encourage them to use their authority in desired ways.

Management of indirect governance, then, concerns the *ultimate site of authority*. In hierarchical relationships, authority ultimately rests with the governor, allowing it to remove intermediaries’ authority and thus impose lesser controls. This is the focus of theories of PA and, to a lesser extent, cooptation. In non-hierarchical settings, authority ultimately rests with the intermediaries; the governor can only influence its exercise through positive or negative inducements. This is the focus of trusteeship and orchestration theories. Again, governance arrangements frequently combine both approaches.

Importantly, the initiation and management of indirect governance relationships are logically independent. Simply because a relationship was initiated in a particular way (e.g., by granting authority) does not mean that it must be managed in a particular way (e.g., by hierarchical control). Cross-tabulating the approaches just discussed, we derive a typology of four pure modes of indirect governance (Figure 1).<sup>9</sup>

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<sup>8</sup> Inducements are also used within hierarchies, as PA recognizes. Yet there inducements complement hard controls; in non-hierarchical settings they are the only control instruments available.

<sup>9</sup> While we identify four pure modes, both axes of Figure 1 are gradual scales, allowing for diverse hybrid forms. In addition, governance arrangements often link similar or disparate modes, e.g., in chains of indirect governance.

	MANAGEMENT (EX POST)	
INITIATION (EX ANTE)	Hierarchical	Non-hierarchical
Granting authority	<i>Delegation</i>	<i>Trusteeship</i>
Enlisting authority	<i>Cooptation</i>	<i>Orchestration</i>

**Figure 1: Four modes of indirect governance**

- ***Delegation:*** This mode is central to PA: a principal (governor) conditionally grants authority to an agent (intermediary) to carry out defined governance tasks on its behalf, according to its instructions, and subject to its hierarchical control. The agent's authority derives from the principal and is bounded by it; the principal can withdraw or regulate the agent's authority. Thus, the principal can exercise hard controls both ex ante and ex post. Ideal-typical examples include a legislature's delegation of authority for policy implementation to an executive bureaucracy, and in turn by the head of the bureau to its line staff (Moe 1997); assigning policy tasks to IGOs (Hawkins et al. 2006); and contracting-out public services to private entities (Robinson and White 1997).
- ***Trusteeship:*** In this mode, a trustor (governor) grants authority to a trustee (intermediary); the trustee must exercise that authority according to the terms of the grant, but has considerable autonomy in interpreting those terms. The trustor may steer the trustee's behavior through inducements, but it cannot intervene hierarchically so long as the trustee's actions remain within the terms of the grant. Trusteeships may thus invert authority over time: the trustor is hierarchically superior ex ante, but may be subject to the trustee's authority ex post (Majone 2001; North and Weingast 1989). Ideal-typical trustees include independent central banks (Goodman 1991), constitutional courts (Stone Sweet and Brunell 2013), independent regulatory agencies (Bawn 1995), and government auditors (Blume and Voigt 2011). A less formal example is national armed forces: while subject to de jure civilian control, de facto governments can only trust that armed forces will not meddle in domestic politics, as they could not stop them by force if they did.
- ***Cooptation:*** Here a co-optor (governor) enlists a co-optee (intermediary) with pre-existing authority over particular targets; once enlisted, however, the co-optee is subject to the co-

optor's hierarchical control. Cooptation is based on a "clientelist exchange" (Hicken 2011): the co-optor enlists the co-optee's authority by providing support. This bargain may increase the co-optee's wealth and standing, but also increases its dependence on the co-optor. Although the co-optor cannot rescind the co-optee's authority, which it did not grant, it can (threaten to) remove that authority: e.g., by withdrawing recognition, overthrowing the co-optee by force, or threatening its survival by shifting support to rivals. The co-optor's power can add a coercive element to the initial exchange. Like trusteeship, cooptation inverts authority over time, but in reverse: ex ante the co-optee is superior, as the co-optor must bid for its favor; ex post the co-optor is superior, as the co-optee must comply with its directives. Ideal-typical examples include the absorption of professional self-regulatory bodies into public regulatory systems (Kaye 2006); the cooptation of churches to provide social services (Robinson and White 1997); the inclusion of trade unions and employers' associations in neo-corporatist concertation systems (Schmitter 1974); and the cooptation of local chiefs into systems of colonial rule (Crowder 1964).<sup>10</sup>

- **Orchestration:** Here an orchestrator (governor) mobilizes an intermediary, on a voluntary basis, in pursuit of shared governance goals. In contrast to all other modes, orchestration is wholly non-hierarchical: the intermediary neither owes its authority nor risks losing it to the orchestrator. The orchestrator therefore can exert influence only through inducements, including persuasion, negotiation, and material or ideational support (Abbott et al. 2015; 2016). Any primacy the orchestrator possesses results from the intermediary's voluntary acceptance, based on shared policy goals or "instrumental friendship" (Hicken 2011). As neither party has authority over the other, the distinction between governor and intermediary sometimes blurs. Ideal-typical examples include IGOs orchestrating NGOs to monitor state compliance (Tallberg 2015); international courts orchestrating NGOs to pressure states to support judicial processes (De Silva 2017); and governments orchestrating foreign rebel groups to destabilize foreign governments (Byman et al. 2001; Tamm 2016).

