

The Corporatization Process: An Owner Perspective

Ola Mattisson¹ and Anna Thomasson²

Abstract

The purpose of the paper is to: i) explore how the ownership-relationship between the public authority and the provider of the service is organized and managed to secure accountability in those cases the ownership remains public ii) how the purchaser-provider relationship is organized and managed so that public value are protected and iii) to what extent NPM still influences the reforms conducted within the public sector. Previous research has only touched upon the ownership-relationship and the purchasing-provider relationship. This study shows that relationships are of importance for the outcome of the reform and thus for securing accountability and public value. A qualitatively oriented method with case studies is used and the empirical material is mainly gathered through semi-structured interviews. The results indicate that the outcome of the corporatization process is depending on the ownership-relationship as well as the purchaser-provider relationship and how these relationships are organized in the specific case.

Keywords: Corporatization, Governance, New Public Management, Purchaser-provider, Ownership strategy

1. Introduction

The influence of NPM has had an extensive impact on how public services are organized and provided for (Lapsley, 2009). With these changes the relationship between the public authority and the provider of the services is changed (Wettenhall, 2001; Kurunmäki and Miller, 2006; Thomasson, 2009; Luke, 2010; Osborne et al., 2011).

¹ Associate Professor, School of Economics and Management, Lund University.
E-mail: ola.mattisson@fek.lu.se, Phone no. + 46708132605

² Associate Professor, School of Economics and Management, Lund University, Lund University, P.O. Box 7080, SE-220 07 Lund, Sweden. E-mail: anna.thomasson@fek.lu.se, Phone no. + 46708198381

In many cases the distance between the public authority and the provision increases as the running of the services is moved to a separate organization outside the realm of the public authority. This is for example the case when the provision of a public service is privatized, put out for tender, or transferred to a corporation (regardless of is the owner of the corporation is public, private or mixed). In focus for this paper is however the corporatization process of public services and the corporation that remains publicly owned.

The altered relationship and the increasing distance between the authority and the provider of the services impose challenges on the governance of these services as well as it raises questions regarding accountability (Watson, 2003; Bovens, 2009; André, 2010; Osborne et al. 2011). In most cases the public authority remains the principal and outmost responsible for the provision and thus has to secure the functionality of the service. Further, when the responsibility of the provision is handed over to an external organization questions raise regarding how to secure accountability and public sector values as well as service quality level.

Literature on NPM however, has mainly focused on the effects of different organizational forms and management of these forms (see Coombs & Edwards, 1993; Ryan & Ng, 2000; Bozec & Breton, 2003; Bernier & Simmard, 2007; Luke, 2010). Literature thus falls short in discussing the role of the public authority and the relationship between the new organization and the public authority. Further, recent literature questions the extent to which NPM still influences the development of public sector services (Osborne, 2006; De Vries and Nemec, 2013). Still, in many countries as Sweden and for example Finland (Herralla and Haapasalo, 2012), the question of corporatization of public services remains on the agenda.

The objective in this paper is to: i) explore how the ownership-relationship between the public authority and the provider of the service is organized and managed to secure accountability in cases where the ownership remains public ii) how the purchaser-provider relationship is organized and managed to protect public value and iii) to what extent NPM still influences the reforms conducted within the public sector.

The rest of the paper is organized as follows: in the next section the methodological approach chosen for the study is described. This is followed by a literature review on NPM and corporatization research.

After this the empirical context, the cases and the result of the case studies are presented. The paper is concluded with a discussion on the contribution and managerial implication of the study.

2. Methodology

Considering the explorative nature of this paper a case based approach was used as it allows a complex social phenomenon to be explored in detail in its true context (Flyvbjerg, 2006). Since it was important to get a detailed picture and comparative data from municipalities in different financial situations a multiple case study was chosen (Eisenhardt, 1989).

Study Setting

One sector where corporatization has been conducted more recently is the public real-estate services, i.e. the maintenance of public facilities used by public entities to provide public services. Real estates that are publicly owned hold large monetary as well as cultural values that need to be protected. Consequently the corporatization of the real-estate constitute an interesting sector where issues of accountability and preserving public value are evoked. In Sweden municipalities have a broad range of activities why they have real estate that encompasses properties such as kindergartens, school buildings, nursing homes and recreation facilities. For this paper four case studies were conducted. They all represent municipalities going through corporatization processes of public facilities providing ownership and maintenance of real estate used by other municipal entities.

