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**Doctoral Thesis**

State-owned Enterprises as Institutional Market Actors in the  
Marketization of Public Service Provision: A Comparative Case Study of  
Danish and Swedish Passenger Rail 1990–2015

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A COMPARATIVE CASE STUDY OF DANISH AND SWEDISH PASSENGER RAIL 1990-2015

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PhD School in Organisation and Management Studies

PhD Series 53.2016

**CBS**  COPENHAGEN BUSINESS SCHOOL  
HANDELSHØJSKOLEN

# State-owned enterprises as institutional market actors in the marketization of public service provision:

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*A comparative case study of Danish and Swedish passenger rail 1990–2015*

**Lene Tolstrup Christensen**

Supervisors:  
Carsten Greve  
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Doctoral School of Organisation and Management Studies  
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## Foreword

This work is the result of a long-lasting personal, academic and professional fascination with the inter-sphere between the public and private sectors. In 2008, I got my first job as a market consultant in the state-owned rail company DSB after graduating with an MSc in public administration and business studies. This company faced both public and private demands and introduced me to the ‘real world’ of tendering out, state-owned enterprises and the reality of arm’s length governance. I later worked as a consultant at Deloitte in various utility sectors that broadened my understanding of these issues. After five years of professional experience I was fortunate enough to get the opportunity to return to academia at the Department of Business and Politics at Copenhagen Business School. This three-year PhD project was conducted in the period November 2012 to September 2016 including eleven months of maternity leave. The results are Part 1, the introductory paper, and Part 2, the four articles.<sup>1</sup> Any mistakes are my responsibility, but this project could never have been realized without the many people who supported me along the way and made the last years so amazing both professionally and personally.

To all my dear colleagues, the great visiting scholars at the Department of Business and Politics and especially the ‘villa-people’: thank you for making everyday life a blast. I would like to express my gratitude to Lene Holm Petersen, Eddie Ashbee, Magnus Paulsen Hansen and Juan Ignacio Staricco, the members of the public policy and institutions research team and not least the PhD cohort who all engaged in my work on several occasions. Special thanks to visiting Professor John Campbell, who took the time during his annual visits to discuss my work, most recently at the closing seminar in April 2016, together with Professor Giuseppe Grossi. Last and not least I feel fortunate to have had Carsten Greve as my supervisor. I am grateful that you did not laugh, but encouraged me when I wanted to study your PhD theme from the 1990s – SOEs in marketization. Thank you for your curiosity about my project, your open door, your sharp comments, and your generosity both as a supervisor and as a colleague. You guided me on the sometimes challenging transition back to academia.

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<sup>1</sup> Two other papers were produced in this period together with Sophie Sturup (Sturup and Christensen, 2016; Christensen and Sturup, 2016), but are not included as they differ slightly in terms of focus and methodology.

The project was conducted as part of the SUSTAIN project under Innovation Fund Denmark and I will be forever grateful for the generous support from this set-up. It has been a pleasure to be part of a truly international, interdisciplinary and practice-oriented research project. Special recognition to all colleagues at DTU for their excellent cooperation, especially to my co-supervisor Claus Hedegaard Sørensen, who kept an eye on the railway part of the story, made detailed comments on my work and reminded me to take my holidays and make room for reflections. Thanks to Henrik Gudmundsson and PhD colleague in crime Yannick Cornet for your genuine interest in and engagement with my project.

Academia's international dimension is precious and something I have appreciated a lot. Thanks to Professor Graeme Hodge personally for your support on many occasions and especially as the Centre for Regulatory Studies at Monash University, Australia welcomed me in October–November 2014. Thanks to Stockholm Centre for Organizational Research (SCORE) for hosting me in May 2015 when I conducted the main part of my Swedish fieldwork. Special thanks to the research group on SOEs led by Staffan Furusten and to Professor Nils Brunsson for engaging with my work. Thanks to Gunnar Alexandersson from Stockholm School of Economics, who helped with the Swedish case. I am indebted to the Board of the International Research Society for Public Management for the great endorsement I felt halfway through the project when I received the prize for 'Best Paper by a New Researcher' at the IRSPM conference in March/April 2015. Lastly, thanks to Sophie Sturup for her great co-authorship and sharing of ideas on rail, PPPs and state ownership.

Finally, this project would not have been possible without the more than sixty civil servants, consultants, managers and employees in the Swedish and Danish passenger rail sectors who kindly shared their time with me. Thanks to all of you and especially to the former colleagues who opened doors that seemed closed at first. Thanks to Sara Dahlman and Kira Møller Hansen for transcribing my interviews; your help and comments were much appreciated.

And most important thanks to my wonderful family and amazing friends for your support, distractions and attention. None mentioned, none forgotten. Adrien, mon mari, merci pour ton soutien sans faille dans notre vie ensemble et aussi comme premier relecteur, manager du projet et compagnon de voyage en Australie et en Suède. Nola, du er vokset fra tanke til toårigt barn

undervejs. Du har lært mig, at perfekte skrive dage er en utopi, og du minder mig med kærlig stædighed om, at livet skal nydes her og nu. Projektet er dedikeret til jer mine to.

Copenhagen, 30 September 2016

Lene Tolstrup Christensen





## English abstract

This doctoral thesis (PhD) explores from a public governance perspective the role of state-owned enterprises (SOEs) in an era of marketization of public service provision and thus contributes to the renewed academic interest in contemporary SOEs. It builds on an explorative comparative case study of DSB SOV and SJ AB in the marketization of passenger rail in Denmark and Sweden respectively from the 1990s to 2015. In the period both cases kept full state ownership and Sweden gradually exposed all services to competition whereas in Denmark with time competition was put on hold. The case study consists of document study and +50 interviews and is based on a historical institutionalist perspective on gradual change that emphasizes interpretation in the implementation between rule makers and rule takers as a driver of institutional change. It leads to the conceptualization of the SOE as an **institutional market actor (IMA)**.

The PhD's two parts unfold the argument. **Part I the introductory paper** develops the theoretical foundations of the IMA by analytically distinguishing between internal and external marketization and by positioning the gradual change perspective in relation to three identified literatures on contemporary SOEs. The IMAs is thus defined as a corporatized 100 percent SOE that faces competition in former monopoly with a sectorial role evolving via actors' interpretations that bridges challenges in marketization. IMA creates analytical clarity about SOEs in public governance by focusing on their roles in marketization.

In **Part II the articles** present the case study. It contributes with new empirical insights about Denmark and Sweden and to the literature on hybridity in the public sector by reintroducing 100 percent SOEs and via analysis of hybridity as a temporal phenomenon. **Article 1** analyzes how a new SOE-model in mega projects was chosen in Danish transport infrastructure governance and became a new 'layer' on the existing agency-based infrastructure model that created path dependency and thus hampered the use of PPPs. **Article 2** shows in the Danish case how hybridity altered and evolved in the SOE analyzed as a hybrid mode of governance between hierarchy and market in marketization and how it led to re-centralization. **Article 3** analyzes, how the role of the SOEs evolved in external marketization wherein more 'layers' for public service occurred, that led to the SOEs becoming IMAs. Problems with the Danish SOE as market actor and interpretations on the national level 're-converted' the SOE towards the

historical SOE-role as formal sector coordinator. The Swedish regional transport authorities ‘displaced’ the historical role of the SOE leaving the SOE as market actor in ‘drift’, but with sectorial expectations on national level. **Article 4** shows how hybridity in the governance set-up between the state and the SOE evolved in internal marketization. Both countries ‘converted’ the SOEs to commercial companies before corporatization and the hybridity occurred as the sectorial role was ‘layered’ in market-based set-ups. The Danish SOE was ‘re-converted’ as the ‘layer’ expanded via actors’ interpretations. The Swedish hybridity was reduced as the ‘layer’ was dismantled, but continued informally.

## Dansk resumé

PhD-afhandlingen undersøger i et offentligt styringsperspektiv, hvilken rolle statslige selskaber (SES) har, når offentlige services markedsføres og bidrager herved til den voksende akademiske interesse i at forstå moderne SES. Afhandlingen består af et eksplorativt, komparativt case studie af danske DSB SOV og svenske SJ AB i markedsførelsen af passagertogtrafik i de respektive lande fra 1990 til 2015. I perioden har begge lande bibeholdt 100 % ejerskab af deres jernbaneoperatører, men hvor Sverige gradvist har markedsført al passagertogtrafik, er markedsførelsen i Danmark med tiden stoppet op. Casestudiet er baseret på et historisk-institutionelt perspektiv vedrørende gradvis institutionel forandring (Streeck and Thelen, 2005), der lægger vægt på ‘regelskaber’ og ‘regelmodtager’ fortolkninger, når reformer implementeres, som en driver for institutionel forandring. Bestående af dokumentstudier og +50 interviews fører casestudiet til konceptualiseringen af SES som **institutionel markedsaktør (IMA)**.

Argumentet om IMA udfoldes i PhD’ens to dele. **Del 1 afhandlingens ramme** præsenterer det teoretiske grundlag for IMA via den analytiske distinktion mellem ekstern og intern markedsførelse og ved at positionere perspektivet om gradvis institutionel forandring i forhold til tre identificerede nyere litteraturer om SES i markedsførelse. IMA defineres som et 100 % SES, hvis tidligere monopol er konkurrenceudsat. SES har en sektorrolle, der udvikles via aktørernes fortolkninger, og der løser sektorudfordringer, som opstår i markedsførelse. IMA skaber analytiske klarhed om SES i et offentligt styringsperspektiv ved at fokusere på SES rolle i markedsførelse.

Casestudiet præsenteres i **artiklerne i Del 2**, der bidrager med ny empirisk viden om Danmark og Sverige og til litteraturen om hybriditet i den offentlige sektor ved at genintroducere 100% SES og gennem en analyse af hybriditet som et temporært fænomen. **Artikel 1** analyserer, hvordan en ny SES-model blev valgt som styringsmodel i dansk infrastruktur på et kritisk tidspunkt, hvor offentlige private partnerskaber (OPP) begyndte at vinde frem i udlandet. SES var et nyt 'lag' på den eksisterende styrelsesbaseret infrastrukturmodel og skabte stiafhængighed for nye mega-infrastrukturprojekter, der derved vanskeliggjorde brugen af OPP. **Artikel 2** viser i den danske case, hvordan hybriditeten ændrede og udviklede sig i SES analyseret som en hybrid styringsform mellem hierarki og marked, hvilket førte til re-centralisering i markedsgørelse. **Artikel 3** analyserer, hvordan SES rolle udviklede sig i den eksterne markedsgørelse, hvor der blev skabt flere 'lag' for offentlige services, hvor SES blev en IMA. Problemer med den danske SES som markedsaktør og fortolkninger på det nationale niveau 're-konverterede' SES i retning af den historiske SES-rolle som formel sektorkoordinator. De svenske regionale trafikmyndigheder 'omplacerede' SES historiske rolle og efterlod SES som markedsaktør 'uden retning', men med forventninger til at tage et nationalt sektoransvar, som den ikke formelt havde. **Artikel 4** undersøger, hvordan hybriditeten i styringsformerne mellem stat og SES udviklede sig i intern markedsgørelse. Begge lande 'konverterede' SES til kommercielt selskab før den formelle selskabsdannelse, og hybriditeten opstod da SES sektorrolle overføres til et markedsbaseret 'lag'. Den danske SES 're-konverteredes' fra den kommercielle orientering via aktørernes fortolkninger. Den svenske hybriditet blev formelt reduceret, da det markedsbaserede 'lag' blev afviklet, men fortsatte uformelt for de kommercielle aktiviteter.



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# PART I

## 1. Introduction

The global financial crisis (GFC) put state ownership back as a theme in public policy and created renewed critical focus on privatization of state assets (Florio and Fecher, 2011, MacCarthaigh, 2011, Palcic and Reeves, 2013). State ownership in the Western world goes back to the nineteenth century (Farazmand, 2013b), and it had its heydays from the 1940s until the 1980s especially in the network industries (Lodge, 2002, Parker, 2003, Milward, 2011). With the so-called New Public Management (NPM) reforms (Hood, 1991, Christensen and Lægreid, 2011a, Pollitt and Bouckaert, 2011, Hood and Dixon, 2015) state-owned enterprises (SOEs) took centre stage (Christensen and Lægreid, 2003) in the transformation of the public sector. In the 1990s privatization of SOEs emerged in the EU owing to broader EU policies on liberalization of markets and government budget difficulties (Parker, 2003, Clifton et al., 2006). However, NPM reforms in general did not lead to the disappearance of all SOEs (Christensen and Lægreid, 2003) and, according to the OECD, SOEs continue to play a role in today's public sector including in situations of natural monopolies like railways and where recurring public policy objectives such as public service delivery are at play (OECD, 2014, OECD, 2015).

Nevertheless, SOEs slowly disappeared from the research agenda<sup>2</sup> (Florio and Fecher, 2011, Bruton et al., 2015, Grossi et al., 2015) as academic interest turned towards studying the dynamics caused by privatization of SOEs such as regulation (Levi-Faur and Jordana, 2004, Levi-Faur and Jordana, 2011), contracts (Kettl, 1993, Kettl, 2010), public-private partnerships (PPPs) (Skelcher, 2005, Hodge et al., 2010, Greve and Hodge, 2013) and networks (Koopman and Klijn, 2004, Osborne, 2010). However, this academic development paid little attention to the facts that outside the Anglo-Saxon world many SOEs were not sold off (OECD, 2014) and that, though reformed by business-like techniques (Wettenhall, 2001) and corporatized (Thynne, 1994, Thynne, 1998a), they continue to be a state activity – enterprises owned by the state (Thynne, 2011b). They even seem to be an alternative to market-based solutions like PPPs

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<sup>2</sup> Another example of this is the different editions of Owen E. Hughes' textbook *Public Management and Administration: An Introduction*. In the latest edition from 2012 the chapter about state enterprises is integrated into the chapter on 'Regulation, contracting and public ownership'.

