



Corporatization in local government: Promoting cultural differentiation and hybridity?

Dag Magne Berge¹  | Harald Torsteinsen² 

¹Faculty of Business Administration and Social Sciences, Molde University College, Molde, Norway

²Department of Social Sciences, UiT The Arctic University of Norway (University of Tromsø), Tromsø, Norway

Correspondence

Harald Torsteinsen, UiT Harstad, 9480 Harstad, Norway.

Email: harald.torsteinsen@uit.no

Abstract

Corporatization implies disintegration of public authority, leading to not only structural but also cultural differentiation of government, transforming it into a fragmented and hybrid governance system consisting of an authority and multiple autonomous or semi-autonomous operators. This article addresses corporatization at the local government level in Norway, exploring if and how this change in formal structure triggers the emergence of separate cultures in the operator entities. Described as an institutionalization process, new norms, cognitions and identities seem to develop in these entities, creating a sense of ‘us’ (the municipal company) and ‘them’ (the municipality), thus strengthening the regulative separateness through normative and cultural-cognitive elements. Findings from our multiple-case study indicate that this process may be relatively fast and strong, transforming local government into a system comprising various hybrid types, especially segregated and assimilated types. The stronger the structural differentiation is, the stronger cultural differentiation seems to be.

1 | INTRODUCTION

During the last couple of decades, corporatization has emerged as one of the most prominent and permanent features of new public management (NPM) in the public sector, including local government (e.g., Aars & Ringkjøb, 2011;

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Erlingsson et al., 2015; Ferry et al., 2018; Grossi et al., 2015; Grossi & Reichard, 2008). Corporatization may be defined as moving a function from political and hierarchical line control within a local government and placing it into a wholly- or partly owned corporate entity (rephrasing Ferry et al., 2018, p. 477). The process 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. A fundamental rationale behind all agentification reforms (Torsteinsen & Van Genugten, 2016), including corporatization is that autonomy will improve organizational performance. In this respect, corporatization is seen as a particularly effective strategy due to the managerial and legal autonomy given to public companies (Voorn et al., 2017).

On the other hand, corporatization implies a radical form of structural differentiation creating new formal borders and arm's length relations within local government. To what extent will this development lead to an ensuing process of cultural differentiation, stimulating growth of separate organizational cultures and identities? In other words, may the price for potential increase in performance be increased fragmentation in local government, not only structurally but also culturally and politically?

In this exploratory multiple case study, we address cultural differentiation in terms of the institutionalization process linking structural change and performance, a process that seems to have been underresearched and undertheorized in corporatization studies. Our research question is: *How and why does the structural differentiation of local government caused by corporatization, lead to cultural differentiation, accentuating the distance between authority and operator?*

Theoretically, we first utilize the perspective of institutional logics (Friedland & Alford, 1991; Thornton et al., 2012) to explore to what extent the space for organizational and individual agency grows with increasing agentification, that is, when we move from internal service provision through increasingly autonomized forms of corporatization. Second, to operationalize what an "institution" is, we draw on Scott's three-pillar conception, comprising the regulative, the normative, and the cultural-cognitive pillars (Scott, 2014). Third, the introduction of new institutional logics into an existing organization will probably make it more hybrid. To describe and analyze this phenomenon we use Skelcher and Smith's categorization of hybrid types (Skelcher & Smith, 2015), that is, the segmented, the segregated, the assimilated, the blended, and the blocked types. Finally, many classical publications explore the effects of structure on individual behavior (Egeberg, 2012). The basic idea is that structural design triggers institutionalization, representing infusion of values (Selznick, 1957), mobilization of bias (Schattschneider, 1975) and shaping of preferences and identities (Aldrich, 1999; Pollitt, 2007; Simon, 1999). However, culture and identity formation do not seem to hold a prominent place in corporatization research beyond being mentioned in general terms, for example as a barrier to entrepreneurship (Tremml, 2020), a supplement to formal (Krause & Swiatcsak, 2020) or output control (Krause & Van Thiel, 2019), or a support for strategic governance (Daiser & Wirtz, 2021). Our theoretical contribution to the research field, therefore, is to combine classical insights with more contemporary perspectives of institutional logics and hybridization, while empirically contributing by exploring the "missing link" of institutionalization.

This article proceeds first, by presenting the theoretical framing of our research question, and second, by explaining the analytical framing of the study in a Norwegian context. Third, we describe the methodological approach, and fourth, we present and analyze our empirical findings before finally, discussing the findings and concluding.

2 | THEORETICAL FRAMING

In this article, we conceptualize corporatization as an agentification process (see Figure 1) leading to structural differentiation of local government, transforming it into a local *governance* network consisting of an authority and multiple corporate operators (service providers) holding varying degrees of managerial and legal autonomy. First, the authority of a traditional local government comprises two separate although complementary principals (e.g., Svava, 1999), the politicians who represent the democratically legitimated power center, that is, the municipal council, and the

