OWNERSHIP STRATEGIES IN SWEDISH MUNICIPAL CORPORATIONS†

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ABSTRACT

Swedish municipalities are using wholly owned corporations because of a need of having operations that are cost efficiency, or competitive or being able to become private firms. Popular debate has been levelled a criticism, arguing that the municipal owners are passive. The present paper will develop a notion of corporate governance in a typology of corporate governance mechanism, indicating that owners have many different mechanisms to its disposal. Furthermore, the paper will begin the development of a concept of ownership strategies, indicating that different ownership objectives demands different strategies, i.e., different mix of governance mechanisms. Thus, the aim of the paper is to put forward a set of hypotheses explaining the different ownership strategies that municipalities can utilise when controlling and developing their wholly owned corporations.

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The corporation is a private ownership organisational form, originally intended as an instrument of collecting dispersed capital through offering risk distribution and, after the acceptance of the limited liability, offering risk reduction as well. It has, however, being used in state operations, on the national and the local level. On the local level in Sweden, which is the focus in this paper, it has been used to organise operations mainly within the technical part of the municipality, such as waste collection, water distribution and road maintenance.

The intention behind the use of the corporation as an organisational form within the municipality could be hard to understand since most of the corporations have the municipality as the sole owner, thus excluding one of the main advantages of the corporation, the collection of dispersed capital. In several cases, the municipality stands surety for the debts of the corporations, thus nullifying the limited liability advantage. And last, but certainly not the least, the municipality are not allowed to form organisations aiming at profit and they have to use democratic decision making techniques, while the corporation is a mechanism for profit making and it is using an authoritarian decision making technique. To this, we could add the Scandinavian democratic tradition of openness, all documents being available for public scrutiny. The corporation is the opposite, a closed world, filled with business secrets.

It is a fact, however, that the municipalities are using the corporation as an organisational device. It has been found (Collin & Hansson, 1991) that Swedish municipalities organise corporations mainly because of two reasons:

- Rationalisation: The corporation is believed to offer a technique of especially cost awareness, thus being used in order to reduce the cost of the operations
- Competitiveness: The corporation, being focused on profit, i.e., the difference between earnings and costs, stimulate the organisation to become more market oriented, and, at the same time, the operations can gain the freedom of action that is inherent in the legislation of the corporation. Thus, it can be used when the operations have to be defended against competition, or in order to prepare an operation for privatisation.

These distinct different reasons for the utilisation of the corporate form, and utilised in a democratic organisation supposed to deliver equally distributed utilities, would put particular demands on the means and methods the municipality is using in order to govern the corporation. To put it simply, how does the municipality secure that the corporation is fulfilling the aims of the corporation? This question, so very basic, but so undeveloped in the literature and especially in the literature on governmental corporations, is a question of ownership strategies.

Ownership strategy, that is, the composition of the mix of governance mechanisms in order to ensure the fulfilment of the aims of the owned organisation, is - strangely enough - rather absent in the literature of corporate governance. The two largest streams of literature in corporate governance are dealing with two different mechanism of governance, in economics the stock market and options as a mean of aligning managers preferences with the share holders, and in management science, the board of directors and how they should work in order to create an efficient organisation. Nowhere can an exhaustive list of governance mechanisms be found, and how owners of the firm can mix them in order to ensure survival and efficiency of the corporation. The aim of the paper is to present one attempt to use a typology of corporate governance mechanisms in order to create a conception of municipal ownership strategies for wholly owned corporations. The last qualification has to be observed since a.) municipalities are using other legal association forms, a complication that is avoided in this paper since the main stream of literature on corporate governance is focused on the joint stock company, i.e., the corporation, and b.) that the municipality are engaged in partly owned corporations, which complicate the aims of the corporation and has been dealt with elsewhere (Collin & Hansson, 1991).

The paper is part of a research project investigating the municipal ownership strategies for their corporations. The research will ultimately present a description of municipal strategies based on a survey of a sample of Swedish municipal wholly owned corporations. This paper is written in order to outline the categories that will be operationalised as variables in the survey and the main hypotheses that ground the description and that can be tested on the resulting data-set.

The next section of the paper notes an unbalanced pre-occupation in the governance literature on limitations, oppressing the governance aspect of enactment. A balanced view is considered important, especially in this case dealing with cases where development of operations is important. The succeeding section will present an overall, generalised typology of corporate governance mechanisms that will structure the central section of the paper. This section is dealing with each of the categories of the typology adapted to the municipality. Last, conclusions and research directions are presented.

The Disciplining and Developing aspects of Corporate Governance

Corporate governance can be defined, according to the Cadbury report (1992), as: *”The system by which companies are directed and controlled…”*. The definition stresses that there is not one sole principal subject governing the corporation, but the corporation is embedded in a system that influences the corporation. Of course, it does not deny that there are certain actors that are the prime principals of the corporation. Since a corporation, with limited liability, is a capitalistic corporation, the capitalists, i.e., the shareholders, are the main and most powerful principals. It is, indeed, not to deny that most of the system embedding the corporation is built and function to further the capital interest of the shareholders. It emphasises, however, that a.) the shareholders are actors with capacity to influence, but not with autocratic power since there are other interest groups with power, and that b.) there is a supporting system, but not a determinate one, thus creating degrees of freedom for the shareholders and their utilisation of the system.

Corporate governance as a research field has been focused merely on the monitoring and supervising aspect of governance, summarised as the disciplining of the management. The other aspect of governance, at least when in the hands of the owners of the firm, is the enabling function, the development of the management, which has been neglected at worst, or not treated in a theoretical fashion. In this respect, the present paper will not differ. It will, however, notice when it is perceivable that a mechanism belonging to the system can be used, not only as a disciplining device, but also as an enabling device. To change the field's orientation is neither possible, nor the goal or the object of the paper. Since the object is ownership strategies of municipal corporations, a focus solely on the municipalities actions of disciplining, disregarding actions of developing, could put at risk our capacity of understanding the strategies.