(Christensen and Greve, 2013, OECD, 2015) and so it should be, according to some scholars (Wettenhall and Thynne, 2010, Thynne, 2011a, Del Bo and Florio, 2012, Bernier, 2014) that are revitalizing SOEs as policy tool for the state (Salamon, 2002). Second, they became actors that according to other scholars should be studied in their own right (Bernier, 2014, Bruton et al., 2015) and some of them in the new public markets created by the NPM reforms (Bergantino, 2015) which has led to ambiguous (Rentsch and Finger, 2015) and bi-directional (Paz, 2015) relations between the state and the SOE. Hence, they stayed state-owned under some kind of public scrutiny, but at the same time their activities moved towards contracts, partnerships, and so on under market regulation (Wettenhall, 2003b, Wettenhall and Thynne, 2011). For the SOE, this has created a situation where bureaucratic features of hierarchical control are combined with those of ownership relations and market mechanisms via contracts and other types of regulation (Thynne, 2011b, Thynne, 2013, Rentsch and Finger, 2015). As Florio and Fecher (2011) suggest, then, it might be time “to admit that we should learn again what they [SOEs] are, why they were created in the first place, [and] why some of them survive while others were wiped away by privatizations” (Florio and Fecher, 2011, p.362).

This calls for in-depth explorative case studies of SOEs and their development in marketization as the process through which previously state-provided goods and services are transferred to market-based arrangements (Flinders, 2010). Railways are regarded to have played a fundamental role in early capitalist development (Kennedy, 1991, Perrow, 2002) and in many countries have existed on the boundary of the public and private spheres, undergoing alterations between public control and unregulated markets (Sclar, 2005). This can therefore deliver insights into “contested conceptual frameworks for controlling economic activities ‘close to the state’” (Lodge, 2003, p. 2). In a European context, with modest success, the EU has been pushing for passenger rail reforms through a range of railway packages focused on creating competition and an internal market for passenger services by dismantling the national transport monopolies – SOEs – through outright divestment, separating the companies or contracting out their activities (Alexandersson, 2009, Dyrhauge, 2013, Finger and Holvad, 2013, Finger, 2014, Finger and Messulam, 2015b). Both the regulation scholars (Finger and Messulam, 2015b) and the transport policy scholar (Dyrhauge, 2013) agree that the SOEs are acting as blocking incumbents and that they still have political influence (Bergantino, 2015).



In Sweden and Denmark the market reforms of passenger rail and public transport in general were inherently reforms of the SOE which activities were so broad that they were encompassing the industry itself (Longva et al., 2005, Sørensen, 2005, Olsen, 2007, Alexandersson and Hultén, 2008). Some activities were sold off and the SOEs became passenger rail operators while at the same time both countries changed the regulation of their passenger rail sector that made it possible for new companies to enter and thus created a market on competitive terms (Longva et al., 2005, Alexandersson, 2010) aligned with the regulation of the European Union (Dyrhaug, 2013, Bergantino, 2015). Contrary to the normal perception of the two countries as belonging to a similar Scandinavian model (Esping-Andersen, 1990, Hall and Soskice, 2001, Pollitt and Bouckaert, 2011, Greve et al., 2016), with Denmark as slightly more market-oriented (Campbell and Pedersen, 2007), the Swedish market for passenger rail is moving towards ever more competition (Alexandersson, 2010, SOU, 2013, SOU, 2015), whereas the Danish government has decided to put competition on hold (Danish Minister of Transport, 2011, OECD, 2013, Christensen, 2015b). In both countries, however, the SOEs are still 100 percent owned and dominant market actors. A comparative case study of the SOEs in marketization in the two countries as polar cases within a Nordic perspective can thus contribute to advancing our empirical and conceptual understanding of the role of contemporary SOEs in public governance.

This PhD contributes to the public governance literature in more ways. First, the PhD suggests the concept of the ‘institutional market actor’ (IMA) to understand contemporary SOEs as an important, but forgotten part of public policy and administration (Florio (ed.), 2013, Grossi et al., 2015) as they play a crucial role in delivering infrastructure and services. An IMA is a corporatized 100 per cent owned SOE that is governed in an ownership relationship and is faced with competition on its former monopoly because of external marketization. The SOE has a market- or network-based sectorial role that stems from its historical and political legacy, which bridges sectorial challenges occurring from external marketization. The sectorial role evolves formally and informally via sectorial actors’ interpretation. This concept is based on the perspective of gradual change (Streeck and Thelen, 2005, Mahoney and Thelen, 2010, Hacker et al., 2015, Conran and Thelen, 2016) that allows for an integrated analysis of the SOE as both a policy tool and an *object of marketization*, but also as a market actor an *subject in marketization*<sup>3</sup> by emphasizing the implementation of reforms and the role of actors (Streeck

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<sup>3</sup> Thanks to Juan Ignacio Staricco for the object/subject distinction

and Thelen, 2005) who interpret the inherent gaps in institutions (Mahoney and Thelen, 2010) and thus enable institutional change. This leads to the second contribution, as this institutional perspective studying of SOEs allows us to understand hybridity in public governance (Christensen and Læg Reid, 2011c, Denis et al., 2015) on both a governance and an organizational level over longer periods of time and shows hybridity as an ongoing concern and not a temporary phenomenon. Finally, the cases bring new empirical insights from two important Nordic countries that have a history of state ownership, but where case studies about contemporary SOEs are few (Alexius and Örnberg, 2015, Bruton et al., 2015, Grossi and Thomasson, 2015).

## 1.1 Research questions

Overall, the calls for and recent focus on a better understanding of contemporary SOEs in public governance highlight the importance of exploring the evolving role of SOEs in the marketization of public service delivery where they serve both as policy tools for the state and as market actors in the markets of public service provision. In the case of passenger rail there is a constant focus on the market as a solution to improve public service delivery via competition, contracts and commercialization. However, whereas the formal institutional framework is lined up to realize this political vision, SOEs stay a central part of the set-up. The research question and sub-questions for the PhD are as follows:

<b>What is the role of state-owned enterprises in an era of marketization of public service provision?</b>
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- |  |
|--|
| <ul style="list-style-type: none"><li>- How has the internal marketization of passenger rail influenced the modes of governance between the state and SOEs in Denmark and Sweden between 1990 and 2015?</li><li>- How have SOEs been engaged as market actors in the external marketization of passenger rail in Denmark and Sweden between 1990 and 2015?</li></ul> |
|--|

To answer these questions the PhD applies an explorative research strategy where an in-depth comparative case study of Danish and Swedish passenger rail contributes empirical knowledge of the role of SOEs in the specific sector. This leads to analytical generalizations about the role of contemporary SOEs via the historical institutionalist perspective on gradual change (Streeck and Thelen, 2005). By using gradual change as an analytical lens the ambition is to study *how*

reforms are implemented by important actors and *not why* the reforms were passed as other branches of historical institutionalism focus on. By doing so, the PhD seeks to give more space and analytical leverage to the SOE as an actor in its own right – a ‘rule taker’ – and thus contribute to the current academic discussion on the role of contemporary SOEs. Paying attention to implementation has also led to a focus on the important ministries as ‘rule makers’ in internal and external marketization and not on the politicians or other coalitions behind the reforms. The focus is on the important relationships within the implementation of the reforms, which in the Danish case are the Ministry of Transport and the SOE and in the Swedish case are the SOE and the Ministry for Enterprise and Innovation, and the SOE and the regional transport authorities.

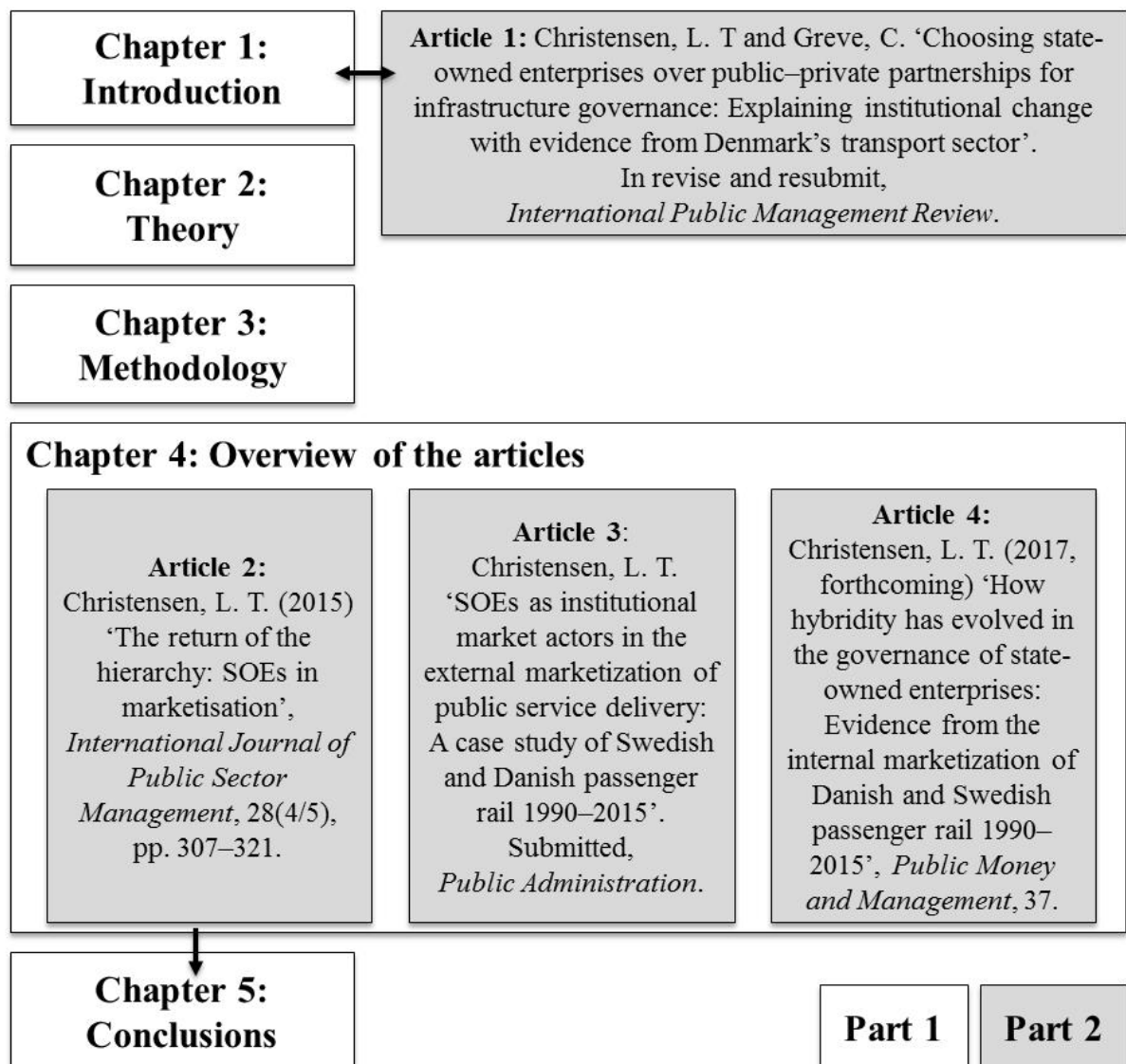
To explore the role of the SOE the first sub-question asks about internal marketization as corporatization, focusing more on the policy tool part of the SOE from the state’s point of view and questioning arm’s length ownership. The second sub-question explores the new role of the SOE as a market actor in the new public markets based on external marketization as liberalization of its former activities. However, they are interrelated: the SOE is an actor in internal marketization as a ‘rule taker’ of, for example, ownership policies and in external marketization it is also a policy tool as it takes on a coordinating role for the ‘rule maker’.

The explorative comparative case study focuses on passenger rail and not freight, buses or other modes of transport. This is because the case study is based on by purpose selection and here passenger rail is very fruitful for exploring SOEs in marketization as the SOE is still dominant in public service delivery despite market reforms. Article 1 deals on an overall level with all modes of transport in Denmark, but passenger rail was chosen to conduct the in-depth comparative study from the beginning of the 1990s in two countries. Following this line Denmark and Sweden were chosen as representative of the Nordic countries. Norway was not included as when the study commenced there was no direct focus on marketization of the passenger rail sector (Norwegian Ministry of Transport and Communications, 2015). The Finnish case was not chosen because of lacking language skills as it would not have been possible to do an in-depth case study based on both documents and interviews.

## 1.2 The structure of the PhD thesis

The PhD has been conducted as a paper-based dissertation and this Part I is the introductory paper that presents the overall and elaborated theoretical and methodological framework and conclusions. As my work throughout the period has been focused on the articles of this PhD, some elements of the introductory paper will be new, others will be further elaborations from the articles and again some aspects might be more detailed in the articles. The Figure 1 presents the relationship between the introductory paper and the articles. In this **Chapter 1** the relevance, puzzle and research questions of the PhD have been presented. Article 1 is related to the puzzle as it both reflects my research process, being the first article I wrote, and situates my research field empirically and theoretically within the broader research agenda on public–private interfaces in the public governance literature. The paper focuses on all modes of public transport and infrastructure. In **Chapter 2**, I present a literature review of the existing literature on SOEs in marketization and flesh out the analytical framework for analyzing SOEs as institutional market actors. This is done first by analytically separating marketization in relation to SOEs as two distinct but interrelated dimensions of internal and external marketization and next by identifying and discussing three different literatures to understand the current debate about contemporary SOEs in marketization. I argue that the historical institutionalist perspective on gradual change can overcome some of the gaps in the current literature on SOEs both as hybrid organizations and as a hybrid governance mode in public–private mixes in public governance. In **Chapter 3**, the methodology section, I suggest a way of analyzing SOEs as institutional market actors and explain the relevance of an explorative comparative case study as a research strategy and how it has been conducted in the two cases of Swedish and Danish passenger rail. Then the relationship between the articles is presented in **Chapter 4**, which includes an abstract and the publication plan for each article. After that, **Chapter 5** presents the contributions in term of the findings from the comparative case study and the concept of the institutional market actor. The four articles are found in full length in Part II.