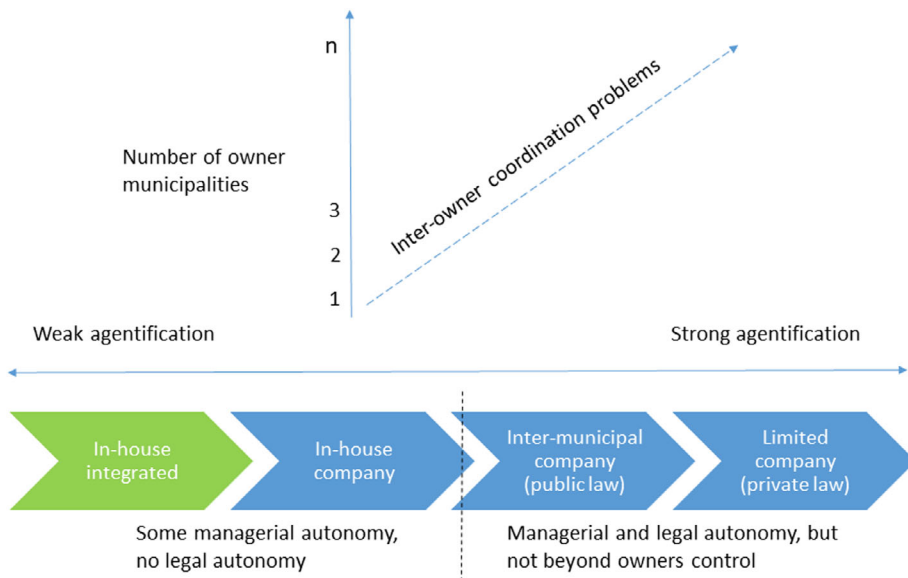


FIGURE 1 Autonomy of municipally owned companies depending on degree of agentification and number of owner municipalities

bureaucrats, organized hierarchically under the municipal chief executive officer (CEO). Second, the authority of an inter-municipal cooperative arrangement comprises several principals, each of which are autonomous local governments. The inter-municipal company (IKS) is a typical example of such a cooperative network. These cooperative arrangements are vulnerable because the higher the number of principals, sometimes with different agendas, the more demanding coordination and cooperation become, thus challenging the cohesion and legitimacy of the common authority. Consequently, we expect that the autonomy of the IKSs will grow as the number of owners increases (Garrone et al., 2013; Sørensen, 2007; Voorn et al., 2019, 2020). Finally, as corporatization implies a growing number of corporate operators, the structural differentiation of local government and governance grows, a process which we, in accordance with for instance Christensen and Lægreid (2011) and Zuna (2001) expect will lead to increased cultural differentiation. Consequently, governance of local governments becomes more complex and hybrid.

Hybridization may be seen as a multifaceted phenomenon, comprising structural, institutional, network, and identity perspectives (Denis et al., 2015). The essence of hybridization is the gradual blending of elements, thus presenting an alternative to conceptions of radical paradigm shifts or linear progression (Denis et al., 2015, p. 276). This implies that the relationships between the four perspectives of hybridization are dynamic and multilevel, for example, structure influencing cultural aspects such as norms, cognition, and identity (Aldrich, 1999; Selznick, 1957).

We here explain and elaborate cultural differentiation in terms of institutional logics, defined as “socially constructed, historical patterns of cultural symbols and material practices, assumptions, values, and beliefs by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their daily activity” (Thornton et al., 2012, p. 51). In this respect, corporatization means transforming local government into a meeting place for different, to some extent, competing or even incompatible institutional logics (Besharov & Smith, 2014). Although local government has always had certain hybrid traits, corporatization introduces the corporation (managerialism and neo-Taylorism) and the market as logics very different from the more traditional public sector logics such as community, political democracy (Friedland & Alford, 1991), and public bureaucracy, the last one labeled state logic by Thornton et al. (2012). As mentioned in Introduction section, Skelcher and Smith (2015) have identified five hybrid types, of which we suggest that the segmented and the segregated types are especially relevant for corporatization. The segregated form, defined as “[f]unctions oriented to different logics ...

compartmentalized into separate but associated organizations” (p. 440) and the segmented form, defined as “logics ... compartmentalized within the organization” (p. 440), seem to match the empirical phenomenon corporatization in local government. Segmentation and segregation keep the traditional and the NPM-inspired institutional logics apart, thereby allowing the new logics to develop separate types of organizational culture and identity (Denis et al., 2015) within the framework of local government. However, this separation may create tensions and possibly conflicts between authority and operator, especially if the operator utilizes the enhanced autonomy in ways and for purposes that collide with the institutional logics of the authority and other stakeholders. In this situation, other hybrid types may evolve, for instance, the assimilated type where the established logics (e.g., democracy) embrace some elements of the new logics (e.g., market) but retain dominance, or the blended type where elements of both traditional and NPM-inspired logics are incorporated and transformed into new logics, adapted to the specific context of local government. Thus, similar to Andrews et al. (2020) we conceive hybridization as a matter of institutional evolution and degree.

