THE CONFLICT IN SERVING MULTIPLE PRINCIPALS

Cooperation between Dutch Railways and four layers of government

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ABSTRACT

In the past years the influence of decentral governments on the Dutch railway system increased. As a consequence, the dominant company in the Dutch railway sector, NS (Dutch Railways), is increasingly facing multiple principals with partly conflicting interests. This results in difficult tradeoffs for NS that have to be made at many levels. This paper describes what makes this multiple principals problem so discordant and how NS deals with it. Based on a case study on regional infrastructure planning it is concluded that NS currently uses no clear strategy to cooperate with multi-layered governments and to make tradeoffs between conflicting demands. We argue this worsens the multiple principals problem and restrains the cooperation to fully exploit the potential of involving all committed interests of decentral governments. Therefore, we propose options for NS to share the multiple principals problem among decentral governments, curbing the inherent conflicts back into joint discussions on the desirable trade-offs to make.

Keywords: multiple principal problem, Dutch Railways, government, process management

INTRODUCTION

Since 1993 liberalization and decentralization took place in the Dutch railway sector. As a consequence, the national government is not the only governmental body that governs the railway sector anymore. Instead, multiple layers of government are currently involved in organizing public transport: provinces, city regions and municipalities.

On the one hand, the involvement of decentral governments seems to be a blessing: when deciding on public transport plans, interests of the local population are taken into account; the democratic legitimacy increases and the local knowledge of concerned organizations can be used to enrich the decision making. On the other hand, the decision making is becoming far more complex resulting in a process that is almost impossible to coordinate. A model to deal with this complexity seems to be absent. A recent example of how things can go wrong is the decision making concerning the Rijn Gouwelijn in Leiden. The municipality of Leiden and the province of South-Holland struggle for years about if and how to construct a new public transport connection for the Leiden area. Multiple aldermen already foundered on this case.

At first sight all layers of government essentially share the same mission: improving public transport. But when looked closer, the operationalization of this value reveals possible conflicts. Different scope and interests of governments can result in conflicting demands. This is illustrated by a simple example: when the municipality of The Hague wants to improve public transport, they might desire extra stations in and around The Hague. But if the Ministry of Transport wants to improve public transport, they might want to improve travelling time between cities, and therefore opening less stations. Hence, despite the shared public value, different scope and interests of governments can result in conflicting demands.
In pursuit of more or less the same mission, the Dutch railway sector and governments appear to struggle in complex, multi-layered relationships that are difficult to manage.

This paper describes how the dominant operator on the Dutch railway network, NS (Dutch Railways), deals with the different layers of government when deciding on urban, regional rail transport plans. The process of decision making is studied to investigate how is dealt with the tradeoffs caused by the multiple-principals situation.

Firstly, theories relating to agents serving principals are described and learn that NS faces the multiple principal problem (section 1). Principal-agent studies have many hypotheses how to re-discipline the agent, but few empirical insights on agent behavior. Therefore, a case study is performed, in which a large number of people is interviewed. The research setup is described in section 2. Then, the results of the case study are presented. The case study shows that NS has no clear strategy to deal with the conflicting demands of governments (section 3). Lastly, conclusions and recommendations are formulated for NS to deal with multiple principals. As multiple-principal situations reveal a more difficult position for the agent, an agent-oriented solution is provided (section 4).

1. PRINCIPALS AND AGENTS

In literature countless notions can be found about cooperation between parties with different interests. One of the most used concepts to illustrate this kind of cooperation is the principal-agent model. Central to principal-agent thinking is a conflict between the agent objectives and the principal objectives (Laffont and Martimort, 2002). When one agent has to serve more principals, this is called the multiple principals problem. Multiple principals may have overlapping interests but also competing interests in the absence of an imposed hierarchy (Scott, 2000). The outcomes of these interacting incentives may not always be predictable (Miller and Whitford, 2002). A possible strategy to agents is to play principals off against one another (Wood and Waterman 1994). Next, agents might strategically use information asymmetry in a setting of multiple principals (Miller, 2005). Steenhuisen (2010) states that multiple principals are not necessarily losing control to the agent. He concludes that in a multiple principals setting agents face new opportunities to shirk but without the opportunity to refrain from shirking and without the capacity to manage the trade-off.