Figure 1 Overview of the PhD and the relationship between Part I: Introductory paper and Part II: Articles



## **2. Theorizing SOES in marketization**

Marketization of public service delivery is often related to questions of NPM reforms (Hood, 1991, Christensen and Lægreid, 2011a, Hood and Dixon, 2015), broader themes of liberalization (Hodge, 2000, Parker, 2012) and de-regulation of state activities (Levi-Faur and Jordana, 2004, Levi-Faur and Jordana, 2011, Baldwin et al., 2012), and the introduction of new organizational forms (Kettl, 1993, Skelcher, 2005, Hodge et al., 2010, Verhoest et al., 2012) and coordinative practices (Salamon, 2002, Koopenjan and Klijn, 2004, Osborne, 2010). SOEs were the “battleground of modern reforms” (Christensen and Lægreid, 2003, p. 803), but what the abovementioned perspectives do not dwell on is the question of what happens with SOEs over time in the marketization of public service delivery and as such SOEs have been almost absent from the research agenda in the last decades (Florio and Fecher, 2011, Thynne, 2011a, Bruton et al., 2015, Grossi et al., 2015).

Using a comparative case study of SOEs in Danish and Swedish passenger rail this PhD seeks to contribute to the renewed academic interest in contemporary SOEs by closing this gap and conceptualizing SOEs as institutional market actors (IMAs) that arise in marketization because of the duality of the reforms where SOEs are corporatized in *internal marketization* on one hand and on the other hand where their former monopoly activities are liberalized in *external marketization* while they become market actors in these new public markets.

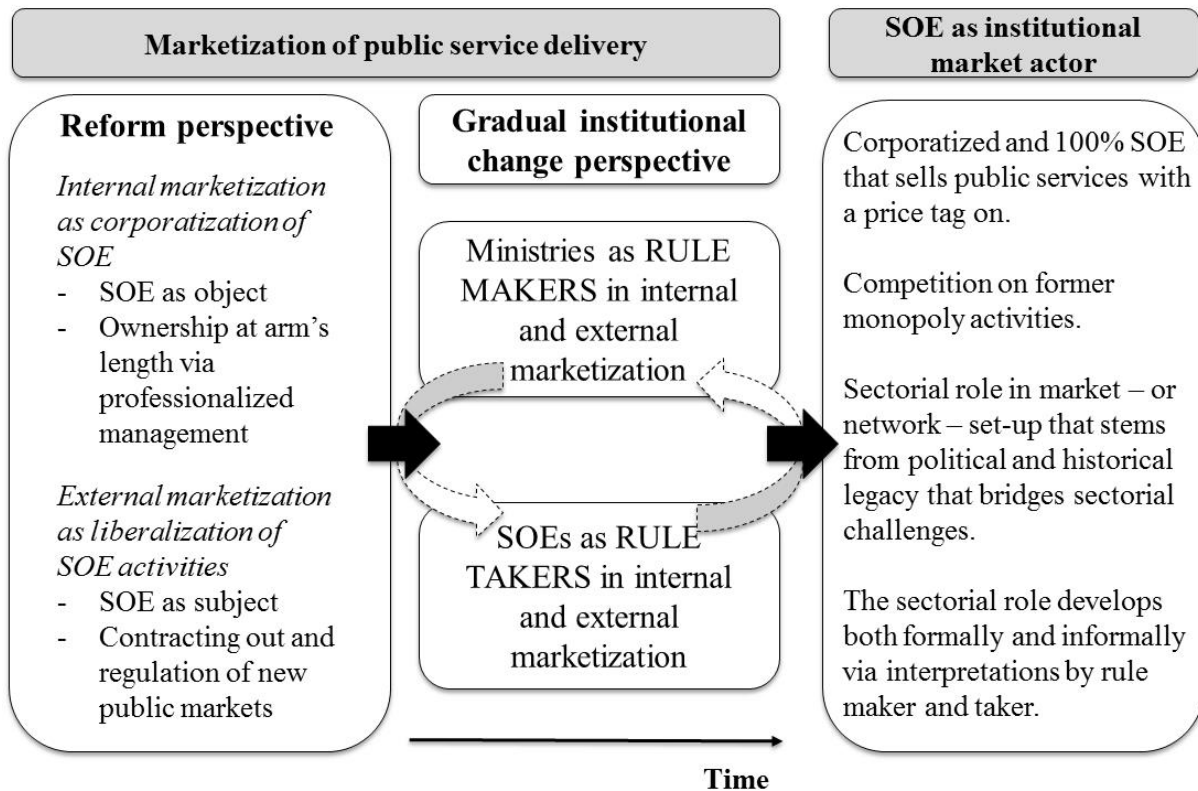
The IMA is defined focusing on four dimensions:

1. The SOE has obtained economic and judicial independence via internal marketization as corporatization, acts on commercial terms and sells services with a price tag on, and is governed via a 100 per cent ownership relationship with the state.
2. The SOE faces competition in its previous monopoly on public services because of external marketization and thus also has a relationship to the state as a market actor.
3. The SOE has a sectorial role of serving policy purposes for the state that stems from its historical and political legacy as a former monopolist that is transformed into market-based arrangements and network arrangements where the SOE has a special position of bridging the challenges that occur in external marketization.
4. The sectorial role develops both formally and informally via interpretations by primarily the state as rule maker and the SOE as rule taker, but also via other sectorial stakeholders in the sector via institutionalized expectations based on historical and political legacy.

The SOE as IMA extends the historical (Thynne, 1994, Wettenhall, 2001, Milward, 2011) and contemporary (Thynne, 2011a, Del Bo and Florio, 2012, Bernier, 2014) conceptualization of SOEs as policy tools for the state (Salamon, 2002) or as hybrid market actors in commercial markets (Bruton et al., 2015). It does so by focusing on the SOE as an actor in public governance (Bernier, 2014) and in line with Paz (2015) that shows the importance of the ‘bi-directional’ relationship between the SOE and the institutional framework over time in the Brazilian case of Petrobras, and the ‘ambiguous relations’ between SOE and state as pointed to by Rentsch and Finger (2015) in the context of European utilities in France, Switzerland and Germany. The two latter apply a rational choice-based approach to their analysis and therefore strand when the relationships between the state and the SOE are more than principal–agent relationships (Thynne, 2011a) and when political institutions and history matter. This seems especially important in a public sector context. By applying a gradual change approach (Streeck and Thelen, 2005) where institutions are gradually changed by the actors’ interpretations as being both strategic interest seeking, puzzling when bureaucrats test a limited set of ideas (Blyth, 2007) and meaning-making (Hall, 2010, Borrás and Seabrooke, 2015), the PhD shows the importance of studying the institutional context of SOEs in marketization, but also to emphasize the SOE as a rule taker when understanding contemporary SOEs.

To outline the theoretical foundations for the conceptualization of SOEs as IMAs, the chapter is divided into three sections. First, the analytical distinction between internal and external marketization is elaborated. Second, three perspectives of contemporary SOEs are unfolded. Third, the last section presents the perspective on gradual change within a historical institutionalist perspective. Figure 2 illustrates the theoretical conceptualization of the IMA.

**Figure 2 Theoretical conceptualization of the SOE as an institutional market actor**



## 2.1 Internal and external marketization of public service delivery

Over the last thirty years the public sector across most of the world has been undergoing reforms (Christensen and Lægreid, 2011a, Pollitt and Bouckaert, 2011, Van de Walle et al., 2016). When studying SOEs in marketization the most influential have been those Christopher Hood (1991) famously named New Public Management reforms (Hood and Dixon, 2015). Consisting of a range of doctrines for public sector reformers to choose from (Christensen and Lægreid, 2011d) these kinds of reform emphasize engagement with the private sector not only as a provider of services, but also as inspiration for internal reforms through the introduction of business-like techniques in public sector management (Pollitt and Bouckaert, 2011). Margretts and Dunleavy (2013) point to three macro themes of NPM that have been especially influential:

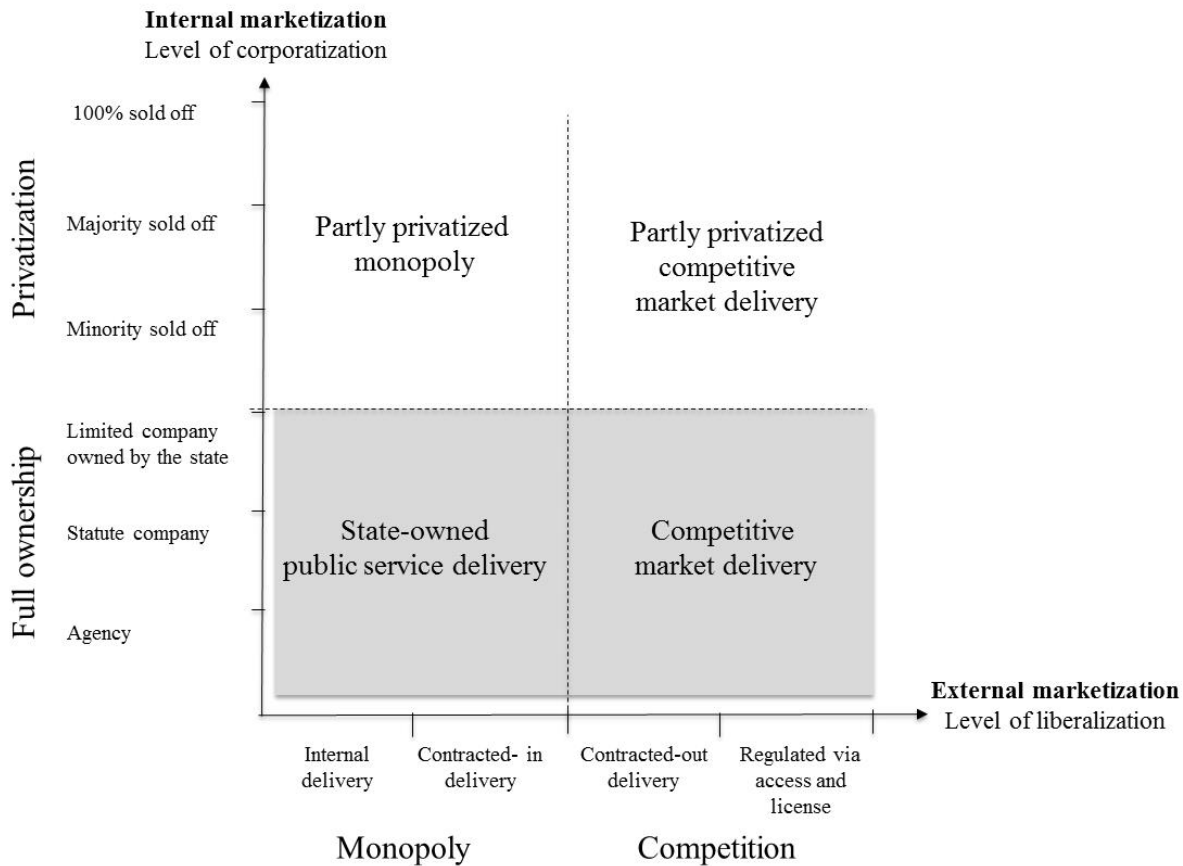


1. *Disintegration* of large bureaucracies into agencies including quasi-government agencies and introduction of purchaser–provider relationships within public administration.
2. *Competition* that moves away from bureaucratic monopoly providers and introduces alternative suppliers.
3. *Incentivization* that involves the design of economic and pecuniary motivations for actors and organizations through, for example, performance-related pay and user charges (Margretts and Dunleavy, 2013, p.3-4).

This leads to the question posed by Florio and Fecher (2011) about what actually happened to the SOEs that were not sold off. In this PhD, where the focus is on the role of SOEs in the marketization of public service delivery, marketization is defined as: “*the process of taking goods and services that were previously provided by the state and transferring them to a form of market-based arrangement*” (Flinders, 2010, p.116).

Thus follows Christensen and Lægreid (2011d) focus on marketization as a process, but with Hermann and Verhoest (2012) emphasis on distinguishing different elements. To understand the nuances of marketization when it comes to SOEs, this PhD argues that there is a need to analytically distinguish between the internal and the external reorganization of the state that the ideal of NPM inspired reforms can be seen as prescribing. This argument is elaborated in the following paragraph and shown in Figure 3.