One reason to be sensitive for the development aspects of corporate governance in ownership strategy, which is specific for this research object, is that anecdotal evidence and some systematic research has reached conclusions that municipalities are very passive as owners. For example, in one literature review (Hansson & Lind, 1998) this conclusion is reached after referring to i.a., a study showing that only 15% of the owners were participating in the formulation of strategies, but 91% of the boards were participating. As will be obvious later in the paper, an ownership strategy cannot be judged as being passive after investigating participation in issues that are only covering one mechanism. In this case, strategy is usually considered an issue for the board, which indeed the statistics show clearly. If the paper have a political objective, it is to avoid jumping to conclusions, but to offer a considerate, balanced analysis. Then politicians, even those dressed up as researchers, can put their judgements and recommendations.

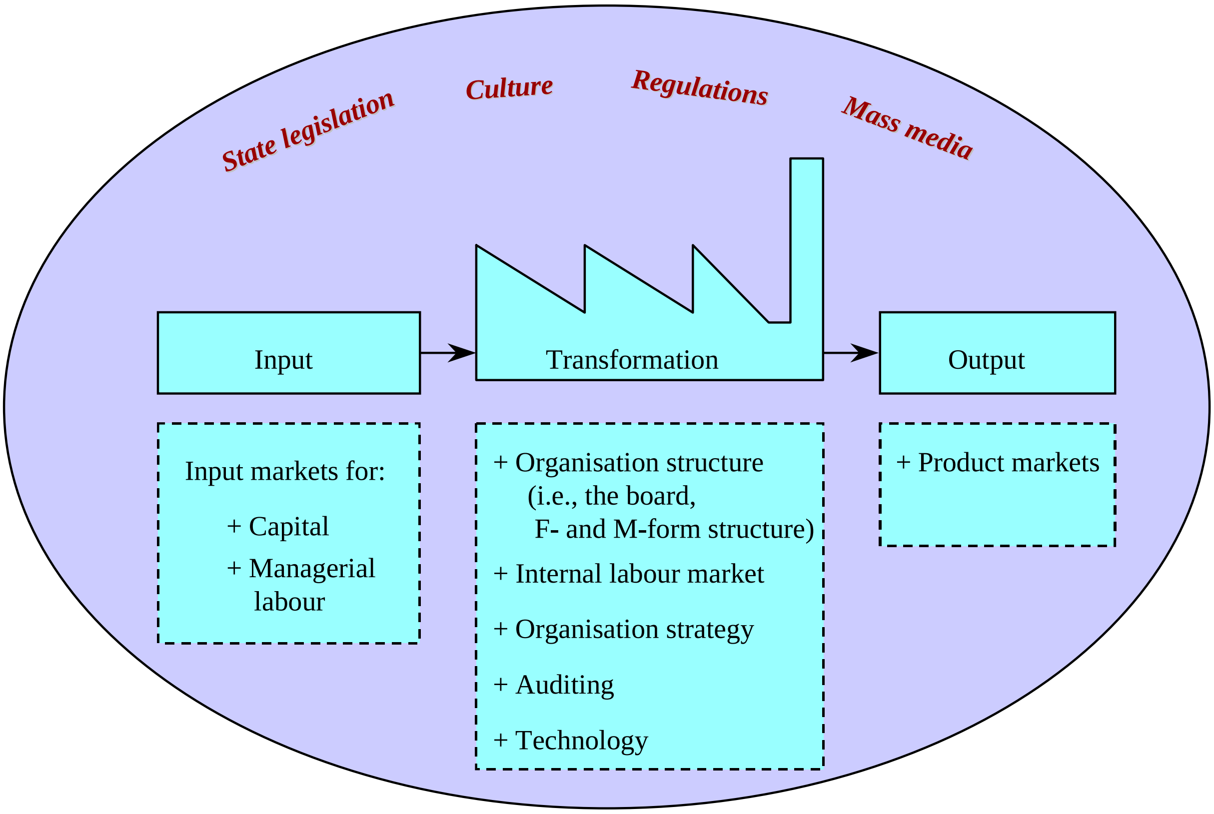
A Typology of Corporate Governance Mechanisms

The typology of corporate governance mechanisms offered here is organised with the idea that the corporation is an organisational form embracing the firm in which output is created through the input factors being transformed by the firm. Thus, the corporation is mainly a dress of property rights that covers the production body of the firm. This conception, analytically separating the property nature from the production unit, termed the firm, has to be made in order to realise that differing property rights structures can embrace similar firms, and differing firms can be embedded in similar property rights structures. For example, similar work organisations, for example, Tayloristic ones, can appear in different property right structures, such as communists and capitalists systems, and the treatment of labour can differ between advanced capitalist property rights structures, and primitive capitalism and communism. It is not an issue in this paper, but it is an important remark since there are analytical advantages of separating the property right structure from the firm. At the same time, however, the firm is the very basis of economic action and a typology that is based on the firm and its transformation process, is focused on the very basis of economics.

The input factors of importance listed in figure 1. are those related to stakeholders who occupy influential positions in the firm, namely, the capital suppliers and the management. Thus, the stock which supplies credit capital and risk capital, and the managerial labour market which provides a flow of managerial labour, are the most important input markets for the corporation when it concerns how its future development are determined. In the transformation process, the most important factors are those that concern the managers. Inside the organisation, the board aligns the strategy of the corporation with the organisational structure, and the use of an internal managerial labour market carries out the management of managers. To these mechanisms, one has to add the monitoring devise of auditing, and the regulative devise of technology. On the output side, the product markets competitive pressure disciplines the corporation.