The new institutional logics, the corporation and the market, introduce new regulations, norms, and cognitions (Scott, 2014) into the local governance system, basically defining the autonomy of municipal companies as if they were *independent* entities. This conception is very different from ideal type democratic local government as an integrated governance structure, comprising bureaucracy and professional service-providing entities, managerially autonomous, but governed by a politically harnessed hierarchy. In other words, politics does not seem to fit into the NPM equation (Bozeman, 2013). At an early stage of corporatization, the *regulative* pillar seems to be especially important because it provides the new logics with a separate legal foundation inside the local government system. Therefore, the owner municipality must exercise its influence indirectly. Consequently, *indirect* governance is the normal way for local government to execute authority over its companies, for example, through articles of incorporation, annual general meetings, boards, and appointment of board members. The implication of corporatization is that the authority cannot legally govern its corporate operators directly the way it can do with its in-house operators. The presence of multiple principals accentuates this limitation. The normative and cultural-cognitive pillars may stimulate the emergence of separate operator identities, legitimating and strengthening the new institutional logics (Selznick, 1957; Zuna, 2001), thus making it more challenging for the authority to intervene (Bjørnsen et al., 2015). Consequently, corporatization may remove the logic of politics from public service provision, a development viewed by some as necessary to avoid corruption (Bergh et al., 2019) and remove obstacles to entrepreneurship (Tremml, 2020), while others regret the loss of political arbitrations' positive effects on decision quality, resilience, and legitimacy (Bourdeaux, 2007).

We expect that new social and professional interaction patterns may emerge within the segmented and segregated entities, creating new affiliations, loyalties, and conceptions of “us” (the company) and “them” (the owner(-s)). This process aligns with Selznick's (1957) description of institutionalization as a process by which “an organization acquires a self, a distinctive identity”, for example, “the taking on of values, ways of acting and believing” and “self-maintenance” as “a struggle to preserve the uniqueness of the group” (p. 21).

Another aspect of institutionalization processes is described by Scharpf (1977), who found that interaction and information-sharing across divisions within a German ministry was four times lower than within divisions and that policy conflicts between them occurred twice as often as within divisions. The implication is that municipally owned companies (MOCs), although partially embedded in the traditional logics holding a dominating position within the field, develop their own culture and identity through internal interaction, socialization, and internalization, diminishing the owners' influence on strategies and operations.

3 | ANALYTICAL FRAMING IN A NORWEGIAN CONTEXT

During the last 25 years, the number of MOCs in Norwegian local government has more than tripled, from 850 entities in 1997 to almost 3000 in 2014 (Aars & Ringkjøb, 2011; Bjørnsen et al., 2015). Today, corporatization represents

perhaps the most visible and influential expression of agentification at the local level. By agentification we mean the structural disaggregation of government, autonomization of the entities created, and contractualization of relationships between these entities and the political-administrative center of government (Pollitt et al., 2004; Torsteinsen & Van Genugten, 2016; Van Thiel, 2012).

Figure 1 illustrates the organizational forms that may emerge from the agentification process in a Norwegian context.

In this study, we concentrate our attention to the three most prevalent forms (blue color) of MOCs, that is, the limited company (AS), the IKS, and the in-house company (KF).¹ Another reason for selecting these forms, beyond prevalence, is that the owner municipality(-ies) may wield some degree of formal control, although this control is supposed to diminish when one moves from left to right in the figure. Further, with a growing number of owners, each owner's control may diminish, due to transparency deficiencies and inter-owner coordination problems (Grossi & Thomasson, 2011; Voorn et al., 2019). This is especially true for the IKS (Sørensen, 2007), but may also be relevant for the AS. We have illustrated this dimension in the upper part of Figure 1. According to the Freedom of Information Act,² a company is formally reckoned as a public company if the aggregated public control or ownership exceeds 50%. This law, meant to secure public transparency, applies to all public activity, including all public companies, although there are some exceptions for companies involved in commercial activities. To avoid illegal cross-subsidization between monopoly and commercial services the AS, the IKSs, and even the VAR KF have established subsidiaries organized as limited companies. All companies submit annual reports to their owners. Due to the new Local Government Act, taking effect January 2020, municipalities are obliged to publish ownership reports at least once every election period, listing all their ownership interests and developing their ownership strategy. Earlier, less than 50% of Norwegian municipalities did that (Monkerud et al., 2016), and very few, if any present *annual* ownership reports. Nearly 90% of the municipalities do not have administrative units for ownership management and control (Monkerud et al., 2016).

4 | METHODOLOGICAL APPROACH

4.1 | Case study approach and research design

Yin (2018) recommends using a case study when “a ‘how’ and ‘why’ question is being asked about a contemporary set of events over which the researcher has little or no control” (pp. 12–13). Thus, we consider this the most relevant approach for analyzing our research question. One of the best ways to collect data about subjective experiences of culture, norms, identity, and so on defining our dependent variable, is by talking with people, asking questions, listening to their reflections and ideas. Thus, interviews have been our main data source besides documents. Our research question also addresses comparison of variation in culture between eight cases representing four organizational modes (internal/hierarchical; internal/semi-autonomous company; IKS; limited company) within municipal waste management and water/wastewater (VA) services, which signify discrete values on the independent variable of agentification. These features justify a multiple case study design (Stewart, 2012). Our comparison of cases is illuminated by theoretically inspired identification of themes and factors supplemented by empirically generated specifications (Table 2). Since our research has unfolded over time, it resembles the processual “iterative data-theory-data-theory path” that Stewart describes (p. 72).

Although we seek to explore a change process, our research design is not truly longitudinal, except for in the Waste AS case. Instead, most of our interviews provide cross-sectional data, containing perceptions and recollections of previous and ongoing change processes, and consequently, we cannot draw definite conclusions about causal relationships between structural and cultural changes. However, our data *indicate* a relationship worthy of further investigation (Yin, 2018). Finally, although we do not investigate the performance effects of corporatization, our design resembles a pathway case study seeking to “elucidate causal mechanisms” (Gerring, 2007, p. 238), that is, cultural change.