**Figure 3 Internal and external marketization of public service delivery**



### Internal marketization

Internally, NPM inspired reforms led to new organizational forms such as agencies at arm's length from politics (Verhoest et al., 2012) and so-called quangos (Greve et al., 1999, Flinders and Skelcher, 2012, Van Thiel, 2012) or what could be termed corporatized SOEs (Wettenhall, 2001). NPM directed the focus on to performance in the public sector and a preference for lean, small and specialized so-called disaggregated organizational forms over large and multi-functional forms (Hood, 1991) with a high degree of autonomy in agencies and SOEs combined with single purpose specialization such as ownership, purchasing, regulation *or* provision (Christensen and Lægreid, 2011d, Thynne, 2011a). This meant that SOEs' former political and coordination tasks were moved to agencies (Verhoest et al., 2012) as part of de-politicization. Next to that many SOEs were influenced by this specialization and disintegration as part of the corporatization and modernization of the former SOEs, giving them more autonomy and promoting commercial reorientation (Wettenhall, 2001). The companies were granted economic and juridical independence (Van Thiel, 2012) and ownership was governed via independent

boards of directors and managers. This was combined with a managerial focus professionalizing the relationship between the government and the companies and delegation of authority and autonomy to the public managers (Christensen and Lægreid, 2003). This included not only giving discretionary room for managers to actually manage their organizations, but also creating incentives for managers to manage (Pollitt and Bouckaert, 2011). Performance management along with cost-cutting and budgetary discipline became a third strand of the managerial focus (Christensen and Lægreid, 2011d). This was combined with a move from governing through policies to performance management (Pollitt and Bouckaert, 2011) focusing on commercial objectives (Wettenhall, 2001).

In this PhD, internal marketization is the process of corporatization of SOEs (Wettenhall, 2001), stressing the move from hierarchal orders towards state-ownership policies at arm's length via independent boards of directors and managers with economic and juridical independence (Van Thiel, 2012) also including commercialization and de-politicization.

Within the NPM reforms, privatization of SOEs was also on the agenda as outright divestment of assets or shares (Hodge, 2000, Parker, 2003, Parker, 2012) with internal marketization covering the process that can lead to SOE privatization (Thynne, 2011a) and mixed ownership (Bruton et al., 2015). However, when an SOE is 100 per cent privatized it is no longer part of the state and is thus not part of corporatization as internal marketization, although it does remain an actor to be regulated within external marketization. It is the fact that SOEs are still part of the state although transformed to ownership relationships that allows us to understand them as a specific mode of governance (Christensen, 2015b) and policy instruments for the state (Thynne, 1994, Thynne, 1998a) in marketization (Thynne, 2011a) and hence objects or tools for the state in reforms (Salamon, 2002). This PhD focuses only on 100 per cent state-owned companies (the grey area in Figure 3), which are sometimes termed agencies (Van Thiel, 2012), but, as MacCarthaigh (2011) notes, while SOEs might have the organizational characteristics of an agency, they conduct their activities in a commercial way in which “they provide price tagged goods and services in order to make profits and to finance themselves” (Farazmand, 1996, p.15). Their economic and judicial independence also provides SOEs with independence in their relationships to the state (Thynne and Wettenhall, 2004) in internal marketization, which becomes even more evident in external marketization.

## **External marketization**

Externally, NPM encompassed a move towards contracts (Kettl, 1993) as opposed to hierarchical relations or direct government (Leman, 2002) as an organizational principle and coordinating device treating service-users not as citizens, but as customers (Hood, 1991, Pollitt and Bouckaert, 2011). As such, public markets for contracts including public service delivery were created and led to what Salamon (2002) called ‘third party government’ where private actors perform the tasks of governments on contracts (Kettl, 1993, Skelcher, 2005, Kettl, 2015). In line with this, Christensen and Lægreid (2011d) point to three interrelated but distinct reform measures – marketization, competition and privatization – related to the (re-)organization of service provision. They describe marketization as the process of privatization of services if the public sector cannot improve them where competition and competitive tendering are means to accomplish this. Thus contracting out is also privatization, which is in line with Hodge (2000). Hermann and Verhoest (2012) separate the three dimensions, as they refer to liberalization as the introduction of competition or competitive tendering and focus especially on the EU creating European single markets through competition. Privatization is the partial or full change from public to private ownership through sales of assets. Marketization is defined as the introduction of market elements into the provision of public services, but not through competition between providers; rather, as, for example, internal reorganization (Hermann and Verhoest, 2012), which in this PhD is internal marketization.

In this PhD external marketization is the creation of a market for public service delivery outside the SOE based on its former activities. This has to do with challenging the monopoly that SOEs have had (Farazmand, 1996, Parker, 2003) through what Hermann and Verhoest (2012) call liberalization via competition and in public service delivery competitive tendering and contracting out that create a situation for the government to govern on contracts (Kettl, 1993, Kettl, 2010) with external providers (Alford and O'Flynn, 2012).

It creates a set-up in which the contracts are institutionalized as a market-based way of governing where the state has the roles of purchaser of services, contract manager and market regulator (Baldwin et al., 2012, Rentsch and Finger, 2015). Where the ideal and classic perception of contracting out is the situation where the third parties are private actors (Hood,

1991, Skelcher, 2005, Kettl, 2015) what is central when understanding SOEs in marketization is that the contract arrangement can occur with other public organizations (Hodge, 2000) that become external providers in public service delivery (Alford and O'Flynn, 2012). So what happens is that some of these modernized and professionalized SOEs as a result of *internal marketization* become market actors and thus *subjects in reforms* in these new public markets based on contracted-out services of their own activities as a result of *external marketization*.

However, in the case of passenger rail there are both tendered contracts (contracted-out) and negotiated contracts (contracted-in) focusing on the public service obligation. Though they are named contracts about public service delivery and thus part of external marketization, negotiated contracts are different from contracted-out contracts in tender rounds because they are not exposed to competition, but are contracted in via negotiations between two public organizations (Ejersbo and Greve, 2002), in rail the incumbent SOE. Thus they can be seen as relating to both internal and external marketization. They are not legally binding, but are politically settled and governed. It is the government ministry and not a third party that settles any disputes. However, as they are related to definitions of their activities, for example, service levels, they are here categorized as external marketization as the process towards liberalization of the former activities of the SOE. The empirical analysis in articles 2, 3 and 4 suggests that these contracts are an example of how the historical sectorial role of the SOE is marketized and thus they can be seen as part of the hybridity of the SOE. This goes for internal marketization, but even more interestingly is an example of when the SOE is used as an object by the government *next* to the market actor role on other types of tendered contract in external marketization.

**Table 1 Elements of internal and external marketization for SOEs**

	<b>Historical governance of SOEs</b>	<b>Internal marketization</b>	<b>External marketization</b>
<b>Public governance</b>	Direct government and traditional public administration	Part or full ownership of a company	Contracting in and contracting out of public services
<b>Main actors</b>	Parliament, minister and SOE	Minister as owner, ministry and SOE	Regulatory and procuring authorities and market actors
<b>Components</b>	Direct orders and commands  Policies on the political and societal objectives for the SOE	Ownership at arm's length via independent management  Ownership policies  Potential privatization  Company laws and articles of association	Contracting out of services  Authorizations or licences  Sector regulation and competition law
<b>Organizational principles</b>	Statute-based SOE  SOE integrated organization  Political and coordination tasks for the sector in the SOE	Economic and judicial independence  Specialization and disintegration of the organization  Political and coordination tasks in agency	Contracts that define services and obligations towards the sector  Special service obligation on contract basis on negotiated contracts
<b>Finance</b>	State subsidy on the Finance Act  Public spending and user payment	Commercial activities via customer payment	Public payment for contracted-in and contracted-out services combined with customer payment

### **Marketization post NPM**

In the aftermath of NPM, it is still contested whether the drivers for the reforms were more ideological than efficiency driven (Christensen and Lægreid, 2011b, Hood and Dixon, 2015). The influence has been substantial, but different countries followed their national trajectories at different paces (Christensen and Lægreid, 2011b, Pollitt and Bouckaert, 2011, Greve et al., 2016, Van de Walle et al., 2016). This also goes for the SOES. Anglo-Saxon countries were once the leaders of SOE reforms (Wettenhall, 2001, Wettenhall, 2003a) when other countries in both developing countries and Europe kept ownership (Farazmand, 2013b, OECD, 2014). Over time, governments have tried to bridge the problems caused by the disintegrated and market-oriented paradigm (Christensen and Lægreid, 2011b), but there is an acknowledgement of hybridity in public governance both conceptually and empirically that needs clarification (Christensen and Lægreid, 2011c). Two approaches have been suggested within a reform perspective (Pollitt and Bouckaert, 2011): New Public Governance (Osborne, 2010) and New Weberian State (Pollitt and Bouckaert, 2011).

The understanding of networks and the inclusion of various actors in policy making and implementation (Koopman and Klijn, 2004) have been important and could be seen as responses to NPM that led to the ideas of New Public Governance (Osborne, 2010) that stress a plurality of actors and trust as an important coordinating mechanism in today's public governance. An example is that contracting out has been revisited via the concept of public-private partnerships in a way that focuses on cooperation between public and private to overcome classical principal-agent contractual behaviour through risk sharing over a longer period of time (Skelcher, 2005, Hodge et al., 2010, Hodge and Greve, 2013). This also goes for SOEs where there is a realization of various societal stakeholders externally in a governance perspective (Yeung, 2005, Farazmand, 2013b, Thynne, 2013). According to Wettenhall (2003a), the plurality of actors and organizational forms challenges the organizational typology in which SOEs historically have been seen as the distinct 'third' sector next to national and local government and he argues that the development of NPM reforms excludes commercial activities from the "mental construct" (Wettenhall, 2003a, p. 234) of the public sector despite the fact that governments might be heavily involved. The recent call for attention to contemporary SOEs as 'hybrid organizations' (Bruton et al., 2015, Grossi et al., 2015) can thus be seen as an attempt to resituate SOEs in a governance perspective in the 'third' sector because of mixed ownership structures where the government jointly owns SOEs with private partners (Thynne, 2011a, Bruton et al., 2015, Grossi and Thomasson, 2015). This led to the understanding of SOEs as hybrid organizations that emphasize legal structures as drivers of hybridity and not only because of diverging commercial and public objectives (Thynne, 1994) or governance matters (Bruton et al., 2015). This perspective thus opens up a more actor-oriented understanding of SOEs as *subjects*.

Another way to conceptualize post-NPM reforms is via Pollitt and Bouckaert (2011) New Weberian State, which emphasizes the special role and virtues of the state in public management that were to some extent neglected in the early years of NPM (Christensen and Lægreid, 2011d). This is also brought forward as one of the tendencies in the newest comparative books on public administration reforms in Europe (Greve et al., 2016, Van de Walle et al., 2016). It is also in line with the realization that NPM has not led to de-regulation, but to re-regulation (Hermann and Verhoest, 2012) through which the role of the state has become that of a regulator among other transnational actors in a poly-centred reality (Levi-Faur, 2012) and that the efficiency gains have

not been as promised by the early agitators of the reforms (Hood and Dixon, 2015). On a national level the government, in what has been termed the post-NPM era (Christensen and Lægreid, 2011b, Christensen and Lægreid, 2011c), has been trying to regain political control (Christensen, 2012, Dommett and Flinders, 2015) and to reintegrate and merge agencies (Christensen and Lægreid, 2011b, Flinders and Skelcher, 2012) to overcome the coordination problems caused by a disintegrated specialized public sector. In this light the rediscovered interest in SOEs can be seen as a call to *reidentify* SOEs as legitimate policy tool (Thynne, 2011a, Wettenhall and Thynne, 2011, Del Bo and Florio, 2012, Florio (ed.), 2013, Bernier, 2014) for both academics and practitioners. The financial crisis has additionally been named as a factor that redirected the focus towards state ownership in terms of both re-nationalization and privatization (MacCarthaigh, 2011, Florio (ed.), 2013, Palcic and Reeves, 2013). Hence, this call emphasized SOEs as *objects* for the state in public administration reforms.

Where this section has focused on how marketization has influenced SOEs, the next section will elaborate on what different branches of contemporary literature say about SOEs of today to flesh out a conceptual framework for the study of SOEs as IMAs where there is also a focus on the way in which SOEs influence marketization as actors (Bernier, 2014, Paz, 2015, Rentsch and Finger, 2015) or rule-takers (Streeck and Thelen, 2005).

## **2.2 Three perspectives on contemporary SOEs**

The origins of the state ownership of SOEs have historically been to secure growth in situations with lack of market or to take over activities from the markets for strategic reasons (Wettenhall, 1998, Farazmand, 2013a). In addition to this, Milward (2011) adds broader concerns of social and political unification and national defence as crucial motivations for former state ownership. Hence, SOEs had broader societal functions for the state and could be seen as policy instruments for the state to obtain social and economic goals (Thynne, 1994, Thynne, 2011b). As Lodge (2002) points out, public ownership and undertakings were as natural in public administration as privatization became in the 1980s and 1990s by its advocates. Over time academia lost interest in SOEs across all disciplines, as shown rigorously in literature reviews by Bruton et al. (2015) in the area of management studies, in the area of public economy by Florio (ed.) (2013) and in the area of public governance in terms of how state ownership has disappeared from textbooks on public management by Hughes (Hughes, 2003, Hughes, 2012). There is, however, a renewed interest across social science disciplines in this area and in the following I have divided the



literature into three strands based on theoretical focus and discipline. First there is **‘public economy and regulation: revitalizing the SOE as an economic tool’** led primarily by Massimo Florio (Florio and Fecher, 2011, Florio (ed.), 2013, Florio, 2014a) and focusing on the SOE as an economic tool combined with the regulation literature on rail by Matthias Finger (Finger and Holvad, 2013, Finger, 2014, Finger and Messulam, 2015a, Rentsch and Finger, 2015) that explores especially external marketization. The second strand, which I term **‘management studies: SOEs as organizational hybrids’**, focuses on resituating the SOE in the area of management studies, as shown by Bruton et al. (2015). The last strand is **‘public policy and organization: SOEs as a policy tool within a governance perspective’** and is based on the prominent work of Roger Wettenhall (Wettenhall and Thynne, 1999, Wettenhall, 2001, Wettenhall and Thynne, 2002, Wettenhall, 2003a, Wettenhall and Thynne, 2010, Wettenhall and Thynne, 2011) and Ian Thynne (Thynne, 1994, Thynne, 1998a, Thynne, 1998b, Thynne and Wettenhall, 2004, Thynne, 2011a), but has also been taken on by scholars from public management who are trying to revitalize the agenda within public management (Grossi et al., 2015, Grossi and Thomasson, 2015). The three strands share the same ambition to stimulate a new academic interest in SOEs as a research field and acknowledge the need for both theoretical and empirical studies in this field, but they differ in approach and focus and rarely relate to each other’s work.<sup>4</sup> The identification and analysis of these three strands of literature contribute with a focus on SOEs in marketization to two academic discussions: 1) in relation to marketization by bridging public policy and management and, on the other side, the (utility) regulation literature that is rarely combined (Bartle, 2011); and 2) in relation to SOEs and hybridity by contributing to the call of combining organization studies with public governance (Rhodes, 2007, Arellano-Gault et al., 2013, Bozeman, 2013, Denis et al., 2015).