The classical principal-agent model can be projected on the old situation in the railway sector. Until 1993 the organization of the Dutch railway sector was relatively simple. All railways were managed, owned and operated by NS and NS had one shareholder: the Dutch government. The Dutch government served as a principal, protecting public values. NS represented the agent, trying to optimize their interest and thereby having the incentive to shirk.

However, in the current situation NS no longer has to serve only one principal. The decentral governments gained influence and have more steering possibilities towards NS. Some decentral governments want to have even more decentral influence. This is illustrated by an ongoing discussion about the possible decentralization of regional trains, put forward by decentral governments like the Province of Gelderland (Maarten, 2008). So the situation where NS is steered by the central government changed into a situation where multiple layers of government gain more steering possibilities towards NS. NS therefore can be considered an agent not serving one principal, but multiple principals with conflicting interests.

2. CASE STUDY TO INVESTIGATE REAL LIFE COOPERATION

To answer the question how NS deals with four layers of governments, the tradeoffs NS faces in the cooperation need to be found. In order to reconstruct this process, it is important to ask stakeholders how they dealt with tradeoffs and how they participated in negotiations in practice. An appropriate method to reconstruct real life negotiations is performing a case study. To select a relevant case two selection criteria are used:

- Complexity of the project
A project should contain three categories of development: infrastructure, transport services and station area.

- Multilayeredness of decentral governments
It is chosen to focus on urban regional transport plans, as in urban areas all four layers of government are present. City regions play an important role in developing transport in urban
areas. The more layers of governments are involved, the more complex a project is.

This resulted in the selection of the project Programme Accessibility North Wing (‘PBN’) in the metropolitan region of Amsterdam.

People involved in the cooperation between NS and decentral governments have unique knowledge about this cooperation, which cannot be found in documents. Therefore, 12 people closely related to the decision making of the case are interviewed based on a semi structured interview of 60 minutes on average. Next to that, internal NS documents and external documents are studied. The case findings are presented in the next section.

3. CASE STUDY: PROGRAMME ACCESSIBILITY NORTH WING (‘PBN’)

First, a short case introduction is presented. Then, the involved governments and their demands are described. To conclude, the faced tradeoffs and the solution to deal with this tradeoff are displayed.

The case study concerns investments in railway infrastructure and the opening of new stations in and around Amsterdam, with a total budget of 171 million Euros. This budget was provided by the Ministry of Transport, with the constraint that decentral governments and NS should agree on the investment programme. Decentral governments and NS started to negotiate about this programme in March 2005 and eventually signed a deal in June 2006.

The decentral governments involved in the PBN case consist of the municipality of Amsterdam, the city region of Amsterdam, the province of North-Holland and the province of Flevoland. NS faces many principals in this case. Firstly, they have to comply with the general financial standards. The Ministry of Finance as a shareholder sets certain standards, which are translated by NS into a norm that the Return on Investments should be 10% (NS, 2005). Secondly, the Ministry of Transport steers NS with the targets and obligations described in a concession for the central rail network. This means for example that certain punctuality standards must be met. Thirdly, decentral governments only want to cooperate with a joint investment program when certain of their demands are granted, for example the opening of 8 new stations.

In this case the demands of decentral governments are contradictory with the demands of the central government. The first reaction of NS is to strictly follow the norms of the Ministry of Finance, which means that no investments are done in projects that are not profitable enough. Then, decentral governments are disappointed and a discussion is started about the contribution and impact of a decision. Eventually, a deal is negotiated on which actors agree.

Clearly, this is a situation where NS as an agent has to serve more principals with competing interests. This can be illustrated with an example. This is just one example of a tradeoff where NS had to decide how to deal with contradicting demands of governments.

Example: Flevolijn

One of the demands of the decentral governments was to run extra trains on the so called ‘Flevolijn’ (Amsterdam – Almere – Lelystad). According to the decentral governments these trains would add value because a growing number of passengers is using this connection. Besides that, it might help to solve the traffic jam on the roads parallel to the railway line. However, NS calculated that running these trains would result in a negative operational result of 6 million Euros per year (NS, 2005). So according to the standards based on the standards of the Ministry of Finance, this investment is not profitable enough.