The four modes are conceptually distinct. Addressing them within an integrated theoretical framework allows for systematic comparisons across modes, analysis of governors' choices between modes, and investigation of dynamic shifts within and among modes.

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<sup>10</sup> Cooptation sometimes occurs under highly asymmetric, even coercive, conditions. Colonialists often co-opted local chiefs who did not fully understand the new relationship or were forced to accept it lest their rivals receive the colonialists' recognition and support, or they themselves suffer punishment and retribution.

### 3. Trading control for competence

Governors that rely on intermediaries must balance competence and control in selecting modes of indirect governance. This leads to puzzling choices: under some conditions, governors initiate arrangements that do not provide hard controls; under other conditions, governors engage barely competent intermediaries or disable competent ones. This section addresses the first of these puzzles: why would a governor select a mode of indirect governance that offers fewer hard controls than delegation? Why orchestrate, entrust or coopt? We identify two complementary reasons why governors may compromise on control:

- *Intermediary competencies*: hard controls would interfere with specific competencies a governor requires to achieve its governance goals.
- *Governor capability deficits*: a governor lacks the authority or resources to exercise hard controls.

The common denominator of these rationales is the CC tradeoff: governors willing to sacrifice some control can expand their policy options by mobilizing greater intermediary competence. Each rationale conditions the governor's ex ante choice between granting and enlisting authority (the top and bottom rows of Figure 1), and between hierarchical and non-hierarchical ex post controls (the left and right columns).

#### A. *Intermediary competencies*

Governors have diverse goals, which can be more or less ambitious. The broader and more ambitious a governor's goals, the more it will be forced to mobilize governance competencies from intermediaries. A governor will tend to relax its controls over intermediaries to the extent this is necessary to mobilize competencies crucial to achieving its goals.

The PA literature observes that principals may relax ex post controls to enable agents to serve as credible commitment devices (Majone 2001; Miller 2005:219-223; Bendor et al. 2001:259-265; Hawkins and Jacoby 2006; Pollack 2003; Thatcher and Stone Sweet 2002). While we agree, this is only one of several intermediary competencies that may lead governors to give up (or lose) hard controls, ex ante or ex post.

*Ex ante*, a governor may eschew hard controls to engage intermediaries that possess *legitimacy* in the eyes of governance targets.<sup>11</sup> Targets often care not only how they are governed, but by whom (Hooghe and Marks 2009): they may trust their union leader more than their labor minister, their

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<sup>11</sup> As noted above, our analysis simplifies by taking targets' interests as given. The importance and possibilities of expanding analysis to incorporate target agency are considered in Abbott, Levi-Faur and Snidal (2017).

emir more than their colonial ruler, or their religious leaders more than government officials. As these examples suggest, targets may view an actor as legitimate because it shares their values, is part of the same community, occupies a similar social position or delivers desired governance benefits, among other reasons. Whatever the source, the governor can increase the legitimacy of its own policies, and better achieve its governance goals, by enlisting legitimate unions, local chiefs or religious associations for implementation and enforcement. For example, corporatist arrangements allow governments to tap into the legitimacy of union leaders, who can persuade union members to support government policies. Locally legitimate intermediaries may also enhance policy efficacy by offering superior access to “local populations, terrain and targets” (Salehyan 2010:509).

To deliver these benefits, intermediaries must be seen as independent of the governor; if they are seen as its agents, they can add nothing to the governor’s own (insufficient) legitimacy. Foreign state-building provides an important example. State-builders must engage locally legitimate clients to govern on their behalf, as the US engaged Hamid Karzai in Afghanistan and Nouri al-Maliki in Iraq. Lake (2016) argues that, if state-builders insist on hierarchical controls, this will undercut client legitimacy and doom the state-building process. Thus, although the US initially sought to exercise tight controls over both Karzai and al-Maliki (Maley 2013; Allawi 2007; Suhrke 2013), it quickly discovered that it had to relax those controls to prop up client legitimacy (Ladwig 2017). Having learned this lesson, it eschewed hard controls over Iraqi Kurdish groups from the outset to maintain their local legitimacy, engaging them through orchestration (Ahmed 2012; Jüde 2017).

*Ex post*, as PA accepts, hierarchical controls may undermine intermediary *credibility*, which is essential for intermediaries to serve as commitment devices, able to prevent policy reversals (by the current governor or its successors) in the face of time-inconsistency (Kydlund and Prescott 1977) or political uncertainty (Moe 1990). Credibility depends in part on the preferences and reputation of the intermediary itself, but it is enabled by independence from *ex post* control. Thus, Eurozone states assign monetary authority to the independent ECB to commit to monetary stability and fiscal rectitude (Schelkle 2017); governments invite independent election monitors to communicate commitment to democracy (Kelley 2008); governments establish independent constitutional courts (Levinson 2011) and international courts (Simmons and Danner 2010) to demonstrate their commitment to constitutional or human rights (Stone Sweet and Palmer 2017).