### **Public economy and regulation: Revitalizing the SOE as an economic tool**

The first strand of literature is what is here termed the public economy and regulation literature. It is actually two separate strands of literature, but with the call to understand contemporary SOEs the literatures have been merged in several special issues (Florio and Fecher, 2011, Florio (ed.), 2013, Florio, 2014a). Next to this, despite a call for interdisciplinary work (Florio and Fecher, 2011), the literatures are primarily based on economic theory or rational choice and are published in public economy journals. The (utility) regulation literature has in relation to

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<sup>4</sup> The public management scholars in the third stream refer to the second stream, which will be described in the following sections.

marketization been focusing on how to regulate the markets that have developed because of liberalization of the activities of SOEs, hence external marketization. The focus has been primarily on the network or utility industries with a strong economic accent that focuses on the regulatory challenges within each sector (Hughes, 1998, Hughes, 2003, Milward, 2011, Baldwin et al., 2012, Florio (ed.), 2013). In the case of passenger rail, the systemic limitations of the rail network as classic natural monopoly are central (Sclar, 2005, Finger and Messulam, 2015b). However, the service side is about liberalization through competition either *for the tracks* in terms of tendered contracts or *on the tracks* in terms of open access where the competition is for slots/rail access on commercial lines and in rare cases building parallel rails (Baldwin et al., 2012, Finger, 2014). The normative is to create a well-functioning market where ownership is discussed as the need for vertical separation of activities (Lang et al., 2013) and de-politicization focusing on the creation of independent sectorial agencies (Finger and Messulam, 2015a). There is also a part of this literature that discusses marketization and ownership and questions whether privatization as private monopoly will automatically lead to better efficiency gains for the public sector (Willner and Parker, 2007), but also concludes that ownership has to be followed by de-politicization as financial independence and a strong regulatory set-up (Koppel, 2007).

In the latest call to focus on SOEs, the ambition has been to reintroduce SOEs as an alternative to privatization (Florio (ed.), 2013), a tool of economic policy (Florio and Fecher, 2011, MacCarthaigh, 2011, Florio, 2014a) that might have a legitimacy of its own as an alternative to what is called a ‘neo-liberal agenda’ where the new public markets can be characterized as ‘regulated mixed oligopoly’ with few players and limited regulation (Florio and Fecher, 2011). As an answer to the quest to understand contemporary SOEs (Florio and Fecher, 2011), Florio (2014b) argues that SOEs have survived because of their financial performance, because they play an emergency role for the state in societal crises, because of privatization reversal on a local level and finally because they have expanded internationally. It is stressed that when understanding contemporary SOEs in this light we must go beyond narrow performance measures (in a comparison with the private sector) and include broader political and social issues (Florio and Fecher, 2011). However, when conceptualizing the SOE from a welfare economic approach based on social cost–benefit analysis, Del Bo and Florio (2012) undertake a theoretical comparison with a private alternative under procurement. They suggest that the institutional set-up is important to enable the important actors, that is, the politicians, to design and implement meaningful policies. In this light neither the public administrators nor the

managers are important actors even when they adopt suboptimal plans. Where these approaches focus on the government perspective in choosing the optimal economic policy tool, there is a strand that also incorporates the SOE as a subject or actor.

Bernier (2014) stresses that SOEs should be a research object on their own and not studied only as part of privatization, but he suggests differently when conceptualizing SOEs as a policy instrument in economic policy. His suggestion is to move from a governance focus on SOEs to a focus on public entrepreneurship within SOEs, studying the performance and entrepreneurship of SOEs in their own rights, including CEOs. Next to the theory on institutional entrepreneurship he also argues, based on Hafsi and Koenig (1988), that SOEs have the autonomy and capacity to be protected from external influence, hence they are de-politicized that makes entrepreneurship possible. Hafsi and Koenig (1988) study on the SOE–state relationship is much referred to in this strand of literature. Their argument is that the relationship develops from a first phase of close relationship based on dependence and mutual understanding as they are founded towards autonomy via an adversarial phase. In the adversarial phase the SOE tries to safeguard its position against the fact that its founding objectives are more or less achieved, but not updated, that the firm is more conscious of its own organization and that the state is an inconsistent body with changing governments and civil servants (Hafsi and Koenig, 1988). In the last phase of autonomy the SOE is described as having turned into an institution that competes with the government for prestige and public support, and the autonomy comes from the fact that the “government shies away from intense confrontations” (Hafsi and Koenig, 1988, p. 242).

It is this autonomy phase that Rentsch and Finger (2015) seek to explore and update in the era of marketization through their case studies of German railway, French post and Swiss telecom sectors, incorporating SOE strategies next to developments in marketization. They study the SOE and the state as autonomous agents with strategies of their own and conclude that the relationship between the state and the SOE is ambiguous because the SOE has become market-oriented with, for example, international activities and the state holds the dual role of owner and regulator. This means that both the state’s objectives for SOEs and corporate strategies for SOEs can change over time. At the end they fall back on Finger’s regulation approach and suggest that it is the regulator that should intervene in the SOE and not the owner in an area of marketization to secure a more consistent relationship. However, as their intention was to be more faithful to

the question of the SOE, this leads us to the next strand of literature – ‘management studies’ – which has mainly been occupied with the question of SOEs as actors in markets and their performance.

### **Management studies: SOEs as organizational hybrids**

The second strand on management literature has been reviewed by Bruton et al. (2015) in their article ‘State-owned enterprises around the world as hybrid organizations’, in which they share the same ambition as Bernier, Rentsch and Finger to study SOEs “on their own terms” (Bruton et al., 2015, p.97). Their work consists of a systematic literature review of the last fifteen years of articles published in Financial Times FT45 top journals combined with a comparison of thirty-six cases divided across twenty-three countries. The literature review shows that only 39 articles have been published in this area focusing primarily on how ownership influences firm performance. The articles focus narrowly on state ownership as 100 percent and often on SOEs as targets for privatization. Their argument is that we have to understand SOEs as hybrids with mixed ownership, and, as they focus on SOEs in competitive product markets and not public services, their findings are therefore less relevant in this context where the focus is 100 per cent on SOEs in public service. However, they make several interesting points regarding SOEs. First, they show that thirty articles relate to China and thus ignore other countries with prominent state ownership, like Sweden. They also show empirically that governments keep control despite mixed ownership when an industry is perceived as strategically important and that hybrid organizations are the dominant form of organization in commercial markets. Bruton et al. (2015) lean on a classical organizational focus on transaction cost theory, agency theory and institutional theory to bridge macro, meso and micro levels of analysis, pointing to the need to better understand “the mechanism by which the state matters” (Bruton et al., 2015, p. 94).

This leads to another important debate about bringing public organizations back into the field of organization studies (Rhodes, 2007, Arellano-Gault et al., 2013, Bozeman, 2013) that discusses hybridity as something other than legal structure or public or private sectors. The point is to move away from a conceptualization of organizations as either public or private on a scale, and instead to acknowledge that all organizations are influenced by different mixes of both publicness as public authority and economic authority (Bozeman, 2004 (1987), Bozeman, 2013). For Bozeman (2013) agencies or SOEs are hybrid organizations where the important thing is to understand how the mix changes over time for the organizations and not as legal

structures. In this vein Alexius and Örnberg (2015) have resituated SOEs in the debate about value configurations in the corporate governance of Swedish SOEs, showing how professionalization leads to a reduction of public values for SOEs even when they are special purpose organizations that normally are perceived as having a high level of influence from public authority (Kankaanpää et al., 2014). However, as Arellano-Gault et al. (2013) point out, organization study can also advance by opening up public and private relationships with a view to taking governance more seriously, which leads to the next strand of literature, termed ‘public policy and organization’.

### **Public policy and organization: SOEs as a policy tool within a governance perspective**

This last strand of literature starts all enquiries about SOEs from the viewpoint of the state and the public not only in terms of the SOE as a tool (Thynne, 2011a), but also when studying the SOE as an organization (Grossi et al., 2015). From this perspective, ‘state matters’ as premier value and often it is based on the normative that the political dimensions should stay more important than a private sector influence in marketization. This strand of literature has been led by Ian Thynne and Roger Wettenhall, although in terms of marketization and the revitalization of SOEs it has also been supported by public management scholars (Alexius and Örnberg, 2015, Grossi et al., 2015), who share many features with the strand on ‘management studies’, but place special emphasis on the public.

During the heyday of the NPM reforms this strand of literature focused on the categorization of organizational types of SOE after corporatization (Thynne, 1994, Wettenhall, 2001, Wettenhall, 2003a). Thynne (1994) gave name to the SOEs as hybrids because of the legal move from statutory to incorporated corporations and suggested solving the matter via clear political objectives together with the new commercial objectives. More sceptical Wettenhall (2001) argued that political objectives are not enough and that, instead, the corporatized SOEs should return to the old legal repertoire with more political influence. The literature emphasizes the historical and contextual analysis of SOE reforms, pointing to the fact that what is new in the marketization that began in the 1980s is the scale (Wettenhall and Thynne, 2002). From the beginning this literature contributed to an understanding of the variety of types of organization between pure market and state organizations (Thynne, 1994, Farazmand, 1996, Wettenhall, 2003a) that arose from the reforms focusing on issues of balancing autonomy and accountability (Flinders and Smith, 1999, Christensen and Lægreid, 2003). Against the backdrop of external

marketization the literature specifically looked into how these market reforms led to new forms of (lack of) control through contracts (Greve, 1997, Greve et al., 1999, Farazmand, 2001, Wettenhall, 2001, Wettenhall, 2003a). In short, where the regulation literature focused on external marketization as liberalization of the activities of SOEs with the purpose of creating a new public market, this literature has been especially focused on the implications of internal marketization as corporatization.

In explaining the developments in the relationship between the state and the SOE, Thynne and Wettenhall (2004) draw on Harold Seidman to suggest a three-phase model. In the first phase the SOE is placed in the state department, while in the second phase it gains more commercial and management autonomy. In the third phase the state considers that the SOE has received too much autonomy so the state tries to come up with a solution that balances commercial thinking and accountability (Wettenhall, 1998, Wettenhall, 2001, Thynne and Wettenhall, 2004), but these phases might be mixed in many countries (Wettenhall, 1998). A governance perspective was discussed early on (Wettenhall and Thynne, 1999, Wettenhall and Thynne, 2002) focusing on the implications for SOEs when more societal actors were acknowledged. Wettenhall (2003a) saw the governance perspective as a threat because all actors become equal and the risk is that SOEs become categorized as part of the third sector, not perceived as the state despite enjoying state ownership. Yeung (2005) more positively acknowledges that SOEs have important stakeholders such as civil society next to the state. In this line the literature also discusses SOEs as the historical predecessor of the 'new' organizational types such as contracts and later partnerships (Wettenhall and Thynne, 1999, Wettenhall, 2003b, Wettenhall, 2010), which are perceived as different from SOEs.

The current revitalization of SOEs in this perspective has two directions: a governance perspective and an organizational perspective. The governance strand in a way is not really new, but is a continuous development of the former work and discusses the governance perspective and SOEs in terms of, for example, questions of community (Wettenhall and Thynne, 2010) as supplementary to the discussion of the ownership relation between the SOE and the state, but very importantly still sees the SOE as *distinct* from the various other organizational forms that exist (Wettenhall and Thynne, 2010, Farazmand, 2013a, Thynne, 2013). There has also been a link to a regulation perspective focusing on how the state is not only the owner but also the regulator, as opposed to before when SOEs could be seen as being the regulation (Thynne,

2011a, Wettenhall and Thynne, 2011). Thynne (2011a) argues for the SOE as a policy instrument building on his former work (Thynne, 1994, Thynne, 1998a) and thus tries to revitalize the importance of SOEs as part of the governmental repertoire that matters as a “tool of action: a means by which governments can pursue policy goals and objectives” (Thynne, 2011, p.184). His argument is that the role of the SOE has changed because of policy preferences and that the development has led to a situation where the relationship between the SOE and the state is perceived as a principal–agent relationship even in situations where there is common interest. SOEs used to be the regulation of a given sector, but now there is ownership on one side and regulation on the other, alongside the separation of service provider and purchaser and policy formulation and implementation. Next to this he points to the legal move from statutory to private law and to the move from SOE as driver of expenditure to SOE as driver of returns. Last, he touches upon the move to involve private ownership that led to a variety of mixes. This he sees as a way to give the SOEs independence and competitiveness, but also to move them even further away from political influence and potentially privatize them later. He therefore suggests studying these developments as more than rationalist, but as a matter of ideas and culture, and considering the power relationship between political leaders and administrators and next to that the organizations maturity. This leads to the public management scholars and their take on contemporary SOEs.