Finally, all these governance mechanisms are embedded in economic and political institutions that could differ from industry to industry, and certainly differ from country to country. This implies that all these mechanisms are not equally relevant or accessible to every actor in every corporation. Among the most important ones are the mass media, that creates information about the corporation and its stakeholders, and thus influence through public opinion; state legislation that mainly influence through court sanctions; regulations such as accounting standards that influence through sanctions mainly by legitimacy; and finally culture that bound rationality through more or less unconscious traditions.

Figure 1. Corporate Governance



The typology of corporate governance mechanisms as presented in the integrated model, has the advantage of not excluding the internal processes of the corporation as it is often done by financial economists who are mostly concerned with the relation between the corporation and the stock market. In such research, the focus is mainly on a limited set of input factors, namely the capital factors, and even then, the bulk of literature merely deals with the share capital traded on the share market. In one way, it may be a legitimate approach. Since, after all, the shareholders are the ones who are considered the owners of the corporation, and it is they who should ultimately be satisfied with the profit they receive for the risk the corporation imposes on their capital. But the internal structures and processes of the corporation also strongly affect its governance as they, too, shape the behaviour of the management.

On the other hand, by narrowly focusing on the internal life of the corporation, as a substantial part of the literature on board of directors and organisational structure does, would be to disregard the very source of conflict between the managers and the owners. These two different classes of stakeholders maintain different structural positions in the corporation. The managers are in charge of the transformation process of the firm whilst the shareholders are in charge of risk considerations. They differ in their possibility of extracting profit and to manage their risk. Thus, the management and the shareholders have inherently different interests and objectives, and this results in different behaviours. But the management and the shareholders are not the only parties with vested interest in the corporation. The labour and the State, also have their own interests to protect. If we take notice of all these aspects, then it appear to be quite natural to assume a conflict perspective on corporate governance in which different groups of persons, each with a different positions in the economy, are strives for its ends.

Ownership Strategy defined

Ownership strategy is the composition of the mix of governance mechanisms in order to ensure the fulfilment of the aims of the owned organisation. Thus, it is assumed that the owners have degrees of freedom, making it possible for them to act, and that they act rationally, that is, that they consider the relationship between means and goals. Absent the assumption of degrees of freedom, i.e., a deterministic system, strategy is a non-issue. Absent rationality, the possibility of explanation is reduced and the capacity to predict is lost. So, let us assume that there is a case of ownership strategy.

The ownership strategy can be assumed to be influenced by the owner's capacity and interest to discipline and to enable action. One method of handling conceptually the capacity and interest is to adhere to the control concept of Ouchi (1979) developed in Collin (1993, 1995). It distinguishes between three main control types due to the controller's knowledge of the output of the firm and the knowledge about the firm's transformation process.

- Output control is the observation of the output produced, and at such, assume an interest in the output and a capacity to observe the output. It can be assumed that municipal owners have an interest in both the profit of the corporation and in the products delivered by the corporation, or at least, the consequences of the products, such as road maintenance.
- Action control is the observation and commanding of the appropriate action, and as such, assume an interest and knowledge in the transformation process of the firm. This can be accomplished through different types of action control, such as direct control, where one person command another person, technical control, where technology reduces the action set, and bureaucratic control, where organisational rules and plans restrict the action set.
- Premise control is the influence of the premises or prerequisites of action. It can be exercised through input control, which is restrictions being placed on the resources the

actor requires for carrying out an action, and through socialisation control, where the preference function of the individual is being influenced. Absent measurable output, such as research departments, and absent knowledge about the transformation process, such as medical care, premise control can be a mean to control these activities.

Thus, ownership strategy is a rational activity, carried out by owners, aiming at fulfilling the owners goal of the organisation, based on the owners knowledge and interest in observing and influencing the firms transformation process and its output, and consists of a mixture of available corporate governance mechanisms. With interest and knowledge in the transformation process, the owners will use mechanisms oriented towards action control, with interest and knowledge in the output of the firm, the owners will use output control oriented mechanisms, and finally, lacking interest or knowledge about the proper output or the transformation process, the owner will use mechanism oriented towards socialisation.

Ownership Strategies for Municipal Corporations

The owners goal

To be able to predict ownership strategies one have to know the owner's objectives and their preference function. In main stream agency theory, the owner is assumed to have profit as the sole goal. Considering that we are dealing with the corporation, a capitalistic business form for a firm, profit, with regard to risk, appears to be one obvious objective under consideration. And indeed, found in Swedish municipal corporations, one of the goals with the use of the corporation have been to rationalise the firm, i.e., to produce a more favourable balance between revenues and costs. A municipality is, however, a political organisation, aiming at solving collective conflicts and supplying the citizens with utilities. Solving collective conflicts can be disregarded – hopefully – since it is hardly conceivable that a municipality will put government authority, ultimately based on the state monopoly of violence, within the corporation. Left is the supply of utilities. It is hard to specify what kind of utilities, since it is a matter of political struggle, extreme liberals recommending but defence and courts, and extreme communists recommending a multitude of services. If some service has to be produced by the municipality, it can be facing a situation of monopoly, created by a law forbidding other producers, or through heavy subsidy which keeps competitors out from the market, or they can face a situation of competition. In all these circumstances, there could be some reasons for the municipality to possess its own producer. One reason is to secure the supply of the utility. Another reason is to gain knowledge and experience about the production in order to be able to be a good acquirer of the utility. A third reason is to ensure healthy competition, making sure that there is at least one competitor in the market. But these reasons do not point towards a corporation. What distinguish is whether the firm is facing competition or not since the dress of a corporation is considered more apt to a competitive environment.