Freedom from hierarchical controls also enhances intermediary *expertise* and innovativeness. Governors often assign technical policy decisions to expert bodies such as independent regulatory agencies to improve decision quality (Hawkins et al. 2006; Tallberg 2002; Pollack 2003). To

achieve the desired results, experts must be free to employ their knowledge, skills and creativity, even if these lead in unanticipated directions. By limiting its ability to remove or overrule expert intermediaries, however, the governor reduces its ability to control political drift (Bawn 1995); it becomes a “dilettante” trying to control an “expert” (Weber [1921] 1958:89). The ECB’s “unconventional” monetary policies illustrate both points: its expert actions helped end the Eurozone crisis, but had unanticipated and highly-contested distributive consequences for member states (Schelkle 2017). Experimentalist governance theory also calls for governor self-restraint to stimulate policy innovation under uncertainty: governors should only set broad goals, allowing local authorities discretion to pursue them based on local knowledge (Sabel and Zeitlin 2010).

Independent intermediaries may have superior access to relevant information. “[I]n many cases the key purpose of bureaucracies to Congress is to elicit information from ... political actors besides Congress itself, such as interest groups and the president... The administrative structures that best serve the interests of Congress, therefore, may be ones that undermine its own political control....” (Gailmard 2015:476). On-site inspections by International Atomic Energy Agency staff are more acceptable to host countries if the IAEA is not perceived as controlled by any particular state (Abbott and Snidal 1998). Independent intermediaries are also more likely to share unpleasant truths with governors because they do not have to fear undue consequences.

Finally, governors that rely on intermediaries with extensive *operational capacities* (people, money, equipment or organization) are forced to accept reduced control. For example, the World Health Organization (WHO) can exert little influence over the Gates Foundation, the world’s richest health philanthropy. A dictator who relies on a strong military to repress mass protests runs the risk that the military will turn its guns on him, exploiting its power to demand autonomy, shape policies or even topple the dictator Carolingian-style (Svolik 2012). The United States supplied Stinger missiles to Afghan insurgents in the 1980s, enabling them to shoot down Soviet aircraft. After the Soviet withdrawal, however, the insurgents used the missiles against US aircraft. Governments are aware of this risk, and often “give insurgents just enough resources to be viable but not enough to prevail” (Salehyan 2010, 506), yet this is a difficult balance to strike and to maintain. Intermediaries with operational capacities can also create facts on the ground that preempt governor choice: Roosevelt’s “undeclared war” in the Atlantic arguably aimed to provoke an incident that would make it impossible for Congress to refuse US participation in World War II (Schuessler 2010).

### *B. Governor capability deficits*

*Ex ante*, where a governor lacks sufficient authority to achieve particular goals, granting authority is not feasible. The governor must then decide between “borrowing” the necessary authority by enlisting intermediaries that possess it – through cooptation or orchestration – or abandoning those goals. It follows that governors can govern (indirectly) in areas beyond their territorial jurisdiction or sectoral competence by enlisting intermediaries with authority in those domains. The United States can support local rebel groups in the Syrian civil war, and can help the government of El Salvador counter a domestic insurgency, even though it lacks authority to govern those countries directly through its own emissaries and troops (Ladwig 2017). The United Nations Environmental Programme (UNEP) can help create the Principles for Responsible Investment, and then enlist its environmental standards for investors, even though UNEP lacks authority to govern investors (van der Lugt and Dingwerth 2015).

Even where a governor possesses sufficient authority, budget constraints may lead it to forego granting authority: enlisting intermediaries allows it to economize on investments in competence. For example, even where a government could train, equip and deploy its own forces abroad, it may prefer to coopt or orchestrate foreign rebels or counterinsurgency forces, relying on their competencies to reduce its own material, ideational, and political costs. In Libya, while NATO employed members’ own air forces against Muammar al-Gaddafi, it mobilized local groups to provide ground forces (Byman et al. 2001; Salehyan 2010; Salehyan, Cunningham and Gleditsch 2011). Likewise, ancient Rome preferred tax farming (enlisting local entrepreneurs to collect taxes) to centralized tax administration in faraway provinces, as tax farming “required no new or heavy investment in learning about local conditions” (Levi 1988: 82).

Intermediaries in delegation and trusteeship relationships also expect to be compensated for their efforts: voters pay for national governments, governments pay for bureaucracies and IGOs, bureaucracies and IGOs pay for private contractors, and so on. Enlisting intermediaries through cooptation or orchestration is often less costly, because they are independently motivated to act (more or less) as the governor wishes. While certainly susceptible to bribes and rent-sharing, many such intermediaries are also eager to retain financial independence, to avoid appearing as paid agents of the governor and maintain their claims to local legitimacy. The cost-effectiveness of enlisting authority is especially attractive for governors simultaneously facing tight budget constraints and burdensome policy demands.