The public management literature takes another point of departure, not by mourning the loss of the old model, but by trying to understand state ownership and therefore also contemporary SOEs as not only old 100 per cent SOEs, but as a diverse group of both regionally and locally owned companies and also hybrid organizations with mixed ownership (Grossi et al., 2015, Grossi and Thomasson, 2015) inspired by Bruton et al. (2015), but focusing on hybridity in public organizations (Denis et al., 2015) and public markets. They focus on questions of steering different kinds of SOE (Kankaanpää et al., 2014) and highlight the prevalent political influence in SOEs (Ennsner-Jedenastik, 2014, Mortensen, 2016) despite many attempts to de-politicize them. They also focus on public management issues of accountability (Almquist et al., 2013, Grossi and Thomasson, 2015) and corporate governance (Alexius and Örnberg, 2015). However, what they share with the ‘old’ public policy and organization strand is that they are predominantly occupied with the perspective of the state and the SOE though being an organization is still an *object* for reform in internal marketization in questions of ownership, governance and organization. An exception is Paz (2015) whose case study of the market

reforms in the oil and gas sector in Brazil focuses on the SOE Petrobras within an economic neo-institutional perspective. She shows not only how it is the reforms that change the SOE, but also that it is 'bi-directional' in terms of how the SOE's strategy affects the reforms. She shows that Petrobras has stayed market dominant despite the reforms and that the SOE remains the primary instrument for the government in implementing energy policy and is a partner in trade policy because of the company's technological capabilities. As such, she suggests considering the legacy of the SOE both politically and economically when studying SOEs' market positions.



**Table 2 Three different strands of literature on contemporary SOEs in relation to SOEs in marketization**

	<b>Public economy and regulation: revitalizing the SOE as an economic tool</b>	<b>Management studies: SOEs as organizational hybrids</b>	<b>Public policy and organization: SOEs as a policy tool within a governance perspective</b>
<b>SOE as a policy instrument (object)</b>	<p>Politicians and design are important, not planners and plans (Del Bo and Florio, 2012).</p> <p>An alternative to a ‘neo liberal’ agenda and evaluation should include political and social concerns next to financial criteria (Florio and Fecher, 2011).</p>	<p>Ownership should be taken care of in a corporate governance set-up with more objectives and via control of strategic important sectors where the ‘state matters’ (Bruton et al., 2015).</p>	<p>The SOE is part of the governmental repertoire as a policy tool to pursue policy goals and objectives (Thynne, 2011a, Paz, 2015).</p> <p>Political ownership and control of commercial activities within the governmental sphere are important (Wettenhall, 2003a).</p>
<b>Marketization influence on the state–SOE relationship</b>	<p>Optimizing regulation is necessary to secure a well-functioning market in external marketization (Finger and Messulam, 2015b).</p> <p>De-politicization is important via regulation in external marketization and financial independence in internal marketization (Koppel, 2007).</p> <p>The state becomes both regulator and owner, but ownership should become a regulation issue (Rentsch and Finger, 2015).</p> <p>SOEs survive external marketization because of financial performance, an emergency role in societal crises, privatization reversal on a local level and international expansion (Florio, 2014b).</p>	<p>External marketization is not relevant as it focuses on commercial markets (Bruton et al., 2015).</p> <p>Internal marketization leads to a reduction in public values (Alexius and Örnberg, 2015).</p>	<p>External marketization has led to a variety of public–private organizations (Thynne, 1994, Farazmand, 1996) and the roles of the state as regulator, owner, purchaser and policy developer (Thynne, 2011a).</p> <p>Internal marketization has regrettably led to de-politicization of the SOE (Wettenhall, 2001).</p> <p>SOEs are a distinct category next to other ‘third sector’ organizations (Wettenhall and Thynne, 2010).</p> <p>SOEs as a broader category also include mixed and locally owned companies (Grossi et al., 2015).</p>
<b>SOE as an actor (subject)</b>	<p>SOEs have double strategies to protect themselves and to liberate themselves dependent on the double relations they have with the state as regulator and owner (Rentsch and Finger, 2015).</p> <p>SOEs are autonomous institutional entrepreneurs (Bernier, 2014).</p>	<p>SOEs are hybrid organizations that perform well and have survived because of adaptation to mixed ownership (Bruton et al., 2015).</p> <p>All organizations including SOEs are influenced by a certain level of publicness (Bozeman, 2004 (1987)).</p>	<p>SOEs influence market reforms via corporate strategies and technical capabilities and have a political and historical legacy (Paz, 2015).</p> <p>SOEs have more stakeholders than the state (Yeung, 2005).</p>

This PhD aims at contributing to the renewed interest in SOEs as part of the public governance by directing attention towards the actual activities of SOEs in this context of ownership, governance and regulation. To achieve this, SOEs are studied as part of the state, not only as *objects* for market reforms as policy tools as suggested by Wettenhall and Thynne (2011), Del Bo and Florio (2012), Florio (2014b), and thus as tools of action for the state (Thynne, 2011a), but also as *subjects* in the implementation of these reforms as market actors, as suggested from an economic institutional perspective by Paz (2015), Rentsch and Finger (2015) and also by Bernier (2014) focusing on public entrepreneurship. This duality is studied as a matter of hybridity that stems from internal and external marketization that takes place both on an organizational level (Thynne, 1994, Bruton et al., 2015, Denis et al., 2015, Grossi et al., 2015) and on the level of understanding hybridization from a governance and regulation perspective (Christensen and Lægheid, 2011c, Christensen, 2015b, McDermott et al., 2015). To do this, the PhD takes as a point of departure historical institutional theory on gradual change that acknowledges the constraining, but also enabling character of institutions on actors through an emphasis on the *implementation* of reforms where the actors cultivate change from within by exploring the inherent gaps and ambiguity in reform design (Streeck and Thelen, 2005, Mahoney and Thelen, 2010). In the following section this perspective is elaborated and discussed in relation to other strands of institutional theory that are often used in the three strands of literature discussed above.

### **2.3 Gradual change as an analytical lens**

Institutional theory is a label that covers a broad range of theories that emphasize institutions and institutional change when studying social phenomena. There is a classic and ongoing discussion about whether institutional change is mainly structure driven as in historical institutionalism (HI) (Steinmo et al., 1992, Pierson, 2000), norm or cognitive driven as in organizational institutionalism (OI) (DiMaggio and Powell, 1991) or driven by rational actors as in rational choice institutionalism (RCI) (North, 1990). These institutional strands are also found in the literature on contemporary SOEs where there is a divide between the institutionalist focus of RCI and OI. The public economy and regulation literature on SOEs applies the RCI perspective. While acknowledging institutions, the literature reduces the relationship between the state and the SOE to a principal–agent relationship, but when applying a more subject-oriented approach to the SOE it concludes that it is ‘ambiguous’ (Rentsch and Finger, 2015).

Paz (2015), in the ‘public policy and organization’ strand, also built on RCI, but when trying to understand the role of the SOE in market reforms, she concludes that the historical and political legacy matters, but cannot account for it. On the other side, institutionalists in both the ‘management studies’ and ‘public policy and organization’ literature are inspired by OI when they take an institutionalist approach to both SOEs specifically (Alexius and Örnberg, 2015, Bruton et al., 2015) and public hybrid organizations in general (Denis et al., 2015) and on a policy level (Thynne, 2011b). In the attempt to unpack hybridity in general, institutional logics (Thornton and Ocasio, 2008, Pache and Santos, 2013) have been suggested that combine analytical levels and explanations of macro structures, meso organizations and micro individuals (Denis et al., 2015, Skelcher and Smith, 2015). However, these approaches pay little attention to changes over time, to the political dimensions of hybridity (Denis et al., 2015) or to formal institutions.

HI as a strand in institutional theory stresses political and formal institutions and focuses on institutional change and stability by studying institutions over longer periods of time (Hall, 2010, Fioretos et al., 2016). To open up the agency dimensions in HI, newer strands of HI contribute by stressing the ambiguity in formal rules and the room this makes for actors to play with the implementation of the rules (Streeck and Thelen, 2005) where their strategies are more fluent (Hall, 2010, Mahoney and Thelen, 2010). This perspective has rarely been used to understand the hybridity of public sector reforms (Christensen and Lægreid, 2011c) and not in relation to contemporary SOEs. In relation to SOEs in marketization, what is interesting in this perspective is that it suggests that an organization can be an institution when its operations are publicly guaranteed and backed up by societal norms (Streeck and Thelen, 2005, p.12), thus giving analytical leverage to the study of the institutional elements of SOEs and how these are gradually changed via interpretation of the SOE’s role in marketization.

Historical institutionalism stems from political science and has traditionally directed attention to the political institutions and how formal and informal rules and procedures as institutions constrain behaviour (Campbell, 2004, Fioretos et al., 2016). In traditional HI ‘path-dependency’ is often used to explain the process of institutional change as a constraining process (Thelen, 1999, Pierson, 2000, Pierson, 2004, Fioretos et al., 2016). The logic is that institutional change is abrupt and happens in a critical juncture as an exogenous effect that comes after a longer period of stability or incremental endogenous change, which is called punctured equilibrium or

punctured evolution (Campbell, 2004, Fioretos et al., 2016). Later on, HI scholars discovered that there might as well be stability in abrupt change (Campbell, 1998). Newer contributions of HI scholars try to bridge these approaches by focusing on gradual change in the everyday implementation of formal and informal rules (Streeck and Thelen, 2005, Mahoney and Thelen, 2010, Hacker et al., 2015, Conran and Thelen, 2016) and the concepts of ideas (Campbell, 1998, Blyth, 2007, Campbell, 2010, Campbell and Pedersen, 2014).

Both the gradualist and the ideas perspectives point to the fact that institutions can be seen not only as constraining, but also as enabling the actors in an incremental and evolutionary way (Jackson, 2010). They thereby try to balance the actor–structure discussion in HI by introducing a stronger actor concept as a driver for institutional change and thus exploring the ‘stability’ element in HI, moving from a macro focus on stable national models of capitalisms, for example, the ‘varieties of capitalism’ literature (Hall and Soskice, 2001, Campbell and Pedersen, 2007, Conran and Thelen, 2016) towards opening the ‘black box’ by focusing on institutional change as minor adaptive adjustments to altered circumstances (Thelen, 2014) or elite networks interpretations (Campbell and Pedersen, 2014). The gradualist perspective holds a stronger interest perspective with strategic actors in this process being partly rational (Hall, 2010) and by focusing on how formal and informal rules and procedures are gradually changed by actors leading to major institutional changes and not incremental change (Streeck and Thelen, 2005, Mahoney and Thelen, 2010). The ideas perspective, on the other hand, stresses the normative and cognitive level by examining how ideas and discourses are used strategically by actors (Campbell, 2004, Blyth, 2007, Borrás and Seabrooke, 2015) as tools in struggles to change institutions, and that these actors’ interests and options are constrained by resources and power positions (Campbell, 2004, Campbell, 2010) that are themselves constrained by the available ideas (Hall, 1993, Campbell, 1998, Blyth, 2007, Campbell and Pedersen, 2014).

Altogether, the historical institutional account offers an analytical understanding of SOEs in marketization as a political process depending on the existing institutional framework, for example, the rules and practices, and the actors’ role within this. The PhD leans towards the gradualist perspective as presented by Streeck and Thelen (2005) because the ambition of the project is to explore the role of SOEs thus giving special analytical focus to the study of a specific organization in the marketization of public service delivery, focusing on the SOE rule taker both as object in internal marketization and as subject in external marketization. What is

central in the gradual perspective is that there are cracks in all reforms of institutions (Mahoney and Thelen, 2010) and therefore this project is not whether and why marketization reforms of SOEs are made in an optimal way (Koppel, 2007, Kankaanpää et al., 2014) at a given point in time, but how the role of the SOE in marketization evolves, is mediated and is gradually (de-)institutionalized by the actors through the available institutions and actors that occur with marketization.

Gradual transformation and the five types of gradual change that Streeck and Thelen (2005) suggest in their book *Beyond Continuity: Institutional Change in Advanced Political Economies* are based on in-depth empirical case studies and form an empirically grounded typology that tries to retain complexity and offer insights into mechanisms of social and political stability and evolution, and are not based on abstract theoretical reasoning (Jackson, 2010, Thelen and Mahoney, 2015). In the following section the concepts will therefore be exemplified and discussed in relation to the comparative qualitative case study of SOEs in marketization in Danish and Swedish passenger rail that forms the empirical basis of this PhD and how they unfold and are adapted in the analysis of these in-depth case studies.

### **Gradual transformation**

Gradual transformation is a process of incremental change, but where the incremental change leads to discontinuity and therefore abrupt change. The ambition is to focus on gradual and endogenous change and not on the strong punctured equilibrium models that explain institutional change with exogenous shock allowing for more or less radical reorganization (Streeck and Thelen, 2005). The analytical focus is on the inherent ambiguities and gaps between design and formal institution and how they emerge over time as well as their actual implementation or enforcement (Streeck and Thelen, 2005). It is therefore a perspective that highlights the imperfection of reforms, be the reforms of SOEs via corporatization as internal marketization or when creating markets for public service delivery via liberalization as in external marketization and the room that it leaves for the actors in play to change the institutions in a gradual way that leads to institutional changes (Streeck and Thelen, 2005, Mahoney and Thelen, 2010). In this perspective institutions are constantly contested and therefore the classical HI focus on certain sequences and periods in time is less useful. Instead the focus is on how institutions emerge over time and their actual implementation or enforcement through gradual change. The aim is to understand how actors cultivate change from within the context of

existing opportunities and constraints, working around elements they cannot change while trying to control and utilize others in novel ways (Streeck and Thelen, 2005).