Thus, we can summarise:
The municipal owner of a corporation has cost efficiency or competitive efficiency, with or without the aim of privatisation, as the main goal for the corporation.

The owner capital

An owner of a corporation is a shareholder, supplying a part of the credit capital, termed equity capital, which is the main risk capital, and as compensation, the owner demands the residual from the firm. The size of the risk capital put a strain on the adventures of the corporation and the firm. The transferability of the share makes it possible to very smoothly transfer control of the corporation and thus, of the firm. Profit, risk, the size of equity and transferability are thus the important factors when considering the market for owner capital.

Profit is assumed to be the very reason for the corporation, and with a risk restriction, higher profit is preferred before lower profit. Risk has two dimensions, variance and probability of losses. Financial economics assume that the owner's demand on profit will increase with increasing profit variance. Behavioural economics assume that demand on profit increases with the probability of losses. The size of equity, i.e., the rationing of risk capital, is one direct influence that the owners can have on the risk assumed by the firm. Thus, the management of the size of equity has been argued to be en efficient control instrument. The possibility to accumulate a large number of the shares, thus giving the shareholder effectual control, constitute the market for corporate control. It has been argued that transfer of ownership control is the main instrument disciplining the management of the firm (Jensen & Ruback, 1983). It presumes, however, that the shares are transferable and that there are other parties interested in assuming ownership.

For a municipal owner, the aim of the corporation is not gaining the residual, and they are probably restricted by law and tradition to be focused on the maximisation of the residual. This does not rule out a focus on the residual because even non-for-profit operations could have a profit goal, a zero profit. This would be the case when the municipality is utilising the corporation for the sake of cost efficiency. In the case of competitive efficiency, a zero profit could be conceivable, but if the aim is to prepare for privatisation, one could expect more emphasise on the profit.

Thus, let us hypothesise:
A municipal owner aiming at competitive efficiency in order to privatise will focus more on profit than the owner aiming at competitive efficiency but excluding privatisation, which will focus more on profit than the owner aiming at cost efficiency.

Risk as variance is probably only an issue for the privatisation case since a potential owner will demand a price discount in order to assume a high risk. Risk as probability of losses is presumably of greater importance. Losses consume equity capital, in the long run demanding capital supply from the owners. A corporation that has to be considered to be a fair competitor will probably loose legitimacy if they have to call tax payers money, creating a pressure on the owner to avoid losses. In the case of cost efficiency, losses are signs of cost inefficiency, thus creating a pressure on the owner to avoid losses.

Thus, let us hypothesise:
A municipal owner aiming at competitive efficiency in order to privatise will focus on risk as variance, and owners aiming at competitive efficiency but excluding privatisation, and those aiming at cost efficiency will focus on risk as probability of losses.

The size of the risk capital could be an efficient instrument when the municipal owner does not have knowledge of the transformation or the output, thus only rationing the adventure through the risk capital. It could be, absent municipal surety, a signal to the management telling them what size of adventurous action the owners can tolerate, and it constitute a de facto assurance to other credit holders, thus forcing the credit capital to monitor the performance of the firm. Municipal bails or strong, credible guarantees from the politicians that they will never let the corporation become bankrupt, relieve the other credit holders the pressure to monitor the firm, and render harmless the signal to the management. In the case of privatisation, it can be assumed that a potential buyer will consider the capitalisation of the firm, thus making the municipal owner strongly concerned with the level of equity. Rationing risk capital can, however, not be excluded as a rather simple, low cost control mechanism in the other cases as well.

Thus, let us hypothesise:
Absent municipal surety or credible assurance of non-bankruptcy, a municipal owner aiming at competitive efficiency in order to privatise will put a strong focus on the level of risk capital, and owners aiming at competitive efficiency but excluding privatisation, and those aiming at cost efficiency will consider it to a lesser extent.

The transfer of shares, being a threat for the top managers of the firm, can only be a credible threat when the aim is, or can be, privatisation, and when there are potential buyers of the shares. Thus, only owners prepared to privatise can use take-over as an instrument. And not even all of them can use take-overs, since it has to be feasible that there will be a buyer.

Thus, let us hypothesise:
Owners with the aim of privatisation will put but a slight emphasis on the take-over threat, the other owners will ignore it.

The credit capital

The credit capital demand interest, a fix compensation that is decided ex ante. The expression, 'The interest never sleeps', imply a relentless cash flow pressure on the firm. This quality has made agency theorist inclined to recommend high debt levels (Jensen, 1993). The financial pressure has, however, the draw back of creating financial stress costs. These costs can be regarded as the price paid for the control effect imposed through debt exposure. As has been emphasised earlier, the financial pressure could vanish if the owner make the limited liability obsolete through standing surety or through a commitment to avoid bankruptcy. There is, however, the possibility to offer collateral to the credit capital. With increasing size of the collateral, the risk premium paid to the credit capital will decrease, and thereby the financial stress costs and the financial pressure on the firm. Thus, there are two situations, a strong use of credit capital pressure, where the use of collateral is the mean to create financial pressure, and the absence of use of credit capital as pressure, where municipal surety or other kinds of credible commitments are used.

The possibility to use the financial pressure of the credit capital is, however, restrained by the firm's assets transferability. There are cases, such as water supply, where the majority of the assets, the water pipes, has no market value, and therefor cannot be offered as collateral. In these cases, municipal surety has to be offered, and thus, with the consequence of abolishing credit capital pressure.

A municipal owner that have the intention of selling its corporation, will probably avoid surety and instead adjust the level of equity and collateral, since it makes the valuation of the corporation simpler and the transfer of the corporation easier. To these two reasons ads the reason put forward in the hypothesis above, that the owner will focus on the risk capital. This imply that the owner have to adjust the level of collateral, creating a balance where the price of risk is not too high, but where the credit capital pressure is not absent.