*Ex post*, hierarchical controls likewise entail material costs: governors must invest in monitoring and enforcement, and must maintain the credibility of threats to remove intermediary authority.

Credibility frequently requires redundancy: maintaining alternative potential intermediaries to credibly threaten existing ones with dismissal, as the US government has done with defense contractors (Gansler, Lucyshyn and Arendt 2009). Governments can reduce these costs by relying on a single contractor, but dependence may make it impracticable to dismiss that contractor even if it underperforms.

Hierarchical controls also entail political costs. For example, the EU could have addressed the 2015 upsurge in irregular immigration through hierarchically-controlled national or EU border guards. Yet this would have been politically costly for member state governments and practically difficult for the EU. Hence, the EU farmed the problem out to Turkey. Under a 2016 agreement, the EU relies largely on Turkish competencies to regulate migration even though it lacks effective controls over Turkish policy (Genschel and Jachtenfuchs 2018), suggesting that the political cost savings outweighed the risk of control loss.

In conclusion, the CC tradeoff is crucial to understanding governors' choices among indirect governance modes. While delegation maximizes control, trusteeship, cooptation and orchestration all provide policy benefits delegation cannot offer. In particular, relaxing governor control is often essential to mobilize intermediary expertise, legitimacy, credibility and operational capacity. The characteristics of particular competencies, however, point toward different modes: to mobilize local legitimacy, for example, a governor must forego hard ex ante controls (bottom row in Figure 1); to mobilize intermediary credibility it must forego ex post controls (right column). Where the value of policy benefits is high, as with politically salient issues, governors may accept substantial control losses to obtain these competencies.

#### **4. Trading competence for control**

This section addresses the second puzzle identified above: given that governors need competent intermediaries to achieve their goals, why would a governor select less competent intermediaries or limit intermediaries' exercise of their competencies? We identify three reasons why governors may compromise on competence:

- *Intermediary power*: more competent intermediaries can exert greater leverage over the governor than can less competent intermediaries.
- *Goal divergence*: the goals of competent intermediaries may diverge from those of the governor.
- *Intermediary availability*: a large pool of potential intermediaries facilitates control, but may undermine intermediary competence.



Here too the common denominator is the CC tradeoff: a governor can exert greater control over intermediaries by sacrificing some degree of intermediary competence.

#### *A. Intermediary power*

Why do authoritarian rulers regularly appoint cronies with limited competence to important portfolios? Saddam Hussein, for example, continued to place inept loyalists in crucial military positions even as threats to his reign mounted (Egorov and Sonin 2011:904). And one of the first acts of the Law and Justice government in Poland was to “change the civil-service law, making it easier to fire professionals and hire party hacks” (Applebaum 2018:12).

A preference for incompetence may be self-defeating in the long run (as it was for Saddam), but it protects the governor’s control and authority in the short run. An intermediary’s leverage vis-à-vis the governor varies with its level of competence, and intermediaries with limited competence are at the governor’s mercy. Because they deliver only modest policy benefits, the opportunity costs of dismissing them are low. Ex ante, then, low-competence intermediaries must accept almost any terms the governor offers. Ex post, they must anticipate sanctions for deviant behavior, and may invest in demonstrating their loyalty – as by publicly lying on the governor’s behalf.<sup>12</sup>

Highly competent intermediaries, in contrast, have greater leverage because they can create greater policy benefits – and cause greater harm – for the governor. This makes them more difficult to control. The governor cannot impose strict conditions ex ante because it needs the intermediaries’ competencies; it cannot remove their authority ex post without forgoing substantial policy benefits. In short, greater intermediary competence increases the governor’s control problem, shifting indirect governance arrangements – de jure or de facto – toward the southeast of Figure 1. This problem stems not primarily from information asymmetry, but more fundamentally from the asymmetric dependence created by intermediary competence (Mayntz 1997:66-67). The problem is not that the governor cannot observe its intermediaries slacking; it is that the governor has few options for sanctioning them even if it knows they are slacking.

Anticipating or reacting to these problems, governors often ratchet up controls. Yet doing so invariably reduces intermediary competence. The governor may conceal its true dependence,<sup>13</sup>

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<sup>12</sup> See Tyler Cowen, “Why Trump’s Staff Is Lying.” *New York Times*, Jan. 23, 2017; Xavier Marquez, “This is Why Authoritarian Leaders Use the ‘Big Lie’.” *Monkey Cage, Washington Post*, Jan. 26, 2017.