4.2 | Case selection

The selection of cases is motivated by a need to cover the organizational categories presented in Figure 1. Two of the eight cases are of the in-house integrated type, thus constituting a baseline for comparing the influence of increasing agentification. Of the remaining six cases, two are in-house companies (KF), three are inter-municipal companies (IKS), and one is an enterprise comprising four limited companies (AS).

The reason for studying two utility services is that they have two important similarities: they are infrastructural/technical services, and they are 100% financed by user fees (the cost recovery principle, CRP).³ However, they differ because while VA entities take care only of monopoly services, the waste entities provide both monopoly services (household waste) and commercial services (industrial waste), thus having to abide by European Union/European Economic Area and national competition regulation. Further, corporatization is quite seldom within Norwegian VA services while it is widespread within the waste management sector.

For our 70 interviews, we strategically selected a wide array of information-rich persons, mayors, CEOs, and heads of technical departments from municipalities, and from companies, CEOs, board chairs, department managers, and union representatives. All interviews have been conducted face to face, taped, and transcribed. In addition, both authors have taken notes during the interviews. The interviews have been made over a time span of 6 years due to lack of stable research funding. The documentary material consists of annual reports from MOCs, municipal annual and ownership reports, and home pages.

Table 1 gives an oversight over important features of the cases.

4.3 | Comparative framework

We have dichotomized several institutional logics from the institutional logics literature in two ideal-type models—traditional public logics and NPM-inspired logics (Olsen et al., 2017). We expect logics multiplicity to exist both within and across these models. In Table 2 we sum up the criteria we use for comparing the cases.

We describe *the regulative element* by the following criteria: legal foundation, governance system, and financial basis. Whereas the in-house integrated form represents the baseline, that is, the traditional way of organizing municipal service provision, the KF, IKS, and AS forms represent the NPM-inspired corporate logic, constituting increasing degrees of operator autonomy (see Figure 1). As we in this study are mainly interested in the cultural differentiation, that is, normative and cultural-cognitive aspects of corporatization, we will not explore the regulative element in depth. *The normative element* we link to different attitudes in three areas. First, how much money should one spend and for what purposes in public service provision? In-house managers and personnel live under relative austerity and are used to economize (Orazi et al., 2013), whereas municipal companies seem to enjoy wider financial freedom. Second, the attitude toward whether municipal service providers should engage in innovative activity differs, at least if we understand innovation as something radical and new for the specific service sectors or the organization. Third, the attitude toward how board members should behave and handle dual roles when they also are active local politicians differs. Some think that they may (or even should) voice the interests of the company when they participate in the municipal council or the municipal executive committee, others find that unacceptable (Ringkjøb et al., 2008). When it comes to *the cultural-cognitive element* it includes knowledge and taken-for-granted conceptions of reality. First, there seems to be a widespread although empirically contested belief that there is a positive relationship between decentralization and autonomy, and performance (Pollitt, 2007; Voorn et al., 2020). Consequently, the more autonomous/decentralized service providing entities are, the better they are expected to perform. Second, according to traditional public logics, competition is neither relevant nor beneficial for providing especially intangible public services, many of which are organized as monopolies. The NPM-inspired logics on the other hand, view competition as a decisive mechanism for improving efficiency and service quality generally. Third, people in MOCs may start to conceive of their entities as something different from their owner

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 | 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 | 2200 | 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 |

Abbreviations: VA, water (V) wastewater/sewage (A); R, waste.

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 (instrumentality): | | |
| Legal foundation | Many and detailed laws and regulations (e.g., Local Government Act; Public Administration Act; Freedom of Information Act; Public Purchase Act) | Fewer and less detailed laws and regulations (e.g., Limited Company Act; Inter-Municipal Company Act; Competition Act) |
| Governance system | Democratic assemblies; public bureaucracy based on hierarchy, rules and professions | Annual general meeting; boards; top management; contracts |
| Financial basis | Taxes, fees and grants; budgetary allocations; cost recovery principle (CRP) for some services (e.g., household waste; water and wastewater) | Revenues from sales in the market; municipal fees for CRP services (e.g., household waste; water and wastewater) |
| Normative (appropriateness): | | |
| Economic norms | Economization (especially under austerity); equal pay; public value | Efficiency; profitability; economic incentives and remuneration |
| Innovation-related norms | Incremental, low-risk low-cost innovations ok; innovation sharing | Less risk aversion; innovation secrecy; company success/survival 1 st priority |
| Norms about dual roles | Unacceptable for bureaucrats and professionals, more acceptable for politicians | Politicians should be avoided on the board, prefer "professional" boards; more pragmatic for non-politicians |
| Openness and fairness | Transparency; accountability; impartiality | Secrecy (if market competition) |
| Cultural-cognitive (orthodoxy): | | |
| Autonomy | Promotes performance and innovation, especially among professionals | NPM 1: Bureaucrats and professionals are driven by self-interest, must be closely monitored and controlled by managers |
| Competition | Leads to double work and waste. Local government services are and should be monopoly services. | NPM 2: Promotes performance and innovation |
| Identity related to | Profession/peer group; service entity and service users; community | Promotes efficiency and quality. More public services could and should be opened for competition Job/colleagues/profession; business unit and customers; company |

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

municipality(-ies), as organizations separate from local government and perhaps more as members of the business community. Viewing the normative and the cultural-cognitive pillars together, we expect that corporatization stimulates cultural differentiation, thus reinforcing the formal-legal borders between the authority and the operators.