An owner lacking the interest of selling the firm, but with interest of creating or sustaining competitive capacity, will probably have assets that have market value since there are private competitors, thus being able to use collateral as an instrument of governance.

Another reason of avoiding municipal surety could be a need of imitating the competitors, not only for the sake of financial pressure, but also for the sake of gaining societal legitimacy.
The cost efficiency oriented owner will not have the need of creating an image of legitimate competitor. Instead, they have to consider the transfer of profit from the corporation to the credit capital with increasing risk. They could then be arguing that they can assume the risk, or in the case of non-transferable assets, they have to assume the risk, in order to keep the costs down. Thus, one can expect to find municipal surety as part of a strategy with aims of cost efficiency.

Thus, let us hypothesise:
A municipal owner aiming at competitive efficiency, regardless of privatising aims, will not use surety and will put an emphasis on the level of collateral. A municipal owner with he aim of cost efficiency will use municipal surety.

There are, however, the cases of transaction-specific investments and dependency that could blur these hypotheses. Transaction-specific investments, most often long-term relationships, are relationships where the relation as such has a value, making the single transactions hard to interpret since they depend on the history of relationship. In one case, the credit capital could offer lower interest or special conditions, in exchange of a better contract in the future. Or the case of dependence, where the credit capital is engaged in more than one credit contract with the municipality. In this case, the conditions of one contract could be dependent on the other contract. Thus, long-term relationships and multi-contract relationships could blur the hypotheses. For example, a cost efficiency oriented owner could avoid formal declaration of municipal surety when it is dealing with the house-bank of the municipality, and if it has political stability, thus being regarded as a credible contractor. Absence of surety or low levels of collateral should therefor be treated with care in interpretations since there could be informal commitments. It is, however, very likely that informal commitments are absent in the case of privatisation, where the need of being able to value the corporation would reduce the use of hard-to value-contracts.

Market for Managerial Labour

The market for managerial labour consists of the external market, that is, external recruitment, and the internal managerial labour market, that is, internal recruitment. It has been argued elsewhere (Collin & Stafsudd, 1999) that the market for managerial labour is an important mechanism for governance. It offers a vital resource, but one that is hard to evaluate ex post, and even harder to evaluate ex ante. Ex post evaluation is the performance track of a person.

With increasing height on the hierarchical ladder, the outcome of a unit, and thus the responsibility of the manager, is increasingly being dependent on external factors as well as on more numerous internal factors. Thus, it becomes increasingly hard to separate the performance of the manager from the other performance influencing factors. The ex ante evaluation is even harder. It has to calculate the performance effect of selecting a certain person to a new management position, being member of a new team, or at least, with new organisational rights, thus changing the old relationships, and, in the case of external recruitment, in a new organisation. Thus, the uncertainty of the selection decision is tremendous.

There are two main alternatives, one being the creation and maintenance of an internal labour market (Collin, 1997). It has its advantage of being capable of creating rather precise information of the capacity of the individual, and it has the capacity to infuse organisational values into the person, thus directing the person towards the goals of the organisation. But at the same time that the socialisation effort in the internal labour market bound the rationality of the manager, it limits the manager's capacity to explore new possibilities. The advantage of the external managerial labour market is that it offers the possibility to recruit a person that differs in attitudes and orientation to the internal recruits. Thus, one could expect to find internal recruitment when aiming at stability and external when facing strategic change. To privatise could be regarded as a very deep strategic change, thus being dealt with through external recruitment. Focusing solely on competitive strength, one could expect a less orientation towards external recruitment, and in the case of cost efficiency, the steady state ambition of the owner will probably support internal recruitment.

Thus, let us hypothesise:

A municipal owner aiming at competitive efficiency in order to privatise will tend to recruit from the external managerial labour market, owners aiming at competitive efficiency but excluding privatisation, will rely on a lesser degree on the external market and those aiming at cost efficiency will tend to use the internal labour market, i.e., internal recruitment.

What goes without saying is that the size of the organisation is crucial when it concerns the possibility of creating an internal labour market, and by that have the opportunity of internal recruitment.

There are certain characteristics of the managers that could be important in the selection process. Since the municipality is a political organisation, an owner would prefer to recruit managers with an experience from this institutional field. This could be assumed to be emphasised when not dealing with strategic change. Thus, implementing cost efficiency in an organisation is presumably made by managers with long experience from governmental work. Dramatic strategic change, such as privatisation, could be accomplished with a manager from the private economy, thus infusing and legitimising the values of competition and free enterprise. In between is the owner with competitive aims, without the aim of privatising. They could make use of a manager with experience from the private economy, but at the same time, the manager must have the capacity to deal with the municipalities principals, the politicians. So, there will probably not be any tendency towards either of the orientations.

Thus, let us hypothesise:

A municipal owner aiming at competitive efficiency in order to privatise will tend to recruit managers with long private economy experience, owners aiming at competitive efficiency but excluding privatisation, will be indifferent and those aiming at cost efficiency, if using the external labour market, will tend to recruit managers with long governmental experience.

Organisation structure: The board

The board of directors is considered very important in corporate governance literature. It is the formal interface between the corporation and the firm, where owner representatives becomes as operational as is possible, and meet the chief executive officer. It has at least four functions: to control the firm and its management, to make strategic decisions, to provide service to the firm, and to be a conflict resolution body. The owners appoint the members of the board. Thus, the owners can influence the firm through the selection of the board members, and through direct involvement at the board meetings, thus making the board focused on one or several functions.