<sup>13</sup> P-A theory highlights the agent’s informational advantage (Miller 2005). But information asymmetry can also work in reverse. If an agent is unsure of its value to the principal, the principal can exploit this asymmetry. The governor can even enhance the asymmetry by withholding information from intermediaries – as President Trump did at the 2018 Helsinki summit, when he refused to brief his own diplomats about his private meeting with President Putin. The governor’s informational advantage is captured by the concept of “Herrschaftswissen” (Scheler 1926): knowledge that only the governor possesses, but that intermediaries need to perform their tasks.

publicly belittling intermediaries to suggest how expendable they are. But intermediaries who feel unappreciated are likely to work less diligently. The governor may apply procedural controls such as periodically rotating intermediaries. But these techniques constrain opportunities and incentives to learn, or even to perform well. The governor may split governance tasks among multiple intermediaries, limiting the competence each can develop. But this encourages intermediaries to take narrow views of their responsibilities. The governor may support competing intermediaries to maintain a switching option. But redundancy is costly, inefficient where governance tasks entail scale economies (e.g., defense contractors), and infeasible where a task demands a single intermediary (e.g., for local legitimacy).

In extremis, the governor may destroy intermediary competence altogether (Lewis 2008:202). North Korea completely suppressed independent private entrepreneurs despite the manifest inability of state-owned companies to provide even the basic needs of the population (Gerschewski 2018). Stalin – afraid of the Red Army’s power – liquidated most of its commanders and strategic thinkers in the 1930s, producing a politically controllable but militarily inept army. As Hannah Arendt (1951/2004:339) observed: “Totalitarianism in power invariably replaces all first-rate talents, regardless of their sympathies, with those crackpots and fools whose lack of intelligence and creativity is still the best guarantee of their loyalty.”

### *B. Goal divergence*

Intermediaries are not passive instruments manipulated by the governor, but actors with agency that pursue their own policy and institutional goals, including survival and independence (Miller 2005:205). If the intermediaries’ and governor’s goals are correlated, this poses little problem. If their goals diverge, however, there is potential for control loss. This is a particular problem where intermediaries possess operational power, as the United States discovered in the Stinger missile case. Control loss takes different forms: intermediaries may shirk; shift their activities toward their own preferences (slippage or drift); appropriate the governor’s authority; escape from the governor’s shadow of hierarchy; or even overthrow the governor. Naturally, then, governors prefer intermediaries with aligned goals – the “ally principle” (Bendor et al. 2001).

Where competent intermediaries have conflicting goals, a governor is particularly likely to prefer less competent intermediaries with more closely aligned goals. In Hungary, for example, the Fidesz party came to power in 2010 on a platform of economic nationalism (Johnson and Barnes 2015). It saw the Hungarian central bank as a potential roadblock because of its monetary conservatism and international ties. The Fidesz government therefore moved aggressively to control the bank: revising its governing law to gain influence over personnel selection; replacing

its Governor with a trusted politician; and cleaning out the existing staff (Bowker 2013). In short, because their goals diverged, Fidesz intentionally quashed the expertise and credibility of the bank.

### *C. Supply of intermediaries*

The availability of intermediaries has important effects on the CC tradeoff. A large supply of qualified potential intermediaries facilitates governor control (Mattli and Seddon 2015). Ex ante, a large pool may include more intermediaries with both competence and aligned goals. A governor is thus more likely to find “ideal” intermediaries through screening and selection (Hawkins and Jacoby 2006), making enlistment more desirable. Competition among intermediaries also drives down their “inducement price.” Ex post, the availability of qualified substitutes reduces the policy costs of replacing runaway intermediaries, increasing the credibility of the governor’s threat to dismiss them and making reliance on inducements more feasible. These considerations may motivate governors to maintain or increase intermediary supply, e.g., by subsidizing market entry. For example, Danish law requires the military to submit a bid whenever the government outsources a security task to private companies (van Megdenburg 2018). Governors may also stimulate intermediary competition by lowering competence requirements.

The effect of supply on intermediary competence, however, is ambiguous. An abundance of intermediaries – especially where heterogeneous – increases opportunities for a governor to select highly competent ones. Competition among intermediaries may enhance *general* competencies, such as administrative efficiency. Yet by increasing the risk of dismissal, competition reduces the incentive for intermediaries to invest in *relationship-specific* skills, undermining their competence. A reduction in “job security” may trigger a vicious cycle: high intermediary turnover discourages investment in relationship-specific competencies; intermediaries lacking relationship-specific competencies are less committed, heightening goal divergence; and goal divergence induces the governor to further increase control (cf. Gailmard and Patty 2007:874; Hall and Soskice 2001:25, 30). Indirect governance descends into a “regime of clerkship” (Carpenter 2001:38), where no intermediaries acquire relationship-specific skills or seek long-term relationships.

A monopolistic supply of intermediaries has the opposite effects: it limits the governor’s ex ante choice, increases the inducement price and reduces the credibility of ex post threats to dismiss; but it creates incentives for relationship-specific investments and opportunities for learning by doing. It may also enhance certain intermediary competencies: for example, a co-optee may have greater legitimacy with targets where the governor selects a single focal leader as co-optee, rather than selecting one from among multiple competitors – as the US did in Iraq – thereby rendering the governor’s role transparent.

