



UiT The Arctic University of Norway

# Corporatization in local government – Cultural differentiation and governance challenges

*Presentation at virtual seminar 4-5 November 2020:  
«Value of Hybridity 2020» – University of Tampere*

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# Research question

- *To what extent does the structural differentiation of local government caused by corporatization, lead to cultural differentiation?*

# Structural differentiation - Agentification

... a process whereby local government (as principal) starts to disaggregate its service provision into more or less autonomous operative units or agencies (agents) and regulates the relationship between itself and these units by contracts or quasi-contracts

Source: Torsteinsen and Van Genugten 2016, p. 207

... implies splitting up local government into separate organizational entities of which many hold their own legal personality, transforming it into a multi-actor hybrid system or network

# Corporatization

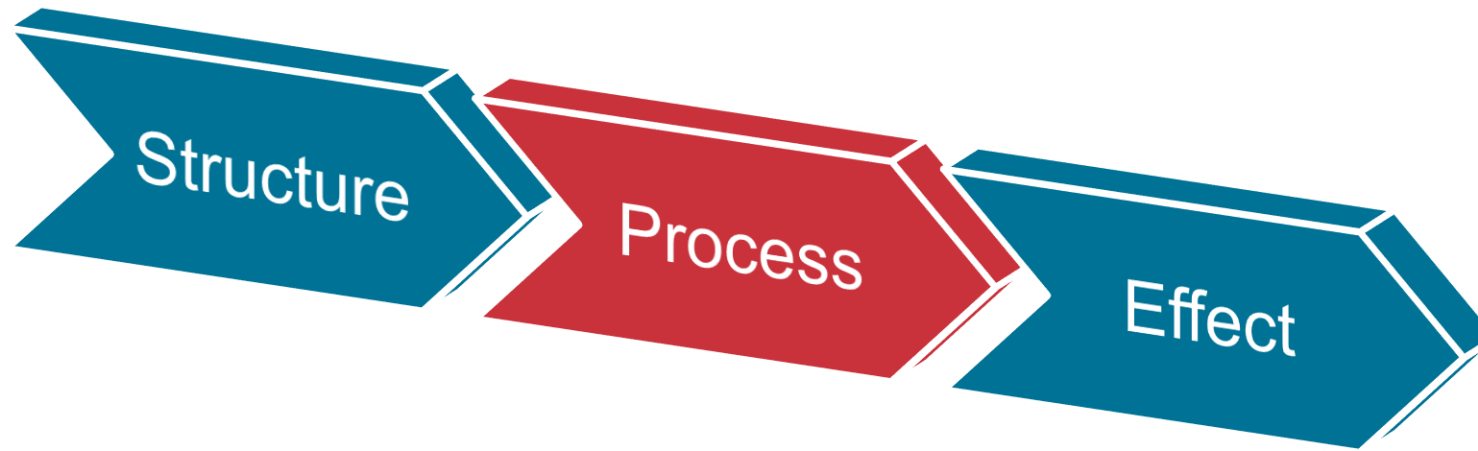
- Moving a function from political and hierarchical line control within a local government authority and placing it into a wholly- or partly owned corporate entity

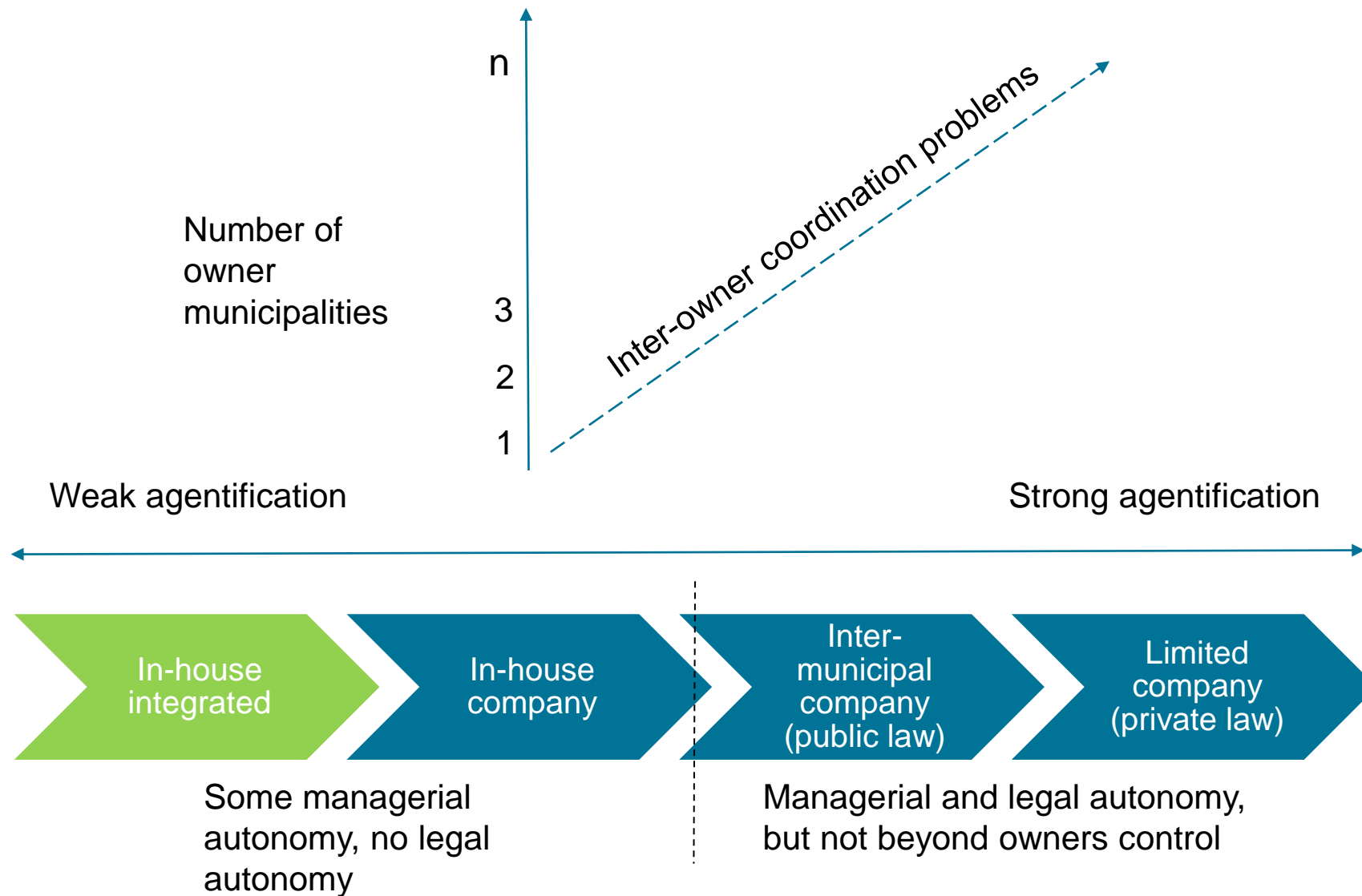
(Rephrased definition from Ferry et al. 2018, p. 477)