Hacker et al. (2015) point to the importance of turning away from studying “high profile episodes of reform when formal rules are re-written” (Hacker et al, 2015, p.198) and instead focus on implementation by the actors (Thelen, 2010). This also means that the study should not focus on the classical decision-making process in parliaments, for example, politicians, interest groups, but rather on other arenas and actors. In relation to drift and conversion Hacker et al. (2015) suggest studying new arenas like courts and bureaucracies where the formal rules are interpreted. This turns the attention towards classical areas of public administration. Bezes and Lodge (2015) use a gradual institutionalist perspective on civil servant reforms to understand institutional complementarities and national differences whereas Christensen and Lægreid (2011c) use it to explain the hybrid public administration of today. The perspective can thus contribute to a theoretically informed analysis of mechanisms of reproduction and change in reforms of the public sector (Christensen and Lægreid, 2011c, Bezes and Lodge, 2015).

### **Institutions and institutional change**

Institutions within the perspective of gradual change “are formalized rules that may be enforced by calling upon a third party” (Streeck and Thelen, 2005, p.10). This means that an institution generates institutionalized legitimate expectations on actors who can call on a predictable and reliable third party or societal support in situations of disappointment. It gives priority to the study of formal institutions in society, for example, legislations, but organizations can also be analyzed as institutions in situations where “their existence and operation become in a specific way publicly guaranteed and privileged, by becoming backed up by societal norms and the enforcement capacities related to them” (Streeck and Thelen, 2005, p. 12). This can be in situations where organizations serve semi-public purposes and where the activities are also regarded or disregarded by other agents that represent society as a whole. This creates opportunities for analytically enquiring into the role of the SOE stressing the institutional elements of the organization as such. The analysis from the perspective of gradual change is to study institutions as social regimes in which it is the continuous interaction in the relationship between rule makers and rule takers that creates the interpretation of the regime – hence implementation – and thus actors’ interpretations become key to understanding institutional

change. In this study it is the relationship between the state as rule maker and the SOE as rule taker.

Incremental change emerges in the gaps between the rule and its interpretation or enforcement by the rule makers and the rule takers (Mahoney and Thelen, 2010). Streeck and Thelen (2005) identify five different types of gradual change: layering, drift, displacement, exhaustion and conversion. The important part is the focus on *gradual* change when understanding SOEs in marketization. An alternative to this would be an abrupt institutional change perspective where the SOEs in marketization had either been fully privatized in internal marketization or had all their activities fully liberalized in external marketization at once. On the contrary the five types of institutional change in gradual change offer analytical leverage to understand when abrupt change is not the case and thus how institutional change takes place over time when SOEs persist in marketization, which is the focus of the PhD. The different types of gradual change can occur separately, but as numerous case studies show (see, for example, Streeck and Thelen (2005); Mahoney and Thelen, 2010) they are often interrelated. The five are presented below and also shortly discussed in relation to the PhD case studies:

- *Layering* is where new institutional elements are ‘layered’ on the existing institutions because the institutions themselves are unchangeable. The point is that new institutional elements are attached as amendments to existing institutions (Mahoney and Thelen, 2010) as new rules (Conran and Thelen, 2016). In the case of SOEs in marketization, this is when external marketization is added to the existing and historical monopoly of public service delivery SOEs.
- *Displacement* happens when new institutional arrangements occur as old institutional elements are discredited and alternative institutional forms are discovered (Streeck and Thelen, 2005). It can happen as more abrupt change, but as a slow-moving process it can be as new institutions are introduced that compete directly with older sets of institutions (Mahoney and Thelen, 2010). Different from layering, this type of change needs cultivation from endogenous actors that have been on the periphery and that are better served by the new arrangements or by rediscovered ‘new’ institutional elements (Streeck and Thelen, 2005). Layering can lead to displacement when the layer becomes stronger than the original institution (Conran and Thelen, 2016). This is what happened when Swedish regional transport authorities as endogenous actors in the public transport sector

overtook the historical role of the SOE by enacting the ‘layered’ elements of external marketization on regional level and, from below, first as tendering authorities buying fleets and developing ticket systems and later as regional transport authorities as they offer interregional public service traffic in competition with the commercial traffic of the SOE.

- *Drift* is when an institution is not renegotiated, but keeps its formal integrity. It can seem stable on the surface, but is ‘drifting’ away from the original intentions because of changes to the institutional context or because actors abdicate from previous responsibilities (Streeck and Thelen, 2005, Mahoney and Thelen, 2010). What is central is that the institution is deliberately held in place (Conran and Thelen, 2016), whereas, to survive, institutions need to adapt to changes in the context (Hacker et al., 2015). Drift is identified for the Swedish SOE as market actor as a result of the changes in the context by external and internal marketization where it lost its sectorial role on the national level, but kept its state ownership and is perceived as being responsible. However, its role is not redefined by its owner as the environment changes.
- *Conversion* is when a formal institution is redirected towards new goals, functions or purposes. It can occur over contesting what an existing institution should do. Streeck and Thelen (2005) point out that old institutions might be around so long that the existing *raison d’être* is out of date and thus it opens up the possibility for conversion of an existing institution (Streeck and Thelen, 2005). Conran and Thelen (2016) term conversion a purely endogenous institutional change mechanism because it is not about both endogenous and exogenous changes in environments as it is for drift or layering. For conversion reinterpretation is central as it is when political actors are able to redirect institutions towards purposes beyond their original intent (Hacker et al., 2015), highlighting the enforcement and interpretation of institutions. Therefore Hacker et al. (2015) point to new arenas like bureaucracies especially for this kind of institutional change. In the case studies conversion is identified as the institutional change that takes place as the old historical SOEs as an institution in both countries remain, but are redirected towards commercial orientation as part of internal marketization.
- *Exhaustion* is when an institution is allowed to decay gradually rather than abruptly owing to time being the changer. Here the institutions are not changing but are breaking down (Streeck and Thelen, 2005). This type of institutional change is not identified in the case studies and is thus not described in further detail.



As described above, some of the types of gradual change are more or less dependent on other institutions as in layering, on external changes in the environment as in drift or on actors as in displacement and conversion. However, what is central when studying implementation over time is to study the rule makers and the rule takers and how they interpret and enact the institutions over time, which points to an understanding of the actors in processes of institutional change.

### **Actors**

Mahoney and Thelen (2010) develop the framework of gradual change further by extending the actor perspective and through this they develop a concept for institutional interdependence. They question the idea that institutions are more or less self-reinforcing and thereby make compliance a variable, making room for ongoing struggles over meaning, application and rule enforcement. In this sense rules – even formalized rules – are ambiguous (Mahoney and Thelen, 2010). This also suggests that the meaning of the institution is undecided, which opens up for a more fluent actor understanding where actors' preferences can change over time and a 'loser' position can become a winner position later and vice versa (Mahoney and Thelen, 2010). However, when elaborating on the different types of agent in different types of institutional change, it seems that they do not pay attention to situations where more types of institutional change are at play simultaneously with the same agents involved, which might constrain their ability to change strategy in relation to each different type of change. The template therefore proves less useful in the study of SOEs in marketization in the Danish and Swedish cases, as few actors were central and shared close institutional relationships and more types of institutional change were identified around the same institution, namely both internal and external marketization of the SOE.

Hall (2010) points, in more general terms, to the relationship between actors and institutional change as either meaning making or occurring by small pushes by coalitions of actors. He states that institutional gradual change can appear as a disaggregated process of reinterpretation whereby the meanings that actors associate with a particular institution change over time and therefore also generate change in patterns of action (Hall, 2010). The change can take place as an abrupt shift because of a long period of actors' small pushes or it can take place as subtle and relatively uncontested steps. In the first one the coalitions of actors are very important, whereas

in the latter the relevant analytical template might be ‘meaning making’ (Hall, 2010). In this PhD I have emphasized the latter as coalitions were few and there was a lot of uncertainty and thus a need for interpretation of the role of the SOE for all parties involved. I was much inspired by the first work of Streck and Thelen where institutions evolve in “the continuous interaction between rule makers and rules takers during which ever new interpretations of the rule will be discovered, invented, suggested, rejected or for the time being, adopted” (Streck and Thelen, 2005, p.16). More specifically, next to the strategizing, optimization and powering of the actors’ own positions in relation to interpreting the institution that clearly took place, something else was at stake about handling the role of the SOE. For the ministries it seemed that their position was that of puzzling (Blyth, 2007) while the bureaucrats tried out a limited set of policy ideas until they found one that works (better). This is related to what Streck and Thelen (2005) points to when they notice that rule makers are constrained by their cognitive limitations and that institutions have unanticipated consequences that require being continually adjusted and revised. Related to that, what I found in regard to SOEs as rule takers is that they participate in the puzzling directly and are invited by the rule takers. Next to that on an organizational level they express a normative commitment towards the old historical legacy and as part of that also struggle with a meaning-making process where their own identity is at play (Borrás and Seabrooke, 2015), which then feeds in to the puzzling process and into negotiations as a matter of strategizing, optimization and powering of their positions.

The following methodology chapter outlines how the theoretical framework has guided the conduction of the explorative comparative case study of SOES in marketization in Danish and Swedish passenger rail.

### **3. Methodology**

This section has the purpose of explaining and elaborating on my choices related to an explorative comparative case study. It describes the research strategy focusing on the context of Danish and Swedish passenger rail, analytical strategy, case selection and case study content and process. The argument is that an explorative comparative driven enquiry into the phenomenon of the role of SOEs in marketization can lead to analytical generalizations (Flyvbjerg, 2006) and mid-range theory (Georg and Bennett, 2005, Eisenhardt and Graebner, 2007) about the phenomenon and at the same time provide rich context-dependent knowledge about the cases of Danish and Swedish passenger rail (Flyvbjerg, 2006, Stake, 2008) that altogether can contribute to the research agenda on contemporary SOEs within a hybridity perspective within public governance from an institutional perspective.

#### **3.1 The context of Danish and Swedish passenger rail**

The historical institutional perspective on gradual change points to history, time and institutions matter as the context for understanding the phenomenon under research (Thelen, 2010, Thelen and Mahoney, 2015). At the same time, when studying a case in a given industry other contextual elements are at play such as sector specificity for the case (Stake, 2008). As Kennedy (1991) points out, then, it is worth considering the special characteristics of the railroad in terms of technical, capital, labour, operational and coordination characteristics before analyzing the industry from a governance perspective. However, an institutional perspective also implies that sector specificity is influenced by historical and institutional elements and in the following the context of Danish and Swedish passenger rail will be elaborated in this regard.

##### **Rail as industry**

The invention of the steam engine and the railroad is regarded as having played a major role in industrialization (Perrow, 2002) and as such the backbone of early capitalist development. The rail industry was seen as technically at the forefront of society (Kennedy, 1991). In many countries the industry has throughout history been developing on the boundary of the public and private spheres, undergoing alterations between public control and unregulated markets (Sclar, 2005). In economic terms rail is considered a natural monopoly, but as Sclar (2005) points out, like transportation services in general it is a quasi-public good. While it is a private market

product with the characteristics of excludability and rivalry, it can also create positive and negative externalities. Passenger rail faces competition from other modes of transport, but because the governments support it financially through infrastructure constructions and subsidies on operations, it stays politically sensitive (Hughes (2012). More historical institutionalist scholars have studied the regulation and governance of the rail industry as a macro phenomenon focusing on critical junctures in time where regulation changed over longer periods of time (Kennedy, 1991, Dobbin, 1994, Lodge, 2002, Perrow, 2002).

Since the 1970s the railways have been in decline owing to competition from other modes of transport like cars and aviation (Lodge, 2002, Dyrhaug, 2013). The governments in many Western countries have over the last thirty years tried to introduce different market mechanisms into a highly nationalized rail industry (Lodge, 2002, Sclar, 2005, Sørensen, 2005). At the same time the industry has been promoted as a means to an end in fighting environmental problems (Dyrhaug, 2013) and creating higher mobility to secure economic growth (Lodge, 2002, Sclar, 2005). Rail has become part of the answer to some of the mega-trends of today's society such as urbanization and climate change. However, different from other network industries like electricity and heating, the rail network is limited in terms of capacity to access tracks, as the cost of building tracks is often economically unfeasible from both a commercial and a government perspective (Sclar, 2005, Baldwin et al., 2012). The industry is characterized by strong interest groups especially labour unions (Kennedy, 1991, Lodge, 2002, Sørensen, 2005, Hermann and Verhoest, 2012) and competition has been seen as a way to reduce their power. As such, passenger rail can be seen as an understudied part of government with a substantial public expenditure and a high impact on the development of society. Following Lodge (2002), leaning on (Mayntz and Scharpf, 1995), I therefore argue that the governance and regulation of railways can be seen as part of the core governmental activities that can provide examples of ongoing political conflict and contested conceptual frameworks for controlling economic activities "close to the state" (Lodge, 2002, p.2), in this case the role of SOEs in marketization.

### **European regulation of passenger rail**

Promoting a single European market is one of the core values of the EU and the EU has in different policies for each utility sector pushed for the introduction of competition as a way to achieve that (Parker, 2003). As early as the 1960s, the European Commission (Commission) tried to make a European policy for railways, but it is only with Directive 91/440, requiring

financial separation of rail operation and infrastructure management, that the first steps were taken towards a common policy (Dyrhauge, 2013). The directive stressed that liberalization was the most important measure to improve the competitiveness of the sector and also stressed a process towards the railways' independence from the state both financially and managerially (Finger and Messulam, 2015a). In the following years the Commission tried to push for more competition via new proposals and white papers (Finger and Messulam, 2015a), but according to Dyrhauge (2013) it was when the Commission adopted a step-wise approach as opposed to a big bang approach that the Commission first succeeded in getting the so-called railway packages passed. Each package covered more directives (Finger and Messulam, 2015a) and in many cases had a technical character (Dyrhauge, 2013). The table below presents aspects relevant to SOEs and the marketization of passenger rail, focusing on direct market opening measures rather than indirect measures such as the harmonization of technical standards.