In conclusion, a governor's choice of indirect governance mode will often be driven primarily not by its need for intermediary competencies (given its goals and capabilities), but by its need for control (given the nature and supply of available intermediaries). Goal divergence with competent intermediaries implies conflict and control failure. Where a governor places a high priority on control, it may select less competent intermediaries or strengthen its hierarchical controls – even at the sacrifice of some policy benefits offered by orchestration, cooptation and trusteeship.

The analysis of the last two sections reinforces our argument that the CC tradeoff is a common condition of indirect governance. The tradeoff obtains unless the governor has governance ambitions so limited that it need not obtain any intermediary competencies (section 3); is so powerful that it can resist the leverage of even highly competent intermediaries (section 4A); or has goals so perfectly aligned with those of its intermediaries that control is redundant (section 4B).

## 5. Endogenous instability

Existing theories explain how *exogenous* changes or shocks can modify governance arrangements over time. Competence-control theory shows how the CC tradeoff exposes indirect governance arrangements to *endogenous* instabilities, which other theories do not address. For example, PA theory, like rational institutionalism generally, assumes that a governor can create an equilibrium relationship, and maintain it over time, by designing contractual mechanisms that align intermediaries' goals with its own. If exogenous shocks destabilize this equilibrium, re-contracting can restore stability (Laffont and Martimort 2002). Historical institutionalism (Hall and Taylor 1996; Fioretos 2017; Pierson 2004; Rixen, Viola and Zürn 2016) is more attentive to endogenous dynamics, but focuses on feedback mechanisms that stabilize governance arrangements, such as increasing returns and socialization.<sup>14</sup>

The governor's dilemma highlights destabilizing feedback effects on both sides of the CC tradeoff. To be sure, instability is not inevitable: indirect governance arrangements sometimes remain stable for long periods. But stability is fragile: feedback mechanisms can reinforce intermediary competence or governor control, or can undercut them. Changes in either direction can upset the balance on which the initial choice of governance mode was based, leading to dissatisfaction, modifications within modes, shifts between modes, or the complete breakdown of indirect governance.

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<sup>14</sup> For an exception, see Hanrieder and Zürn 2017.

### *A. Feedbacks to competence*

Indirect governance arrangements may endogenously modify the competencies of intermediaries, the capabilities of the governor or both. Feedback effects that enhance intermediaries' competencies or reduce the governor's capabilities expand the competence gap between them, increasing the governor's dependence and eroding its control. Feedback effects that undermine intermediaries' competencies or enhance the governor's capabilities shrink the competence gap, reducing the governor's dependence and strengthening its control.

#### *i. Enhancing intermediary competence*

Incumbent intermediaries frequently increase their competence through learning by doing, making them more competent and valuable to the governor. This effect is accentuated if intermediaries' assignments are task-specific or evolving, such that intermediaries' expertise become ever more specialized. An expanding competence gap places incumbent intermediaries in a monopoly position, allowing them to pursue their own goals or slack. As with Pepin, it may also induce changes in intermediaries' goals, stimulating ambition to gain greater independence or control. At the same time, the opportunity cost of removing intermediary authority increases: the governor's threats become hollow; the governor loses its grip.

Self-reinforcing gains in intermediary competence, and the concomitant erosion of governor control, are most prominent in delegation, defined by hard controls. Intermediaries may become so proficient at their delegated tasks that the governor becomes beholden to them, effectively losing control. For instance, many governments have become so dependent on private credit rating agencies and providers of privatized public services that they cannot withdraw their authority (Crouch 2015; Kruck 2017). In the US, while Congress (as governor) has constitutional authority to declare war, triggering the authority of the president (as intermediary) to command the military, successive presidents have massively increased the operational capacities of the executive branch security apparatus, making it all but impossible for Congress to assert its authority (Canes-Wrone et al. 2008). In addition, targets may come to view intermediaries that carry out governance tasks over long periods as exercising their own authority, not the governor's delegated authority.

Endogenous control erosion takes different forms in other modes. In trusteeship, erosion arises where the trustee expands its remit beyond the trustor's intention, as the European Court of Justice has done (Weiler 1991). As the trustee develops greater competence, its ambition may also increase, and it becomes increasingly costly for the governor to limit its authority. In cooptation, enlistment and support by the governor can further empower the co-optee, enabling and encouraging it to break free of the governor's control. For example, the Karzai government in

Afghanistan used US support to increase its authority vis-à-vis local constituencies, increasing US dependence and expanding its own freedom of action: “never in history has any superpower spent so much money, sent so many troops to a country, and had so little influence over what its president says and does” (Ladwig 2017:2).