However, as these companies are still linked to their owners, informally, financially, managerially, and so on, their organizational culture and identity may be of a hybrid type, segmented, segregated, assimilated, or blended (Skelcher & Smith, 2015).

5 | EMPIRICAL FINDINGS

Before presenting our findings, we elaborate on a couple of key features, mainly related to the regulative pillar. Norwegian municipalities have a legal responsibility⁴ for providing VA services and household waste services and for financing them 100% by municipal fees, set annually by the municipal councils according to CRP. The fees cannot exceed costs (calculated over 5 years) or be used for financing other services. It is illegal to operate CRP services on a commercial basis, nor can dividends be taken. VA services are typically natural monopolies, and regulations therefore place clear restrictions on the development of a market logic. CRP obviously puts these services in a privileged position inside local government. They do not have to compete with other municipal entities for annual budgetary grants. On the other hand, as local politicians are hesitant to raise user fees too much too fast, they are often unwilling to pass decisions on costly investments or maintenance projects, even when their own professionals argue that they are necessary. Finally, employees appoint two representatives to the boards of all three company forms.

5.1 | The baseline: In house: Integrated/hierarchical

In our portfolio of cases, two municipalities provide their VA services through in-house entities, VA 1 and VA 2. The two municipalities vary considerably in population size (see Table 1), which has consequences for the size of their administrative staffs. The VA staff in the largest municipality comprises almost 25 persons compared to three to four persons in the smallest municipality, which means that the former tends to be segmented while the latter is clearly integrated into the general administration.

5.1.1 | Normative and cultural-cognitive features

Both mayors, CEOs, and VA staffs are explicitly skeptical if not negative to corporatization. The CEO of the largest municipality mentions the risk of corporate entities developing separate cultures, creating tensions vis-à-vis their owners. The mayors underline the necessity of political, democratic control over the critically important VA services. Although open for adopting new technology, all interviewees are opposed to engaging themselves in innovation activities; it is too expensive and risky. Instead, their mission is running VA operations. The service providers have considerable managerial autonomy based on trust and competence, especially in the largest municipality. Statements also indicate their strong adherence to profession (engineering) and community logics, and they express a clear identity as municipal employees.

In the smallest municipality we find the clearest example of political controversies regarding a development project in the VA sector. The strong politicization may reflect both small size and the mayor's explicit ideological preference for hands-on democratic governance generally.

5.2 | Semi-autonomous in-house companies (KF): VA KF and VAR KF

A KF, although without legal autonomy, has a strong managerial autonomy, formalized by a separate board appointed by the municipal council and a separate CEO, none of whom are subjected to the municipal CEO's authority. The municipality is liable for the company's debts. Unlike IKS and AS companies, both the municipality and the KF may act as employer. Thus, the KF is a segmented-segregated hybrid entity, partly inside, partly outside the municipal organization.

VA KF and VAR KF differ somewhat in their regulative features. First, their financial funding is different; the former is exclusively CRP-financed while VAR KF combines CRP and market-based revenues. Second, VA KF is

responsible for all parts of the VA services, including delivery to the individual users, while VAR KF only manages the central processing facilities. Third, VA KF provides other engineering services to the municipality, so in practice, it is the municipality's engineering department. VAR KF, on the other hand, shares responsibility and interacts with its owner municipality's technical department, which holds a high level of expertise of its own. Finally, VA KF purchases administrative services from the municipal organization, while VAR KF is self-sufficient in these areas. Overall, the formal distance between the authority and the operator seems to be less in VA KF's case than in the case of VAR KF.

5.2.1 | Normative and cultural-cognitive features

An important motive for establishing the VA KF in 2007, was to improve the recruitment of engineers by offering wages above the negotiated municipal tariffs. Also, the VAR KF offers higher wages.

Whereas the board chair of VAR KF emphasizes that the company "must not waste the municipality's money" on risky innovative projects, this logic seems to be less prominent inside the company itself. The conflict between state logic vs. business and engineering logics seems more manifest and has in many cases emerged as contradictions between authority and operator. Unlike VA KF, VAR KF largely competes in a commercial market, and the company sees itself as a part of an industrial cluster. The municipality on its part would like to collect as much dividends as possible from the company's business operations, while the company wants to keep most of it for its own development and innovation. Another example of contradiction between company and municipality is related to disputes around the use of land owned by the municipality, but which the company leases.

Both enterprises are mentioned in the municipalities' annual reports, but very briefly. Finally, while VAR KF has its own website and its own email address, VA KF has not.

Despite lacking legal autonomy, both KFs' actual autonomy seems to be surprisingly strong. This is especially true for VAR KF, probably due to its relatively large business activity, partly organized as subsidiary companies.

In both cases, politicians on corporate boards appear to be co-opted, and they easily become corporate representatives in the municipality's political bodies, rather than the other way around. "Even politicians appointed to the board, soon become more board members than members of the municipal council and the executive committee," says the mayor of the case VA KF. The politicians who sit on the board of the VAR KF are even nick-named KF-ians.

We observe a strong organizational identity among the employees in both companies, combined with a strong professional identity among the engineers. The employees and the CEOs do not see themselves as municipal employees, although formally most of them are.