The municipalities were selected based on three criteria. The first was size as the aim was a mix of municipalities with different sizes (in regards to the number of inhabitants). A second criterion was to find a selection of different corporate structures. This in order to see how the organizational structure affected the role assumed of the local government.

The third criterion refers to the timing. The corporatization process needed to be recently conducted for freshness of data and giving the opportunity to interview people involved in the process. All to capture the extent to which NPM still influences public sector reforms.

Sources of Data and Analysis of Data

The empirical material has been gathered through semi-structured interviews with top management members of the corporations (CEO, CFO) and the civil servants in the municipalities and with the users of the properties. Some 15 interviews have been conducted by the authors themselves during late 2010 and early 2011. The questions posed were aimed at organizational characteristics such as leadership, decision-making structures and routines, also at particular historical explanations of the economic conditions of the respective municipality. Depending on the question, the respondents were encouraged to freely tell us their story about how things were working in their organization.

The empirical material was analyzed stepwise. First each case was compiled into a document that was then sent to the CEO of the corporation for verification. Allowing representatives from the studied cases an opportunity to give feedback on the researchers' interpretations is a way to reduce bias and misunderstanding (Bryman & Bell, 2003).

Secondly, the cases were analyzed based on the themes identified in the literature review and the purpose of the study, namely: motives, ownership-relationship and purchaser-provider relationship. Considering that corporatization of public services is regarded as a NPM-reform, the first theme, "Motives", were chosen in order to investigate to what extent the motives stated by the interviewees correspond with the central ideas within NPM.

The second and third themes, "The ownership relationship" and "The purchaser-provider relationship" were chosen in order to investigate the dual roles the government of a publicly owned corporation assumes after a corporatization process.

The conclusions drawn from this study is based on the result of the cross-case analysis and result of previous studies on corporatization process presented in the framework section.

3. NPM and the Organization of Public Service

The ideas that constitute the New Public Management (NPM) perspective have had an extensive impact on the governance and management of public services over the last decades.

The main principles of NPM according to Hood (1991, 1995) are: to strengthen the role of the manager and create a clear managerial responsibility with focus on output and result, to introduce market-oriented managerial styles and techniques into the provision of public services. The objective behind all NPM-reforms is to increase efficiency in the production of public services by introducing market-oriented management and governance mechanisms (Lapsley, 2009, Osborne et al., 2011).

The NPM ideas also have influence on how public services are organized and provided (Hood, 1991; 1995), with the private as a role model. Therefore, due to the influence of NPM public services has been privatized and/ or competition has been introduced between public services or between public and private service providers (Hood, 1991; 1995). Related to this has also been the trend towards disaggregation of public organizations into different units each responsible for a specific service or product and each with its own identity (Hood, 1991; 1995). The disaggregation has resulted in the creation of purchaser-provider relationships as well as the corporatization of public services.

Corporatization of public services refers to the process where the provision of public services is transferred from the realm of the government into a corporation (Boston et al., 1996). The corporation could be owned publicly, privately or jointly in terms of a Public Private Partnership.

The motives behind a corporatization is generally the same as the NPM-principles, i.e. to increase efficiency by strengthening the role of the manager, focus on output and performance and by dividing the public organization into smaller units with its own manager and identity (Wettenhall, 2001; Thynne and Wettenhall, 2004;). In some countries, among them Sweden, corporatization of public services has been one of the reforms implemented in the wake of NPM (Wettenhall, 2001; Grossi and Reichard, 2008; Thomasson, 2009).

It is not only the conditions under which the services are provided that change due to the corporatization of a public service. There is also a change in relationship between the government authority and the corporation. If the corporation remains in public ownership the government assumes the role as owner of the corporation.

Further, if the provision of the corporatized services remains a public responsibility the government gets several roles. One is to remain the principal for the supply and another one is to become the purchaser of these services and responsible for the level of quality of services provided. The government thus not only assumes one new role but at least two, owner and purchaser, but new to the government organization.

Thus, while the corporatization process enhances the managerial responsibility it complicates the role of the government and imposes challenges on the governance of the services corporatized.