# Cultural differentiation

- An institutionalization process, implying socialization of members of the agentified entity and internalization of specific values, norms, cognitions and identities, creating a unique culture of «us» different from «them»

# A simple model





# Theoretical framing

1. Institutional logics perspective (Friedland and Alford 1991; Thornton, Ocasio and Lounsbury 2012)
2. Conceptualizing 'institution' – the regulative, the normative and the cultural-cognitive pillars (Scott 2014)
3. Categorization of hybrid types – the segmented, the segregated, the assimilated, the blended and the blocked types (Skelcher and Smith 2015)
4. Classical social science & organizational theory: structure matters – institutionalization (Selznick 1957) = influencing interaction (Scharp 1977) and shaping preferences and culture, i.e. values, norms, cognitions, identities (e.g. Cyert and March 1963; Schattschneider 1975; Aldrich 1999; Simon 1999; Pollitt 2007; Egeberg 2012)



# Segmented & segregated hybrid types

- The segmented hybrid type:  
“logics ... compartmentalized *within* the organization” (p. 440)
- The segregated hybrid type:  
“[f]unctions oriented to different logics ... compartmentalized into *separate but associated* organizations” (p. 440)

Source: Skelcher and Smith 2015

Table 2 Operationalization of theoretical framing – an ideal type categorization



Pillars of institutions (core values)	Traditional public logics: Community, Democracy, State, Profession	NPM-inspired logics: Corporation, Market, Profession
Regulative ( <u>instrumentality</u> ): <ul style="list-style-type: none"> <li>— Legal <u>foundation</u></li> <li>— Governance system</li> <li>— Financial basis</li> </ul>	<ul style="list-style-type: none"> <li>— Many and detailed laws and regulations (e.g. Local Government Act; Public Administration Act; Freedom of Information Act; Public Purchase Act)</li> <li>— Democratic assemblies; public bureaucracy based on hierarchy, rules and professions</li> <li>— Taxes, fees and grants; budgetary allocations; cost recovery principle (CRP) for some services (e.g. household waste; water and wastewater)</li> </ul>	<ul style="list-style-type: none"> <li>— Fewer and less detailed laws and regulations (e.g. Limited Company Act; Inter-Municipal Company Act; Competition Act)</li> <li>— Annual general meeting; boards; top management; contracts</li> <li>— Revenues from sales in the market; municipal fees for CRP services (e.g. household waste; water and wastewater)</li> </ul>
Normative (appropriateness): <ul style="list-style-type: none"> <li>— Economic norms</li> <li>— Innovation-related norms</li> <li>— Norms about dual roles</li> <li>— Openness and fairness</li> </ul>	<ul style="list-style-type: none"> <li>— Economization (especially under austerity); equal pay; public value</li> <li>— Incremental, low-risk low-cost innovations ok; innovation sharing</li> <li>— Unacceptable for bureaucrats and professionals, more acceptable for politicians</li> <li>— Transparency; accountability; impartiality</li> </ul>	<ul style="list-style-type: none"> <li>— Efficiency; profitability; economic incentives and remuneration</li> <li>— Less risk aversion; innovation secrecy; company success/survival 1<sup>st</sup> priority</li> <li>— Politicians should be avoided on the board, prefer 'professional' boards; more pragmatic for non-politicians</li> <li>— Secrecy (if market competition)</li> </ul>
Cultural-cognitive (orthodoxy): <ul style="list-style-type: none"> <li>— Autonomy</li> <li>— Competition</li> <li>— Identity related to</li> </ul>	<ul style="list-style-type: none"> <li>— Promotes performance and innovation, especially among professionals</li> <li>— Leads to double work and waste. Local government services are and should be monopoly services.</li> <li>— Profession/peer group; service entity and service users; community</li> </ul>	<ul style="list-style-type: none"> <li>— NPM 1: Bureaucrats and professionals are driven by self-interest, must be closely monitored and controlled by managers</li> <li>— NPM 2: Promotes performance and innovation</li> <li>— Promotes efficiency and quality. More public services could and should be opened for competition</li> <li>— Job/colleagues/profession; business unit and customers; company</li> </ul>