Even in orchestration, the governor may lose its limited influence as intermediaries gain competence – through experience and governor support – and become less willing to be orchestrated. While the WHO was designed to coordinate global health governance, it has limited influence over highly competent actors such as the Gates Foundation (Hanrieder 2015). Control erosion is only a modest problem if goal alignment remains high, but it can become serious if increasing competence induces intermediaries to reassess their goals.

## ii. Undermining intermediary competence

Indirect governance can instead erode intermediary competencies. For example, as intermediaries deploy their operational capacity, they may deplete their resources: fighters die, financial reserves are drained and equipment deteriorates. Erosion of intermediary competencies shrinks the competence gap, making intermediaries increasingly dependent on the governor's mandate, endorsement and support. To retain these benefits, intermediaries change their behavior to focus on pleasing the governor and avoiding its sanctions. Yet they sacrifice their independence and competence in the process. They become less attractive to other governors and less able to work independently – further increasing dependence and eroding competence.

For the governor, intermediary dependence is a mixed blessing. The governor gains control as intermediaries become increasingly responsive to its threats and inducements, but loses policy benefits as intermediaries' independence-based competencies erode: self-supporting intermediaries become addicted to its assistance; independent experts become yes-men; policy innovators lose their creativity; locally legitimate intermediaries lose touch with their communities, becoming unable to gather information or ideas from them or to tap into their capabilities.

The problem may be most severe in orchestration. Governors choose orchestration to extend their authority, limit their costs and gain other benefits of intermediary independence. But governor support may induce intermediaries to shift their focus from independently pursuing (aligned) policy goals to winning contracts, grants and endorsements (Cooley and Ron 2002): NGOs focus on international donors rather than development work; rebel groups focus on foreign sponsors rather than military preparations. Intermediaries lose the relationships, skills, nimbleness and policy commitment that originally made them attractive.

Similar problems arise in other modes. A trustee that focuses on eliciting governor support – like the Hungarian central bank post-2010 – can no longer render the governor’s commitments credible. A co-optee that trumpets its loyalty to the governor can no longer legitimate the governor’s policies vis-à-vis targets: the local community no longer views its chief as an authority in its own right, but as a puppet of the colonial power (Crowder 1964); workers no longer view their union leader as “one of us,” but as part of a distant elite (Offe and Wiesensthal 1980).

Even in delegation, dependence may lead intermediaries to over-comply. Elected politicians adopt popular but harmful policies (Fox and Shotts 2009). Bureaucrats become overly cautious: they focus on reading their bosses’ minds and signaling loyalty rather than on solving policy problems (Prendergast 1993), becoming “petty, narrow, rigid” (Michels 1952:143). They shun innovation, ignore problems outside their briefs, suppress unwelcome information, and refuse responsibility for policy outcomes (Weber 1910). A graphic example is the conduct of intelligence services in autocracies (Wintrobe 1998). Autocratic regimes depend on secret services, but those services are often too fearful to provide accurate intelligence; few dare to speak truth to the dictator because they fear the consequences of bearing bad news.

The governor may try to break intermediaries’ self-imposed dependence by introducing performance-based remuneration, limiting subsidies, keeping co-opted elites at a distance, or courting alternative intermediaries. But these strategies can perversely induce intermediaries to stick even more closely to “safe” policies. Alternatively, the governor may micromanage intermediary behavior through a straitjacket of procedures, from earmarked contributions to reporting and personnel requirements. Yet these actions prevent intermediaries from fully exercising their competencies, leading to “trained incapacity” (Veblen 1914). Either way, the governor accelerates the very erosion of competence it aims to alleviate.

### iii. Modifying governor capabilities

Rather than – or in addition to – modifying intermediary competencies, endogenous feedback mechanisms can enhance or undermine the governor’s capabilities, again shrinking or expanding the competence gap. For example, as the governor ceases to perform the tasks assigned to intermediaries, its capabilities may atrophy, expanding the competence gap. This increases the governor’s dependence on incumbent intermediaries, undermining its control. The governor’s control options are further reduced if the competence of potential alternate intermediaries also declines without on-going experience. Similarly, the governor’s legitimacy may decline if targets cease to see it as responsible for the benefits it provides through intermediaries. This increases the

governor's dependence on intermediary legitimacy, while limiting its normative warrant to rescind intermediaries' authority.

On the other hand, indirect governance can provide learning opportunities for the governor based on observing intermediary activities. Indeed, the governor may engage intermediaries as "instructors," to train itself or other potential intermediaries. Learning by the governor shrinks the competence gap, reducing the governor's dependence on intermediaries and buttressing its control. Indirect governance can also enhance the governor's legitimacy, as targets come to recognize its role in (indirectly) providing governance benefits and increasingly attribute responsibility for those benefits to it. This reduces the governor's dependence on intermediary legitimacy and enhances its control.

### *B. Feedbacks to control*

Feedback mechanisms in indirect governance can endogenously modify the goals of intermediaries and/or the governor, destabilizing the initial balance between competence and control. The governor's control efforts may trigger socialization processes that increase goal convergence, allowing the governor to relax controls. But controls may instead lead to estrangement, increasing goal divergence and the governor's control requirements.