However, literature on corporatization processes has recognized that the government due to the corporatization process assumes the role as purchaser (Grossi and Reichard, 2008). Further, part of the literature on NPM and its effects highlights how the changing role of the government due to the introduction of new organizational forms changes the relationship between the government and the services provided (Ryan & Ng, 2000; Wettenhall, 2001; Bozec & Breton, 2003; Luke, 2010). This could, according to research within the field, endanger the process of securing accountability in the provision of public service and impair the relationship between elected politicians and citizens.

Literature on NPM and corporatization of public services do however fall short in discussing the changing role of the government, analyze what it actually mean and how the government needs to adapt in order to assume the new roles.

Therefore it is interesting to explore how the ownership-relationship as well as the purchaser-provider relationship is organized and managed and to what extent the motives behind as well as the NPM-reforms still prevail.

This will be accomplished by focusing on the corporatization of the ownership and maintenance of public facilities used by public entities to provide public services in Sweden. Consequently, in the next section the Swedish public sector and the history of corporatization in Sweden will be presented in the next section.

4. Corporatization in Swedish Public Sector

A major part of public services in Sweden is provided by the local governments, i.e. the municipalities. The Swedish municipalities thus have the responsibility for the provision of individual services ranging from care of children and elderly people to infrastructure services such as water, waste and other technical services. There is a long tradition of autonomous municipalities as they are free to choose how to organize their activities as long as they secure the services they are obliged to provide by law. Therefore, there is a large variation between Swedish municipalities regarding how the provision of the services is organized. For example, in some municipalities the influence from NPM has been extensive and the level of disaggregation high and in others the services remains within the government organization.

In Sweden the corporate form became popular in the 80's and as a consequence of the influence of NPM grew gradually stronger during the 90's. Today there are around 2000 municipally owned corporations in Sweden. Usually they act as a separate unit charging users by fees. In the cases they provide support services to other local services (for example real-estate) they charge (transfer prices) the municipal units using the facilities.

5. Research Results

Table 1 presented below provides the reader with information of the four cases included in this study (the municipalities of Gävle, Staffanstorp, Södertälje and Trollhättan).

Besides general information, there is also a summary of characteristics under the headings "Motives", "The ownership relationship" and "The purchaser provider relationship". These characteristics also correspond with themes of the analysis. These three themes will also be used as a back drop for the presentation of the result of the analysis of the cases.

Table 1: Information Regarding the Organizations Selected as Cases and Summary of Result of Analysis

Municipality No. of inhabitants	Gävle 95 000	Staffanstorp 22 000	Södertälje 86 000
Company	Gävlefastigheter AB	Staffanstorpshus AB	Telgefastigheter AB
Area of activities	Municipal facilities	Both housing and municipal facilities	Municipal facilities
Peculiarities	Defined model for rent setting	Big latitude for the company – market orientation	Centralized unit acting as customer
Motives	Coordination Efficiency Governance Making <u>dwelling stock</u> coherent	Coordination Efficiency Fresh start Governance Separate econ. unit	Coordination Efficiency Governance
Ownership - relationship	Board of directors – both politicians and external professionals Distinct separation owner – company Sovereign use of economic. Resources	Board of directors – solely politicians Distinct separation owner – company Sovereign use of economic resources	Board of directors – solely politicians Distinct separation owner – company Sovereign use of economic resources
Purchaser-provider relationship	Facilities coordinator centralized Operating unit act as tenant (not a central function)	Facilities coordinator centralized Operating unit act as tenant (not a central function)	Facilities coordinator centralized Central municipal function acting as tenant

Trollhättan 55 000	Trollhättan Tomt AB	Municipal facilities	High involvement from politicians in details	Coordination Efficiency Governance Separate econ. unit	Board of directors – solely politicians Unclear separation owner – company Non-sovereign use of economic resources	Facilities coordinator centralized Central municipal function acting as tenant
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5.1 Motives

A central motive behind the corporatization process in the cases studied is to increase efficiency, improve managerial control and co-ordinate activities. At the same time, there is an outspoken will not to privatize the real-estates, but to keep them under municipal control in order to secure the provision and to become less dependent on private firms. To corporatize the maintenance and/or ownership were therefore in all four cases regarded as the best way to achieve all motives.