Based on the institutional logics perspective (Thornton et al. 2012, p. 73; Friedland and Alford 1991) and three pillars of institutions (Scott 2014, p. 60)

# Methodological approach

- Multi-case explorative study of 8 public service entities
- Case selection - technical services with same financial basis (full cost recovery principle, except for industrial waste): waste management, water supply and waste water/sewage disposal
- 70 interviews, often 'on their own ground' – mostly cross-sectional and perception data
- Documents from municipalities (ownership reports and annual reports) and municipal companies (annual reports)

Table 1 Main features of the cases

Organizational form → Features ↓	CASES							
	VA In-house integrated 1	VA In-house integrated 2	VA KF	VAR KF	VA IKS	VAR IKS	Waste IKS	Waste AS
Number of subsidiaries	0	1 (AS)	0	2 (AS)	1 (AS)	0	2 (AS)	3 (AS), 100% ownership + 3 (AS), partial ownerships
Service sector	VA	VA		Waste (all types), VA	VA	Waste (all types), VA	Waste (all types)	Waste (all types)
Number of owners (municipalities)	1	1	1	1	4 (of which one owns 52%)	13 (of which two own 62%)	3 (of which one owns 70%)	2 (of which one owns 99,98%)
Population served	25 000	2 200	25 000	82 200	93 000	320 000	39 000	75 000
Established	--	--	2007	2002	2002 (1974/1986)	1999 (1979)	2000 (1983)	2010
Number of interviews	6	4	5	7	8	8	10	21
Interviews made	2018	2019	2017	2019	2017	2019	2015	2013-2016

\*VA=water (V) waste water/sewage (A)

Tabell 3 *Summary of findings*

Pillars of institutions ↓	Cases							
	VA In-house integrated 1	VA In-house integrated 2	VA KF	VAR KF	VA IKS	VAR IKS	Waste IKS	Waste AS
Regulative	Traditional public logics	Traditional public logics	Mixed logics	Mixed logics, including market	NPM-inspired logics	NPM-inspired logics, including market	Mixed logics, including market	NPM-inspired logics, including market
Normative	Focus on daily operations, not on innovations; sober spending attitude; limited external transparency	Focus on daily operations, not on innovations; sober spending attitude	Focus on daily operations, not on innovations; gold-plating tendency, but CEO holds back; dual roles accepted	Focus on daily operations, less on innovations; gold-plating tendency, but chair holds back; dual roles accepted	Focus on daily operations and innovations; gold-plating tendency, but owners try to hold back; dual roles terminated	Focus on daily operations, long-term strategies, and innovations; clear gold-plating, some owners try to hold back; dual roles contested	Focus on daily operations, less on innovations; sober spending attitude; dual roles contested	Focus on daily operations, long-term strategies, and innovations; dual roles contested
Cultural-cognitive	Professional autonomy; ID as municipal employees; weakly segmented	Less professional autonomy, mayor hands-on; ID as municipal employees	Professional autonomy; ID as KF employees; CEO & board chair view KF as municipal entity; segmented and assimilated hybrid	Professional/corp. autonomy; strong ID as KF employees; board chair views KF as municipal entity; segmented and assimilated hybrid	Professional/corp. autonomy; strong ID as IKS employees; CEO views IKS as public regional entity; segregated hybrid	Professional/corp. autonomy; strong ID as IKS employees; segregated hybrid	Professional/corp. autonomy; strong ID as IKS employees; segregated hybrid	Professional/corp. autonomy; strong ID as <u>AS</u> employees; segregated hybrid

# Conclusion

- Corporatization triggers cultural differentiation, and faster than expected (given the institutional inertia thesis)
- Socialization and internalization of new norms, values, cognitions and identities (institutionalization) – ‘we’ vs. ‘them’:
  - ✓ stronger among employees than among MOC CEOs and board chairs
  - ✓ stronger among recruits from private business (case Waste AS)
- MOC employees (segregated hybrid ID) – MOC CEOs and board chairs (more assimilated hybrid ID)
- Corporatization strengthens professional autonomy and identity
- Findings indicate that cultural differentiation increases with increasing structural differentiation (agentification), especially with increasing no. of owners and commercialisation