Despite a strong corporate identity in VA KF, both the CEO and the board chair firmly express their commitment to the municipality, emphasizing that the company is a *municipal* service-provider. The CEO explicitly disciplines the company to avoid it deviating too much from the municipality in culture and identity. A state logic seems to be quite prominent, or as the mayor puts it: "The KF is an instrument for the owner, who has the responsibility for the whole organization and the whole community."

Corporatization has, in our KF cases, led to cultural differentiation. But the degree and form of this differentiation varies between them. The KF structure does not in itself provide enough explanation for cultural differentiation but must be supplemented by contextual factors, not least the presence of a market logic. In addition, the lack of political interest is notable, especially in the VAR KF case. The KSs' annual reports and budgets are treated rather superficially in the municipal councils. However, our data indicate that politicians on the VA KF board are more active than in VAR KF, probably because the structural and the cultural distance seems to be smaller in the former than in the latter case. This indicates that local practice may vary within the same formal framework.

5.3 | Inter-municipal companies (IKS): VA IKS, VAR IKS, and WASTE IKS

The Inter-Municipal Companies Act (1999) regulates this type of MOCs. The Assembly of Representatives (AoR),⁵ with at least one representative from each owner municipality, is the company's highest authority and selects the board, which then recruits the CEO of the company. The composition of the boards varies from the VAR IKS with only local politicians to VA IKS with only so-called “professional” members, that is, external persons with technical or business expertise. The Waste IKS board has a mix.

Although the IKS holds legal autonomy the municipalities retain unlimited, proportional responsibility for the company's financial obligations, which means it cannot go bankrupt. This principle is under pressure because it is seen as a breach of EU/EEA competition regulation (The Nordic Competition Authorities, 2016). The municipal councils decide the companies' borrowing limits.

In addition to the AoR meetings, the management and the engineers of the IKSs have meetings with the technical staff, the mayors, and sometimes the local councils of their owner municipalities.

In addition, some municipalities produce ownership reports sporadically, but the municipal councils tend to treat them rather cursorily.

5.3.1 | Normative and cultural-cognitive features

It seems that both VA IKS and VAR IKS, although financed according to CRP, have a more relaxed attitude toward *spending* than its owner municipalities. They also pay higher wages, allegedly to be better able to recruit engineers. The technical department head of the majority owner of VA IKS claims that it tends to opt for expensive solutions: “The company gold-plates their investments. It drives Rolls Royce, while we drive Volkswagen”. Colleagues from municipalities owning VAR IKS share similar experiences. All of them express both frustration and anger over municipal austerity compared to the companies' relative affluence. On the other hand, the Waste IKS seems to follow a more sober course economically. All interviewees from its owner municipalities express very positive evaluations and no one complains about excessive spending. This aligns with our impression of the sobriety of the Waste IKS facilities compared to the mush fresher headquarters of the other IKSs.

All three companies have ambitions to develop their entities and operations further. VAR IKS has as the largest of these companies, an extensive portfolio of projects, many of them at the technological forefront in cooperation with various research institutions. However, the municipal engineering bureaucrats complain that this is very expensive and diverts attention from more prosaic but pressing tasks. On the other hand, the mayors are very positive and supportive. VA IKS has also had considerable innovation ambitions, but the owners now demand that it terminates its non-VA related commercial activities by 2021 (Municipality of VA IKS, 2019, p. 39). This decision seems to align with the viewpoints of the technical bureaucrat already mentioned but collides with the opinion of the mayor of his municipality, who applauds the innovativeness of the company. Thus, politicians and bureaucrats disagree, uncovering a split municipal authority. For the Waste IKS the situation seems different with a high degree of unity between company, politicians, and bureaucrats, despite a multimillion loss on an innovation project some years ago. Thus, Waste IKS differs from the other IKSs by meeting higher acceptance from its owners for risk-taking and possible innovation failures. Some obvious differences may explain this. First, Waste IKS combines CRP-financed and *commercial* services, thereby including and practicing by *necessity* a market logic in addition to the corporation and profession logics. Second, the company's sobriety and close relations with its owners indicate that it embraces community and democracy logics more than the other IKSs, perhaps because it is a smaller organization.

The opinion about the appropriateness of *dual roles* differs. While the CEO of the VA IKS gained the support of the owners in 2009 for replacing local politicians with “professional” board members, the CEO of the VAR IKS has so far been unsuccessful in this respect. It seems that politicians on the board in VAR IKS is one way for the 13 municipalities to have at least some sense of contact and control with the company. With so many owners holding many different interests,

there is some fear for unwanted mission drift of the company. In the case of Waste IKS with a mix of local politicians and “professionals” on the board, dual roles are accepted by the owners while the company CEO finds that problematic.

When it comes to *openness*, the annual reports of the companies are easy to access but mainly descriptive and, in some respects, incomplete, especially concerning market activities. VAR IKS's report for instance, did not contain much about the many activities that we learned about in the interviews. However, we experienced considerable openness and willingness to share information, opinions, and reflections. In contrast, their experience in meeting with local politicians, face to face in the municipal councils, was a basic lack of involvement. However, in our meetings with selected municipalities, we sensed a great deal of interest, although bureaucrats and especially politicians seemed to have much less time than the company representatives. Ownership reports, to the extent that they had been published varied in quality. The best one we came across was the report from the majority owner of the VA IKS (Municipality of VA IKS, 2019). It is both descriptive and analytic, and it discusses openly how corporatization implies balancing political-democratic control against economic and service quality benefits.