Even though the central motives are alike, there are also differences between the cases. Especially in terms of what was the most pressing reason for incorporating the real-estate services. For Staffanstorp and Trollhättan, for example, the reasons were mainly economical. The financial resources and the responsibility for the maintenance were divided between different cost- and activity centers each responsible for a theirpart; schools for school building, the nursing homes for nurseries etc. As a consequence, the maintenance was neglected since the primary activities in each department always were prioritized in times of financial restrains and budget cuts. By creating a corporation the long term real estate responsibilities were clarified.

5.2 The Ownership-Relationship

When looking in Table 1 under owner-relationship we can see how there are similarities as well as important differences in regards to how this relationship is organized and managed. One difference is the degree of independence from political influence and the implementation of short-term oriented political interests.

In Trollhättan for example, the owners have decided to keep control over the budget and decisions regarding investments and the level of maintenance. The CEO in Trollhättan expressed during the interview how this restrained his ability to develop a long range strategic plan for the development and maintenance of the real-estate services. The CEO were frustrated over the situation, stressing the importance of giving the corporation autonomy and full influence over the budget and the operations, i.e., to keep the political decisions on a strategic level and leave the management to the CEO.

An important and related aspect is the composition of the board. The most common solution was to have a board consisting of politicians and this is believed to improve control, enhance transparency and protect democratic value. However, when the CEO of the corporations was asked, a mixed board (boards with a combination of politicians and trade specialists) was favored. In the cases with a mixed board it was perceived to provide better conditions for the functioning of the board as well as brought expertise to the corporation. This is illustrated by one of the CEO: s in the following way.

“It has been important for us to have non-politicians in the board for two reasons. One is to mark the independence of the company and the sole focus on the facilities, and another one is to bring professional expertise into the board.”

Even though the presence of non-politicians on the board seems to increase the autonomy of the corporation it does not seem like it is a necessity to create autonomy. In the case of Staffanstorps for example (see Table 1), the corporation has a high degree of independence and the board consists of politicians only. The question of independence thus rather seems to be a question of attitude on behalf of the owners and how willing they are to let go over their influence over the corporation.

With more autonomy it is evident that the company turns less dependent on temporary fluctuations in the municipal financial situation, making it easier to work from long-term assignment. This is considered to give better opportunities to engage in long-term efficient operation and management.

In regards to the relationship between the owners and the corporation it was also pointed out as important by several of the interviewees to streamlining the roles and to make a clear distinction between what falls under the responsibility of the corporation and what remains a municipal responsibility.

5.3 The Purchaser-Provider Relationship

In the majority of the cases studied the importance of having a coordinator function within the municipality responsible for the purchasing function and for the contact with the corporation, was stressed. Such a function was also (see Table 1) found in all the four cases studied.

What also was stressed was the need for maintaining expertise within the municipality in order for the corporation to have a competent counterpart to negotiate with. The role of this coordinator is to be responsible for the contacts with the corporation and for the long term need and use of facilities within the municipality.

In a majority of the cases the need for this this function to be centralized and not divided between different parts of the municipal administration were mentioned by CEOs as well as representatives from the municipalities. One of the CEO explained it like this:

“It would be even better if they only had contact with one person and that this person had the authority to enter into agreements with the corporation. To plan to build a new school for example is a large investment and involves a lot of risk-taking and the corporation would lose a lot of money if a decision was made later by the municipality to not carry on with the plans”.

As Table 1 shows, such a function was found in all of the cases studied. There is however also differences between the cases.

For example, the majority of them did not have this function from the beginning. Instead this was something that was established a while after the corporation was established, indicating how the municipality from the beginning did not fully grasp what was needed in order to fulfill the purchasing role.

To have a centralized function responsible for planning present and future needs is not the only important function. Another important aspect is the organization of the relationship between the tenant and the landlord. As Table 1 shows, the most common solution among the cases studied is that the negotiations are decentralized so that the one using the facilities, i.e. the actual tenant also negotiate with the corporation. Regardless whether the negotiations takes place centrally or is decentralized, it was stressed in the majority of the cases that it is important that there is an acceptance for the model implemented. One of the CEOs expressed the need for this in the following way:

“It is important that everyone is familiar with the rules of the game. This corporation operates and acts under the same condition as any other corporation. This is something that our counterparts in the municipality need to be aware of and to consider. This is for example important when entering and exiting rental agreements. It has occurred that municipal customers have exited a rental agreement with short notice, without considering the terms in the rental agreement.”