Owners aiming at cost efficiency are probably behaving rather similar as if the operation would have been subject to public administration, that is saying, being rather operative in style, involved in the actual planing and acting direct. Thus, we could expect to find the politicians at the board and frequent interaction between the owner representative, the chairperson of the board and the CO. The function being stressed at the board would be control, since cost efficiency is the main goal with the use of the corporate form, and strategic decision making, reflecting the high operative involvement. Service will not be possible since persons with random professions, except for the fact that they are politicians populate the board. Conflict resolution will be low, which could be regarded as rather surprising since the board is populated by politicians, which special competence is conflict resolution (and conflict production too). But they will have dealt with their conflicts in the political bodies, preceding the corporation, thus creating a rather unanimous voice at the board meeting.

Thus, let us hypothesise:

A municipal owner aiming at cost efficiency, will have a majority of politicians at the board of directors, appoint a politician as chairman of the board, will have rather frequent board meetings, and there will be a frequent interaction between the owner representative, the chairman of the board and the C.E.O. The board will focus on control and decision making.

Owners aiming at competitive efficiency have to create a creative environment for the C.E.O., stimulating to creative competition. But at the same time, the firm cannot expand over the limits of the municipality and the laws regulating municipal operations, and this is especially important for the corporation that is not intended to change ownership. Thus, a delicate balance has to be made when the aim is competition, without privatisation. Politicians representing the owner and focusing on the boundaries of the corporation is needed, but at the same time, persons with competence from the industry and, and from the functional areas of production and marketing is needed in order to be competitive. Since this corporation is between the two extremes, all function would be active in the board. Control, mainly from the politicians, to ensure competitiveness, service, mainly from the professional businessmen, to enable competitiveness, strategic decision making, from both parties, to align the managers, and conflict resolution, to balance the two wills of politicians and functional professionals.

Thus, let us hypothesise:
A municipal owner aiming at competitive efficiency, without privatisation, will have a number of politicians at the board of directors, lack a preference for a politician or professional as chairman of the board, with intermediate frequency of board meetings, and with low frequency of interaction between the owner representative, the chairman of the board and the CO. The board will deal with all the functions.

Owners aiming at competitive efficiency in order to privatise the corporation will stress the innovative and expanding faculty of management. The composition of the board would be governed by the principle of heterogeneity fostering innovation. Thus, the board will consist of a variety of directors, having rather varied experience from different fields of the corporation, both the market, finance, law and production being represented, with a surplus of people from the private economy. This composition will lead to an emphasis on the service function of the board, enabling the top management of the firm to be innovative. The other function of importance will be the conflict resolution function since the diversity represented at the board will create many conflicts.

Thus, let us hypothesise:
A municipal owner aiming at competitive efficiency in order to privatise, will have a majority of functional professionals from the private economy at the board of directors, appoint a functional professional as chairman of the board, will have rather infrequent board meetings, and there will be rather infrequent interactions between the owner representative, the chairman of the board and the CO. The board will focus on service and conflict resolution.

The reward system is crucial for the performance of individuals. The internal reward system is not considered here since it is not often regarded as being part of the owner's capacity to decide upon. But the rewards for the top management are within the reach of the owners. Option programmes are considered a perfect instrument for aligning the top management interest with the ownership interest. Since the municipal corporations are seldom, if ever, listed, the second market for the shares is absent, thus making it hard to use options. In the case of cost efficiency, it is not even probable that the manager get a wage that is correlated to the profit of the corporation. In the case of competition, one could expect to find more of commission on profit, and in the case of privatisation, an alignment to profit could be expected to be of outmost importance.

Thus, let us hypothesise:
A municipal owner aiming at competitive efficiency in order to privatise, will use commission on profit (i.e., bonus) to a greater extent than the owner lacking interest in privatising, and the owner aiming at cost efficiency will use a fix wage to the top management.

Organisational structure

Municipal organisations are often too small for being organised in other forms than the functional form. But the very control system, which limits the freedom of action of the members of the organisation, could be expected to differ between the corporations. A corporation focusing on cost efficiency could be regulated through an emphasis on bureaucracy, with written rules and regulations. It could be an organisation that is close to the core operations of the municipality, thus with demands of equal treatment, which is ultimately secured through the blind application of rules. Aiming at competition would imply faster reaction from most members of the organisation than a bureaucracy would be capable of, without the outspoken demand of equal treatment. Thus, regulations of action have to be made through visions instead of rules.

Thus, let us hypothesise:
A municipal owner aiming at competitive efficiency in order to privatise will tend to emphasise a managerial culture of vision, owners aiming at competitive efficiency but excluding privatisation, will do it to e lesser extent, and those aiming at cost efficiency will tend to emphasise bureaucracy.

Another aspect of the organisational structure is professionalism. With professions in the organisation, the power of the organisation is divided between the managers and the professionals. Using professionals is one powerful instrument of control since the profession is characterised by predictable behaviour and their own organisational bodies controlling their members. For example, physicians belong to a profession that govern their own legitimation, thus offering cost-less control of labour. A professional is, however, socialised outside the organisation, and cannot be assumed to have a strong commitment to the organisational goals. No difference can be found when it concerns ownership strategy, except that the utilisation of professionals would decrease the use of bureaucracy in the organisation. Since bureaucracy has been hypothesised to be of importance in cost efficiency strategies, it can be hypothesised that professionals will only influence the ownership strategy in this category.

Thus, let us hypothesise:
A municipal owner aiming at cost efficiency will tend to de-emphasise bureaucracy if the organisation consists of professional workers.

Auditing

Auditing is the instrument of the owners and the state in order to ensure the legality of the corporation. If the auditors are professionals, with internal control, the auditor is equally present, without variance in intensity of auditing. The intensity can, however, differ between the owners, those being present, almost operative in their relation to the corporation using the auditor to a lesser extent than those being of a rather remote nature, such as the owners with privatising aims.