There seems to be a widespread “taken-for-granted” understanding that *autonomy* is beneficial for performance and innovation, although there are variations in conceptions about its appropriate scope and content. Municipal bureaucrats, especially those in the technical departments seem most skeptical and some of them would like to reduce it or even re-municipalize the VA services. This may be difficult in some cases, especially in the region where the VAR IKS operates because the municipalities are so inter-connected, and the water resources are unevenly distributed. Therefore, local politicians are much more positive than their bureaucrats, although they may be concerned about democratic deficit and lack of transparency. This concern is especially true in the VAR IKS case because the high number of owners creates coordination problems and thus makes the company more self-directed and powerful (Sørensen, 2007; Voorn et al., 2019).

Autonomy seems closely connected to the question of *identity*. Several of our interviewees expressed a strong attachment to their companies, to the extent that they tended to understand autonomy as independence. They describe feelings of pride, affiliation, loyalty, and recognition, and they do not conceive of themselves as municipally employed. The engineers of the VA IKS said openly that they would not even consider working for a municipality. Despite this strong identity, there is a clear sense of public purpose and commitment among several employees, especially among CEOs and board chairs in the IKSs.

5.4 | The limited company (AS): Waste AS

In contrast to the IKS and the KF forms, the AS is a private law limited company, constituting more than 80% of Norwegian MOCs. The annual general meeting is its highest authority, appointing the board, which in its turn recruits the CEO.

This company has gone through an organizational transformation, from being an integrated in-house entity, via a period supplemented by three KFs (2002–2009) to finally becoming an enterprise in 2010, consisting of a parent company and three subsidiaries, all of them organized as AS. One of these subsidiaries takes care of household waste and is therefore financed 100% according to CRP. The two others, industrial waste and production are financed by sales revenues.

5.4.1 | Normative and cultural-cognitive features

The enterprise seems to follow a sober course when it comes to *spending*. This probably reflects the attitudes and influence of the former CEO, coming from a public service background (Orazi et al., 2013). However, growing competitive pressure within the industrial waste sector and increasing EU/EEA and national waste regulations have motivated large investments in technology and infrastructure. Despite this, we have not observed criticism from its owners on spending.

The company has since its foundation in 2010 defined itself as *innovative* (Waste AS, 2010, p. 2; 2014, p. 18; 2018, p. 24). Looking at the innovation practice, the company seems able to document a relatively strong track

record through its annual reports, for example, subterranean vacuum transportation of waste, optical sorting, a new heating incineration plant, possibility studies for biogas production and recycling of plastic waste. Statements from interviewees indicate norms and perceptions more supportive of innovation than those we find in entities more embedded in traditional public logics.

Although the parent company has a mixed board, composed of both local politicians and “professionals,” problems of *dual roles* have not been mentioned. However, the new board chair is a leading Labour Party politician from the largest municipality, reflecting an explicit ambition among owners for more political influence on municipal companies generally.

The former CEO and the annual reports signal considerable *openness*. In addition, the largest owner municipality regularly publishes ownership reports, but local politicians show limited interest when they are submitted to the council.

Statements from two veteran workers indicate that *autonomy* is considered important because it makes decision lines shorter. They describe the transformation from in-house form via KF to AS in this way:

Earlier we had to apply to the municipal council for funding and approval of the purchase of a new car. Today we can invest as we like within reasonable limits... Today it is ten times better, the speed is much faster... In the old municipality, many bureaucratic barriers prevailed.

As the conception of waste has been transformed from problem to becoming a resource, a waste market has emerged, and *competition* is now accepted as a given fact within the sector. However, household waste is a monopoly service and thus shielded from ordinary market competition. For industrial waste and other activities, the competition is described as tough.

The corporatization process, including competition seems to make a considerable impact upon our interviewees' *identity*. One of the veteran workers describes his experience in these terms:

When you are independent companies with your own board and a clear and visible management, and the companies have their specific tasks, who is responsible for what has been more clearly defined. This has led to good results.

Another veteran worker explains the transformation in this way:

Now we think more business-like than we did earlier when we worked for the municipality and the traditional waste service. This applies to the whole corporation, but particularly to the industrial waste company. I think we feel like this is somehow *our* company, and that we wish to succeed. We take care of our customers, we take care of the equipment and we take care of each other. If we don't pull ourselves together and work hard, there will be red numbers.

Finally, an interesting observation is that personnel having been recruited after the Waste AS was established in 2010, especially those from private business, express less affiliation if any with their public owners than those who were recruited earlier. In contrast to this, the former CEO persistently talked about Waste AS, neither as local government nor as a private business, but as a hybrid enterprise with a public service assignment.

6 | DISCUSSION

So, how and why does the structural differentiation of local government caused by corporatization, lead to cultural differentiation? Table 3 gives a summary of our findings.