On a similar note, it seems crucial that the corporation is able to influence rent-setting based on operating conditions and customer needs. The rental model needs to be perceived as fair by the corporation, the purchasing unit and the actual service providers (for example kindergartens).

6. Implications

The result of the analysis shows that, even though some differences exists between the cases, in all four cases the motives can be traced back to NPM. The cases here all represent more recently conducted corporatization processes, which indicates that, regardless of what some researchers argue, the NPM-ideas are strong among Swedish municipalities and they are influencing the reforms conducted within the sector. An important implication of this is that research on public sector reforms need to continue to considering the influence of NPM when analyzing motives behind reforms implemented.

Looking at the owner-relationship the study here points towards the importance of clarifying responsibilities and roles. It is important to establish a clear separation from the political discussions and municipality's daily management.

This is not to say that the company should not have any political control, but the corporate form needs to be respected in order for the organizational reform to be successful. For example, one of the motives behind the corporatization process mentioned is to provide business space to increase efficiency and improve the economic situation for the services and thus secure long term development. In cases where a clear separation did not occur, this has become more difficult to achieve.

The roles and responsibilities needs to be considered when the corporation is created and taken under consideration when conditions for the owner-relationship are established. It is crucial that everyone know these rules within the corporation as well as within the municipality and its various departments and committees.

What the study here also gives at hand is that in order for the corporate form to live up to the expectations it is however not only necessary for the owner-relationship to function well, but also for the purchaser-provider relationship to be well functioning. In the cases studied there are differences in regards to how this relationship has been organized and due to this there are also differences in the perceived effects of the corporate form. The more competent the municipality is as a purchaser and the clearer the line of responsibility are within the municipality the better the relationship functions with the corporation and the more efficient will the corporation be in regards to responding to the need of the municipality. Also, there is a need, within all levels in the municipality, to respect the "rules of the game". Otherwise the corporation can never secure a long term and financial sustainable management of the assets.

7. Conclusions

The purpose of this study was threefold; one to investigate the ownership relationship, secondly to investigate the purchaser-provider relationship and third to investigate to what extent the influence of NPM prevails and keep influencing public sector reforms.

If we start with the third purpose, this study shows how the motives behind the corporatization process correspond with the motives found in the NPM literature as well as in studies regarding corporations in the public sector (see for example: Hood, 1991;Thynne&Wettenhall, 2004; Grossi&Reichard, 2008).

From this the conclusion can be drawn that NPM are present and still influential on the decisions made at municipal level in Sweden.

However, one thing is the motives behind the reform and another one is the outcome. The analysis of the cases shows that the outcome of the corporatization process depends on the ownership-relationship as well as the purchaser-provider relationship and how these relationships are organized in the specific case. This study thus contributes to research within the field of NPM and corporatization of public services.

Previous research has only touched upon the ownership-relationship and the purchasing-provider relationship. The findings from those studies do however point towards the same direction as this study do, namely that there is a need to be aware of the roles and clarify them in order to give the corporation the ability to deliver expected results (see for example: Thomasson, 2009; Luke, 2010). This study does however take the research one step further. By focusing on the content of these relationships and on the ownership-role as well as the purchasing-provider role, this study has been able to show how the outcome of the corporatization process and how well the outcome corresponds with what is advocated in NPM literature is dependent on the set-up and organization of the above mentioned relationships. To separate the roles and respect them is important in order to secure political control, accountability and to protect the financial performance of the corporation and to secure long-term financial sustainability. If these relationships are neglected in corporatization process by the municipality there is a risk that motives behind the decision to corporatize a service will not be achieved. This could in turn result in that public values are not protected. Thus, in the long run the ability to manage the dual roles is important for securing accountability.

The managerial implications of these findings are that it clearly points towards the need to establish a relationship between the municipality and the corporation that from the beginning ensures that the roles and responsibility of each of the parties are clear and accepted by both organizations. However, further studies are required in order to fully grasp what is required by the government in order to manage the dual role. This study has merely touched upon the subject studying one sector in one country. More studies regarding the different roles and the importance of the set-up for the outcome of NPM-reforms is needed.

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