Thus, let us hypothesise:
A municipal owner aiming at competitive efficiency in order to privatise will tend to have intense interaction with the auditor, owners aiming at competitive efficiency but excluding privatisation, will have less intense contacts, and those aiming at cost efficiency will have a minimum of contact.

Technology

Technology could be plastic, with a lot of flexibility, or of a vary rigid nature, without any alternative use. Water supply has pipes that can hardly be of any alternative use. Therefor the management is rather constrained by the very technology used. In the case of health care, in an organisation with a majority being physicians, i.e., a professional group, the degrees of freedom are greater, but still constrained by the professional norms. An organisation with skilled labour but without professional norms, and without an inflexible technology would have the largest degrees of freedom, and thus demand more intense control activities of the owners.

Thus, let us hypothesise:
A municipal owner tends to be more intense in governance of the corporation when the technology is flexible.

Product Markets

Product markets could in the case of a municipality vary from complete monopoly to highly competitive markets. Competition have been found to be more important in promoting the economic efficiency of a corporation, than for example, private ownership of the corporation (Springdal, 2000). Thus, positioning a corporation on a competitive market reduce the involvement of the owner when it concern control. On the other hand, it put a stronger demand on the enabling function since the top managers have to have the opportunity and the support of innovation. Thus, one would expect to find a low emphasis on governance mechanism aimed at control when the corporation is facing a strong competition. This is in line with the arguments put forward above, especially concerning the board's different function. Thus, one could assume that the aims of competition rather straight forward follows the competitiveness of the market, increasing competition of the market force the owners to assume an ownership strategy of competition, even with privatisation aims.

Thus, let us hypothesise:
The strategy of cost efficiency tend to be found when there is no, or very low level of competition on the market, the strategy of competition, on more competitive markets, and on highly competitive markets will the municipality tend to have privatising goals.

State legislation

State legislation is constraining the freedom of action for everyone involved. It constitutes a low cost instrument of control. One study found that owners tend to be absent in corporations that were highly regulated by law or by regulations. Thus, it has the same function in corporate governance as technology. It is imposed on the organisation, and constrains action. Thus, the same prediction of technology is appropriate when it concerns legislation.

Thus, let us hypothesise:
A municipal owner tends to be less intense in governance of the corporation when there are many and/or strong laws regulating the corporation.

Regulations

Regulations made by associations to which the corporation belongs restrain the freedom of action for the corporate actors. A corporation can be member of associations because it renders them good will or because the association have another, more tangible utility to offer, for example information. Some of these associations, such as trade associations, have the function of monitoring and regulating their members, and thereby giving them reputation. These regulations are not the same as the state laws, but the sanctions can be as strong due to the consequences for the firm and the corporation. Therefor it can be assumed that regulations can have the same controlling function as the state laws.

Thus, let us hypothesise:
A municipal owner tends to be less intense in governance of the corporation when there are many regulations facing the corporation.

Culture

Culture is a concept reserved for traditions and institutions on a regional or national level. A high variance within Sweden cannot be expected to find, thus making culture a factor of no interest. But culture has been used as a term instead of organisational traditions. Tradition can imply both values and pattern of actions. These are what institutions are for society, taken-for granted values and actions. Traditions are rather similar to technology when it concern governance. Strong, encompassing traditions regulate behaviour strongly, making it hard to create different behaviour with the use of incentive schemes or direct order. If traditions are aligned with the owner's request, then they are forceful tools, making it less needed to engage in other strong governance mechanism. If they, on the other hand, are against the will of the owners, then a lot of effort have to be spent in order to change the tradition. In this case, one can assume that there will be an intense use of the other governance mechanism in order to change the tradition. Since people carry tradition, the strongest instrument for change of tradition is to circulate people, to terminate important manager's contract and replace them with people of right conviction.

Thus, let us hypothesise:
A municipal owner tends to be more intense in governance of the corporation, especially replacing top managers, when the tradition of the firm does not support the owner's goals.

Mass Media

Mass media influence the reputation of the firm, of the owners and of the top managers, and can be supportive or disruptive on the moral of the organisation members. Thus, it is a governance mechanism since it influence the behaviour of the organisations members today and the possibility for actions in the future for the top management and the owners via their reputation. Municipalities have a habit of being scrutinised by mass media, as all government organisations are. For example, Sweden has a tradition of publicity, which grant every Swedish citizen the right to read the documents of the state, with few exceptions. As a citizen, you have the right to show up at the any state agency, even at a state university and to take part of their incoming mail. Corporations, on the other hand, have the tradition, and the legal protection, of being closed societies. Except for the state, no one has the right to take part of the mail of the corporation. This has been used as an advantage for municipal corporations that are facing competition. Them being organised as a public agency would imply that their competitors could read their mail and take part of all internal documents, thus creating an information asymmetry that would damage their capacity to compete. On the other side have been journalists and politicians opposing municipal corporations, arguing that municipal corporations are municipal operations, and should be subject to publicity.

When trying to predict the ownership strategy one can think about mass media as a cheap, but hard to control instrument, with the negative aspect that mass media is not only scrutinising the corporation and its management, but also its owners. Therefor it is a sword with many edges, and directed on both ways. Thus, its major advantage for owners is probably when they are absent the corporation, such as owners in highly dispersed ownership structures. In municipal corporations, with one sole owner, the information gathering of the journalists could presumably not offer any strong advantages for the owners. Thus, we can expect to find a rather negligent attitude towards mass media.

Thus, let us hypothesise:
A municipal owner tends to disregard mass media as an instrument of governance.