#### *i. Reducing control requirements*

Over time, continuous interaction may socialize intermediaries into their role. Intermediaries come to consider it normal to act for the governor and follow its wishes; doing so may even become part of their identity. As a result, the goals of governor and intermediaries increasingly converge. Interactions may similarly socialize the governor in ways that increase goal convergence. Institutionalizing the relationship can further align goals, as by extending the shadow of the future and disciplining short-term impulses (Keohane 1984). These effects reduce the governor's control requirements and induce it to relax controls.

#### *ii. Increasing control requirements*

The governor's control efforts may instead antagonize intermediaries, increasing goal divergence and thus governors' control requirements. Strict controls can create resentment, prompting intermediaries to focus on extracting rents rather than achieving policy goals, or to create difficulties for the governor as a matter of principle. Strict controls can also create fear, leading intermediaries to over-comply. Where goals are aligned, controls and inducements can produce "motivation crowding," eroding intrinsic motivations: "self-determination and self-esteem suffer, and the individuals react by reducing their intrinsic motivation in the activity controlled" (Frey and



Jegen 2001:594-595). Individuals (Milgrom and Roberts 1990) and organizations (Cooley and Spruyt 2001) increase ritualistic conformance, but decrease attention to policy efficacy. Hence, if governors depend on intermediaries' intrinsic motivations, they must sacrifice some control: for example, legislatures provide bureaucrats "policy rents" in the form of policy discretion to induce them to be good public servants (Gailmard and Patty 2013).

In sum, the stability of indirect governance arrangements cannot be taken for granted. Rather than locking-in to stable arrangements, indirect governance generates feedback effects that can shift the competence-control balance, producing chronic discontent and repeated modifications of governance arrangements. If one observes stability, then, it must be explained. And if one observes instability, one should not be content with explanations based on exogenous shocks, but should also consider endogenous sources.

## **6. The contributions of competence-control theory**

The governor's dilemma is a general consequence of the need for indirect governance. When governors use competent intermediaries, as they must, they give up some control – and the dilemma begins. CC theory brings this dilemma center stage, explaining the control problems created by intermediary competence and the competence problems implied by governor control. We have considered four important governance competencies – expertise, credibility, legitimacy and operational capacity – but future research may identify others; the nature and intensity of the CC tradeoff may also vary depending on which competencies are involved. CC theory views competencies as power resources, and conceptualizes indirect governance as an ongoing political process of balancing and re-balancing competence and control. CC theory thus enriches our understanding of indirect governance in four important ways.

First, consideration of the CC tradeoff shows that the problems of indirect governance are not purely informational. Even with perfect information, indirect governance remains challenging for the governor. While existing theories accept the governor's need for intermediary competence, they largely neglect the implications of this need for governor control (and in turn the implications of governor control for intermediary competence).

Second, CC theory provides an integrated account of the variety of real-world governance arrangements: governors adopt diverse modes of indirect governance to balance competence and control in ways appropriate to their specific situations. We identify four general modes – delegation, trusteeship, cooptation and orchestration – previously theorized separately. CC theory highlights differences and similarities among these modes by defining them in a common way,

based on the configuration of ex ante and ex post controls. This limits concept-stretching: for example, while privatization of public services and mobilization of foreign rebels have both been analyzed as delegation (Hefetz and Warner 2004; Saleyhan 2010), the stark differences between them (granting versus enlisting; hierarchical controls versus inducements) make this equivalence misleading. CC theory also reveals unexpected resemblances: for example, while corporatism and foreign state-building are rarely if ever analyzed together, both reflect the same mode (cooptation), suggesting that both will face similar problems.

Third, CC theory suggests conditions under which governors adopt different modes. On one hand, governors frequently relax their competence requirements, selecting less-competent intermediaries or imposing constraints on competence. Competent intermediaries are difficult to control, even with full information, because of the leverage their policy benefits provide. The risk of losing control – which increases with goal divergence – may thus lead governors to compromise on competence. On the other hand, governors frequently relax controls where necessary to mobilize valuable competencies. For example, they relax ex ante controls (cooptation or orchestration) to protect intermediaries' local legitimacy; they relax ex post controls (trusteeship or orchestration) to enhance intermediaries' credibility and operational capacity. It is important to note that delegation is rarely the best option for mobilizing competencies; it is chosen largely for control reasons.

Finally, CC theory implies that indirect governance arrangements will frequently be unstable. Endogenous feedbacks can reinforce or undermine intermediary competencies and governor capabilities, modifying each party's dependence on the other and thus the strength of the governor's controls. Feedbacks to the goals of governor and intermediaries can increase or decrease goal divergence, modifying the governor's control requirements. All of these effects unsettle the initial arrangement, leading to adjustments and shifts within and between modes. Governance remains a dilemma.

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