TABLE 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 | 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; gold-plating tendency, but CEO holds back; dual roles accepted | 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; 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 and 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 IKS employees; segregated hybrid | Professional/corp. autonomy; strong ID as IKS employees; segregated hybrid |

While most students of corporatization have focused on structural change and its influence on efficiency and performance (e.g., Garrone et al., 2013), our study addresses the intermediate cultural variable, thereby widening our understanding of the corporatization phenomenon. Aligned with classical organizational insights, our findings indicate that since interaction inside segmented or segregated entities like MOCs is significantly higher than cross-border interaction between owners and MOCs (Scharpf, 1977), corporatization triggers (re-)institutionalization (Selznick, 1957), promoting socialization and internalization of new norms, cognitions, and identities inside these MOCs. As much of the interaction inside MOCs is rather task-specific, often performed by professionals with relatively similar backgrounds, the institutionalization process creates a “we,” differentiating the MOC from “them,” that is, the owners (Aldrich, 1999, pp. 159–169). It is a fascinating paradox that despite the NPM-based skepticism toward professions, corporatization seems to provide them with a unique “apolitical” space where they can manage service-provision more freely, thus developing their identity further.

It seems that the degree of cultural differentiation grows with increasing (especially legal) autonomy (cf. Figure 1), number of owners and inclusion of commercial functions. Most prominent is the strong and sometimes rapid identity drift that we observe among managers and employees inside MOCs, for example, the Waste AS, a development noticed and commented by interviewees in the municipalities as well. This finding contradicts the conception of general institutional inertia (Scott, 2014), indicating the possibility, however imperfect of indirect governance. On the one hand, MOC employees express a strong affiliation to and pride in their company, and they describe a feeling of personal responsibility for its performance. Few if any of them perceive of themselves as municipal or public employees. Although the information flow from the operators to the authority seems to increase when services are provided by MOCs, the political interest and attention seem to decrease, at least if the provision runs smoothly. According to the politicians we have interviewed, the company is seen as an entity separate from and “outside” the municipality. Nonetheless, local politicians, especially mayors evaluate the companies positively since they are perceived as lightening the administrative burden of the municipality, responsible for governing multiple other resource-intensive services. The municipal CEOs, however, express general skepticism toward MOCs, including KFs, not least because they develop separate cultures and identities. Within the technical affairs departments, several managers express considerable frustration about the autonomy of the companies, not least due to the coordination problems that sometimes arise and the privileges that they think they enjoy. These findings may indicate the relevance of Skelcher and Smith's (2015) segregated hybrid type for our study: the traditional public institutional logics and the NPM-inspired logics dominate within separate although connected compartments, the municipality, and the corporation. On the other hand, our data show some tendencies of assimilation and blending of institutional logics across the traditional public and NPM-inspired logics divide. First, MOC CEOs and board chairs seem aware of their special role as public service providers. This may be interpreted as indicating an assimilated hybrid type at the system level. Second, to the extent that local politicians, appointed as board members act as spokespersons for the company in the municipal council or the executive committee, or advocate the owners' interest in the corporate board, this may indicate a blending of logics. However, based on our data, it is difficult to separate assimilation and blending processes. Within the VA integrated 1 and 2, we do not observe the same identity drift as in the MOCs. Instead, the VA staff perceive of themselves as municipal employees, although VA engineers in VA 1 have tended to “gold-plate” technical solutions, indicating a segmented hybrid type. However, the municipal CEO, exercising his formal power, intervened and terminated this practice. Finally, our findings indicate that cultural differentiation increases when we move from left to right in Figure 1, although not as “linearly” as we had expected.

7 | CONCLUSION

Does structural differentiation in local government, caused by corporatization lead to cultural differentiation? In line with classical organizational studies and the analytical framing in Figure 1, our findings indicate that this happens. Further, the speed at which it develops seems notable, given the idea of institutional inertia (Scott, 2014). We also observe on-going hybridization of local government, but this topic requires more in-depth studies. Although our multiple-case study provides some clues to causal relations between structure and culture (Stewart, 2012), we are reluctant to draw empirical generalizations. However, it may increase theoretical insight (Yin, 2018) and stimulate future research on the cultural

mechanisms seemingly linking structure and performance (Gerring, 2007). Although not based on a consequent longitudinal design, this finding reflects interviewees' perceptions of now and then, which possibly may be flawed by memory displacements. Our findings indicate that the ensuing identity drift may create various barriers for the authority's governance of public service-provision. We encourage further research on these issues. [Corrections added on 01 June 2021 after first online publication: The section headings in the original version of the article were incorrectly numbered. This updated version corrects the error.]

CONFLICT OF INTEREST

The author declares that there is no conflict of interest.

DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available from the corresponding author upon reasonable request. Tables for each case in English. Interview transcripts only in Norwegian.

ORCID

Dag Magne Berge  <https://orcid.org/0000-0002-7903-3416>

Harald Torsteinsen  <https://orcid.org/0000-0003-3757-2689>

ENDNOTES

¹ AS, abbreviation for “aksjeselskap” (limited company), IKS, for “interkommunalt selskap” (inter-municipal company) and KF, for “kommunalt foretak” (in-house company).

² Offentleglova, <https://lovdata.no/lov/2020-06-19-77>.

³ Within waste management, this principle applies only for household waste, not industrial waste.

⁴ On water and wastewater: <https://lovdata.no/lov/2019-03-08-5>. In addition there are numerous laws and regulations concerning this sector: <https://www.vannportalen.no/regelverk/lover-og-forskrifter/>. On waste: <https://lovdata.no/lov/2018-06-22-83> and <https://lovdata.no/lov/2019-06-21-54>

⁵ In Norwegian, “Representantskap.”

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