Ownership strategies summarised

The ownership strategies have been analytically separated into its components and with use of pragmatic reasoning, agency theory and other conceptions of action; single hypothesis has been formulated. In table 1 these hypotheses are collected in order to give a summary view of this section.

One has to notice that the hypotheses are formulated comparing different strategies of the owners concerning different factors. The ultimate goal for a theory of ownership strategies would be to create a conception where the hypotheses are directed towards the separate factors within every strategy. In this first attempt, the three strategies end up as a sum of parts. It is highly conceivable that an owner mix the different mechanisms considering their relative strength and availability. Thus, one could expect to find a variance in the single factors because other factors differ. For example, a corporation with municipal owners aiming at privatising, which is facing a turbulent situation, straining the strategy of the corporation would probably increase the number of board meetings in order to satisfy the service function.

Table 1. A summary of Ownership Strategies

	Competetive efficiency with privatisation	Competetive efficiency without privatisation	Cost efficiency	given
Capital: Owner				
Profit	+++	++	+	
Risk	Variance	prob of losses	prob of losses	
Risk capital	+++	+	+	no surety
Take-over	+	0	0	
Capital: Credit				
Surety	-	-	+	
Level of collateral	+	+	0	
Managerial Labour market				
External recruitment	+	0	-	
Internal recrutiment	-	0	+	
Private experience	+	0	-	External recruitment
Government experience	-	0	+	External recruitment
Organisation structur				
Board: number of politicans	minority	equal	majority	
Board: number of professionals	majority	equal	minority	
Board: Chairman	Professional	random	Politician	
Board: Frequency of board meetings	low	medium	high	
Board: Interaction frequency	low	low	high	
Board: Function: Control	0	+	+	
Board: Function: Strategy	0	+	+	
Board: Function: Service	+	+	0	
Board: Function: Conflict resolution	+	+	0	
Reward system	Bonus	less bonus	no bonus	
Management culture	Vision	less vision	bureaucracy	
Management culture	Vision	less vision	0	profession
Auditor				
Interaction with auditor	intense	medium	almost no	
Technology				
Flexible technology	intense corp gov engagement	intense corp gov engagement	intense corp gov engagement	
Product market				
Competition on the market	High	Medium	Low or absent	
State legislation				
State laws	Low level of corp gov engagement	Low level of corp gov engagement	Low level of corp gov engagement	
Regulations				
Regulations	Low level of corp gov engagement	Low level of corp gov engagement	Low level of corp gov engagement	
Culture				
Supporting tradition	Low level of corp gov engagement	Low level of corp gov engagement	Low level of corp gov engagement	
Mass media				
Mass media	negligence	negligence	negligence	

SUMMARY AND CONCLUSIONS

Ownership strategy is the composition of the mix of governance mechanisms an owner is creating in order to ensure the fulfilment of the aims of the owned organisation. We have developed three distinct strategies used by municipalities when controlling and developing their wholly owned corporations. The cost efficiency strategy is focused on the operation of the firm and its costs, emphasises the interactive mechanisms, such as the board and the owner – CO relationship. It put hardly any effort on financial control mechanisms such as credit capital and risk. The opposite strategy is the competitive efficiency strategy aiming at privatising. It have an arm-length distance to the firm and its operations, emphasising the freedom of action of the CO and focusing on financial control mechanisms, such as rationing the equity. In between is the competitive efficiency strategy, being in-between in the utilisation of many governance mechanisms. Probably it is a rather unstable organisational form since it appear to be easier to govern a corporation according to municipal principles, as in the case of the costs efficiency strategy, or according to private firm principles, as in the case of the privatising strategy.

The continuation of the project will be to construct a survey based on the hypotheses and to confront the set of hypotheses with data from the Swedish municipal corporations. According to earlier studies, being of a rather simple nature or strongly political in orientation, that is, normative studies containing a wealth of knowingness, the expectation would be to find rather passive, even uninterested owners and strategies. This expectation is, however, based on a rather primitive view of corporate governance. As stressed earlier, ownership strategy is the creation of a mix of governance mechanism. Activity and passivity is hard to judge, maybe the simplest way would be to find out whether the owners have made conscious choices. It is, however, a question of outmost political importance, which is the explanation why writers have been so blinded occupied with their image of active owners. If the owners are passive and uninterested, then taxpayer property is not used or controlled, left in the hands of some people that only act in the interest of them. So, it is the debate from the good old days, the re-birth of the Berle and Means debate of the separation of ownership from control. The presented typology of corporate governance mechanism and the succeeding hypotheses would develop this simple view. The data analysis will confirm or falsify the expectations.

An empirical extension of the project would be to include corporations that are partnerships between a municipality and a private partner. In the present paper the complexity has been reduced through assuming a consistent ownership, which is attained through excluding but wholly owned corporations. An owner partnership introduces the management of owners and the adjustment to other owners. Thus, a new condition enters the analysis and a new ingredient enters the ownership strategy. It has been convenient to avoid the complexity through the simplification, but a corporation with only one owner is truly a sort of misunderstanding since one of the strengths of the corporate form is its capacity to include several owners and to transfer shares of ownership rights. At the end, the empirical extension will put a demand on the theory section as well.

One development of the typology would be to find a method of treating the different mechanisms in a systematic way. They could be analysed for example according to object, i.e., which agent it is levelled towards, action, i.e., which actions it stimulates, prerequisites; i.e., necessary and sufficient conditions for the mechanism to function, and outcome, i.e., the different effects the mechanism can produce. To this analysis of the skeleton of corporate governance mechanisms have to be added a system theory, a systematic treatment of how the different mechanisms interact. Thus, we will have a corporate governance theory when we can explain the ownership strategies through an analysis of the mechanisms different ways of functioning, and their interaction with each other.

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