In this case NS can choose both sides: support the demands of the decentral governments and decide to run extra trains on the Flevolijn or strictly follow the standards of the Ministry of Finance to prevent a negative operational result. The risk of the first solution is that NS will have a negative financial result every year. The risk of the second solution is that NS will not end up with a deal about PBN and thereby miss the opportunity the Ministry of Transport invests in infrastructure for the Amsterdam area (171 million).

Eventually NS found a solution that lies somewhere between these two options. In the final PBN contract the running of extra trains on the Flevolijn is conditionally linked to the growth of passengers. When the market growth on this trajectory is 34% or more, NS will run extra trains. If this growth is not realized, NS will run no extra trains. This solution was formulated during the negotiations with decentral governments.
The classic strategy of NS was to unilaterally define what is the best project for a region. This case shows this strategy is no longer sufficient. If NS would have stuck to the old strategy, no funding would be available from the Ministry of Transport. When acting in a multi actor network, decision making is capricious and unpredictable. Therefore, process management is needed (ten Heuvelhof, 2009). Guldemond (2010) elaborates on the use of process management when deciding on urban, regional transport plans.

5. CONCLUSIONS & RECOMMENDATIONS

A fundamental change has occurred in the Dutch railway sector. NS is faced with the upcoming power of multi-layered, decentral governments. Due to the presence of multi-layered governments, NS is facing multiple principals with partly conflicting interests. The playing field has changed, but the central player, NS, did not adapt their behavior to the new field.

The case study demonstrated that if and how demands of decentral governments are taken into account depends on the individual NS employees. NS has no clear strategy to deal with these tradeoffs. There are no guidelines that describe how to choose position in the faced tradeoffs, resulting in random choices. This worsens the multiple principals problem and restrains the cooperation to fully exploit the potential of involving all committed interests of decentral governments.

For NS it is impossible to satisfy all principals. It is therefore recommended to build a strategy on sharing the multiple principal problem with the relevant governments. After all, now the problem is faced at NS while the demands are externally defined. NS can try to make governments co-owner of this tradeoff by giving more insights in the difficulty of choices. Sharing the multiple principals problem does not mean to give away influence and say to the environment of an agent, but to gain control and insight over the most desirable trade-off to make a cooperative platform of multiple principals and their agent.

An example could be to yearly publish a list of measures that NS would like to take, but which are not possible due to the demands related to the Return on Investment. Decentral governments can support NS in formulating this list. In this way, the Ministry of Transport and/or Finance gets insight in the consequences of the measures of the multi-layered governments. The tradeoff is then made explicit to the institutions that are responsible for creating this tradeoff, which makes it possible to discuss whether the conflicting demands lead to a desirable outcome. If not, the demands of the governments might be adjusted, leading to a more desirable outcome.

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<th>Recommendation applied to the Flevolijn example</th>
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<td>The Flevolijn example showed that according to the standards of the Ministry of Finance the investment in extra trains between Amsterdam and Lelystad was not profitable enough. However, these trains might contribute to the solving of traffic jams on this trajectory. Therefore, it was a desire of decentral governments to run these extra trains. Eventually NS made appointments about running extra trains only when certain growth numbers are met.</td>
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In this case, NS tried to solve the problem of the multiple principals with conflicting demands by putting forward extra conditions towards decentral governments. In the opinion of decentral governments it is obvious that extra trains should run on this track to solve the traffic jams. NS employees agree with decentral governments, but due to the standards of the Ministry of Finance they decide to add extra conditions. By doing so, NS causes incomprehension at decentral governments while basically they agree with each other.

It is recommended to move the responsibility for this choice to the central government in future. When NS together with decentral governments or even with the Ministry of Transport agrees on the added value of running trains on the Flevolijn, they should collectively address the Ministry of Finance to demonstrate the current standards sometimes are not effective.

In the new situation interaction with decentral governments is needed. Based on committed interests, it is possible to jointly determine what is a good solution. To realize this successfully and to prevent a slow, bureaucratic process, NS needs to adapt its strategy and has a need for process management.
LIST OF REFERENCES