**Table 3 The four railway packages focusing on marketization of passenger rail**

	<b>Year</b>	<b>Directives and EC Regulations</b>	<b>Aspects related to SOEs in marketization</b>
<b>1st Package</b>	2001	2001/12/EC, 2001/13/EC, 2001/14/EC	<ul style="list-style-type: none"> <li>- Access for rail operators on the trans-European network (European Commission, 2016a)</li> <li>- Accounting separation between freight and passenger rail</li> <li>- Mandates transport operation from capacity allocation</li> <li>- Definition of infrastructure charging and licensing</li> <li>- Definition of licensing regimes for railway undertakings</li> <li>- Allocation of railway infrastructure capacity, charges for the use of railway infrastructure, and safety certification</li> <li>- Mandates creation of National (Railway) Regulatory Authorities (NRAs) (in combination with 2001/12/EC) (Finger and Messulam, 2015a)</li> </ul>
<b>2nd Package</b>	2004	2004/49/EC 2004/50/EC 2004/51/EC 881/2004	<ul style="list-style-type: none"> <li>- Focus especially on freight leading to the full market opening of freight on 1 January 2007</li> <li>- Establishing of European Railway Agency (European Commission, 2016b)</li> </ul>
<b>3rd Package</b>	2007	2007/58/EC 2007/59/EC 1370/2007 1371/2007 1372/2007	<ul style="list-style-type: none"> <li>- Market opening of open access on international passenger rail services including cabotage where operators can pick up and set down passengers domestically on international journeys (Finger and Messulam, 2015a)</li> <li>- Strengthening of passengers' rights on all types of line, not only on international lines (European Commission, 2016c)</li> </ul>
<b>4th Package (proposal)</b>	N/A	N/A	<ul style="list-style-type: none"> <li>- Proposition to make the European Railway Agency a 'one-stop shop' for vehicle authorization and safety certificates</li> <li>- Proposition to open up the market for domestic passenger railways to new entrants incl. mandatory tendering by 2019</li> <li>- Proposition to strengthen the independence of infrastructure managers via operational and financial independence from any transport operator preferably via institutional separation (European Commission, 2013)</li> </ul>

The implementation of the first railway packages led to a reorganization of the rail sector that in many countries was implemented in a manner inspired by the ideas of NPM (Sørensen, 2005). As Lodge (2003) shows, then, EU regulation leaves a high level of discretion in terms of how member countries implement the packages. This is confirmed by Finger (2014) in an in-depth study of five national cases of rail governance and performance in the EU including Sweden. If the fourth railway package is passed it will lead to all passenger rail services being tendered out, which has been met with resistance from member countries and a renegotiation of the possibility of keeping negotiated contracts as public service obligation arrangements (Railway Gazette, 2016).

In relation to internal marketization, EU member states have had different approaches and the EU has historically been neutral to the use of state ownership as long as there is no cross-subsidies or unnecessary state aid that can alter the competitive market negatively (Parker, 2003). However, as Parker (2003) shows, liberalization policies have put SOEs under pressure by introducing policies promoting competition in the activity areas of the SOEs. In the case of railways, Dyrhauge (2013) shows that state aid prevails and argues that the concept of public service obligation is a way to make state aid for the incumbent SOE operators transparent for the Commission. However as Bergantino (2015) alludes, incumbent SOEs still hold the potential power to influence national policy making in marketization.

Another element Dyrhauge (2013) stresses is that railways as a sector receive more subsidies than agriculture in the EU (Dyrhauge, 2013, p.97) and more subsidy than all other modes of transport together (Dyrhauge, 2013, p.101). Where the prominent rail regulation scholars from a broader political economy perspective argue that “European rail deserves genuine competition with a strong and fair regulator”(Finger and Messulam, 2015a, p. xii), those within an institutional perspective argue that, despite obstructing path dependency and national resistance, including powerful SOEs, the Commission will succeed in creating a single European market for rail (Dyrhauge, 2013). What both perspectives share in their diagnosis is the importance of the national levels and especially the view on SOEs as powerful incumbents blocking for changes. This is very much based on the NPM logic combined with the European perspective of liberalization as superior. While acknowledging EU regulation as an important context for the two cases, this study explores the role of the SOEs on a national level from a public governance perspective. This also implies the need to explore other possible roles of SOEs than just acting

as blocking incumbents and likewise to study marketization as holding the potential for complementary directions than just towards more liberalization.

### **3.2 Analyzing SOEs in marketization**

Based on the theoretical framework the analysis has first of all taken a contextual and historical departure focusing on how actors interpret the gap between institution and rules in implementation as a driver for gradual change. Where other strands of HI focuses on why an institution occurs at a specific point in time, a gradual institutionalist perspective focuses on how change takes place over time. In this PhD the focus has been on ministries as a bureaucracy as an arena, but most importantly on the SOEs as an arena for implementation (Hacker et al., 2015) where formal rules coming from the reforms are interpreted. The reforms are described, though not with a focus on why; simply to outline the changes that occur in the key political institutions. The main part of the analysis is *after* the reforms where the implementation takes place. Studying the bureaucracy and the SOEs as arenas is done via the analytical dimensions of marketization both internally in terms of corporatization where the SOE is an object for state reforms and externally in terms of liberalization where the SOE becomes a subject as a market actor in the new public markets. When the dimensions are analyzed it is combined with the conceptualization from gradual change where the SOE is seen as a rule taker and the ministries as the rule maker.

The most important relationship under scrutiny in this analysis is the Ministries–SOE relationships, but relationships with other actors are also considered based on the actual cases. An example of this is that I interviewed many actors outside the Ministries and the SOEs and in Sweden this led to focusing on the important relationship between the regional transport authorities and the SOE in external marketization. To explore the role of the SOE from the view of the rule makers is to view the SOE as an object or policy tool related to internal marketization, but also to explore whether there is an ‘object’ role for the SOE next to that of a market actor and subject in external marketization. Here the focus is on studying how the SOE is reformed and interpreted from the viewpoint of the ministries via regulations, public policies, ownership policies, contracts and in the interviews. The role of the SOE as rule taker focuses on how the SOE itself in strategies, annual reports and the interviews interprets and influences its role in internal marketization and external marketization and becomes a market actor in external marketization.

One of the limitations of the study is that the articles primarily focus on either external or internal marketization owing to page constraints, but they are interrelated empirically, as article 2 shows, and conceptually. It is 1) the internal marketization of the SOE as object in corporatization that enables the SOE to become a subject or market actor in external marketization, but also lay out the role given to the SOE as an object in external marketization; and 2) for the SOE the two types of role intersect. The interrelated findings are therefore discussed together in Chapter 5. of this introductory paper.

**Tabel 1 Analytical strategy for studying the SOE as an institutional market actor**

	<b>Object</b>	<b>Subject</b>	<b>Main analysis</b>
<b>Internal marketization/ corporatization</b>	The role of the SOE in: <ul style="list-style-type: none"> <li>- Corporatization</li> <li>- Sectorial policies</li> <li>- Ownership policies and internal contracts</li> </ul>	SOE strategies and their experience with implementing this role	Article 1 Article 2 Article 4
<b>External marketization/ Liberalization</b>	The role of the SOE in: <ul style="list-style-type: none"> <li>- Regulation and policies on liberalization</li> <li>- Public tenders</li> </ul>	SOE strategies in relation to their role in the new public markets	Article 2 Article 3



### 3.3 Explorative comparative case study

The value and content of case studies and comparative case studies are discussed widely in the literature social sciences (Georg and Bennett, 2005, Eisenhardt and Graebner, 2007, Gerring, 2007, Stake, 2008, Yin, 2009, Lange, 2013) and the various forms and ambitions related to knowledge creation differ substantially. On one side there is large N comparison focusing on generating nomothetic explanations (Gerring, 2007) while the other end of the continuum focuses on the value of the particularity and idiographic nature of a single case in question (Stake, 2008). To answer the research question the PhD is based on what I term an explorative comparative case study. This places the research in between as it holds the ambition to make analytical generalizations (Flyvbjerg, 2006) about SOEs in marketization based on the comparison of two in-depth case studies (Eisenhardt and Graebner, 2007) of Danish and Swedish passenger rail that are studied over time (Lange, 2013) due to the historical institutional perspective of gradual change.



The identified gap in the academic literature concerning contemporary SOEs on the back of decades of marketization reforms (Bruton et al., 2015) in public governance (Florio and Fecher, 2011, Grossi et al., 2015) makes it relevant to study SOE in case studies because it is a contemporary phenomenon where the borders between phenomenon and context are not evident (Yin, 2009) and do it in an explorative way since the relationships between the constructs are not yet specified (Eisenhardt and Graebner, 2007). Thus SOE prevail in public service delivery despite marketization, so there is little understanding when it comes to which role they have in marketization (Paz, 2015, Rentsch and Finger, 2015) and therefore theoretical testing in a comparative large-n case study (Gerring, 2007) was not relevant.

The explorative comparative case study has been conducted as two single in-depth or within case studies and thus making it possible to build a more robust theory than one single case study would allow (Georg and Bennett, 2005, Eisenhardt and Graebner, 2007, Yin, 2009). The Danish and Swedish cases, respectively, were conducted as individual “concentrated inquiry into a single case” (Stake, 2008, p.121) which gives room to a rich and detailed exploration of the phenomenon of SOEs in marketization (Eisenhardt and Graebner, 2007). Due to the historical institutional perspective that focuses on temporality in institutional change the case studies focused on the development over a time from marketization was started in the countries to 2015. In Sweden it was therefore from 1988 and in Denmark from 1993 and then focusing on detailed analysis of gradual transformation up till 2015. This excluded other approaches to in-depth cases studies such as ethnographic approaches.

In an institutional perspective comparative analysis often ‘involves comparing apples and oranges, since both the rules and the players differ across time and space, thus requiring “contextualized comparison” (Jackson, 2010, p.66). The uniqueness of the individual cases also in the comparison has therefore been important as the role of the SOEs in marketization follow different trajectories in the two countries. The case studies are presented as causal narratives (Lange, 2013) where it is explained how the role changed via the perspective on gradual change. The rich and detailed in-depth case studies of the two countries respectively therefore also have a value in their own right (Stake, 2008). The Danish case is next to that analyzed in further detail in more papers as it has gained less academic focus (Lyk-Jensen and Haarder, 2000, Marfelt, 2005, Sørensen, 2005, Mortensen, 2016) in comparison with the Swedish case that has been extensively studied both from an regulation, organizational and reform perspective

(Brunsson et al., 1990, Andersson-Skog, 1996, Alexandersson, 2010, Finger, 2014, Castillo, (forth.) ).

When doing in-depth case studies over longer periods of time process tracing is often used (Georg and Bennett, 2005, Beach and Pedersen, 2013, Lange, 2013). Here the main purpose is to explain the process that led to a certain event via in-depth study or within study (Georg and Bennett, 2005) where there are pre-established relationships between variables (Lange, 2013) and thus not to compare two in-depth case studies (Beach and Pedersen, 2013). This PhD highlights the need for an explorative approach and has seeking to strengthen analytical insights and generalizations via comparison and. Newer approaches to process tracing claim that it can be used in relation to explorative studies (Beach and Pedersen, 2013) and therefore it might be a way to strengthen further conceptualizations of the role of SOEs in marketization in single in-depth case studies in other countries and sectors.

### **3.4 Case selection by purpose in most similar case design**

The selection of cases was guided by selection by purpose (Stake, 2008) or theoretical sampling (Eisenhardt and Graebner, 2007) where the focus was to find cases that were “particularly suitable for illuminating and extending relationships and constructs” (Eisenhardt and Graebner, 2007, p.27). Based on the gap in the literature and my research question I therefore searched for cases where SOEs in the marketization of public service delivery were to be found. Theoretical selection of cases emphasizes the uniqueness of a single case and when doing comparative studies it is to be combined with ‘polar types’ or categories (Eisenhardt, 1989). Because of my institutional analytical approach I found it relevant to reflect on these matters on different levels in relation to what the analytical generalizations concern.

**Table 2 Selection criteria of cases**

	<b>Denmark</b>	<b>Sweden</b>
<b>Macro: most similar</b>	<b>Nordic model</b>	<b>Nordic model</b>
<b>Meso: most similar</b>	<b>100% state-owned company</b>	<b>100% state-owned company</b>
Internal marketization	Statutory company with no special purpose	Limited company with no special purpose
<b>Meso: polar</b>	<b>100% legally marketized</b>	<b>100% legally marketized</b>
External marketization	Limited implementation	Full implementation

### **Most similar case design**

On a macro level, Denmark and Sweden are often categorized together as ‘coordinated market economies’ in the ‘varieties of capitalism’ (VoC) literature (Hall and Soskice, 2001) and as ‘social democratic’ welfare regimes (Esping-Andersen, 1990) or ‘Nordic models’ in the literature on public management reforms (Pollitt and Bouckaert, 2011, Greve et al., 2016) making them ‘most similar’ cases on a macro or country level. Next to being small countries in open economies, the institutional commonalities of the countries are said to be, among others, strong labour unions and a collaborative approach in relationships among actors (Hall and Soskice, 2001) combined with high welfare expenditures and social security arrangements (Esping-Andersen, 1990). It has been claimed that Denmark is more a hybrid in the VoC literature, being more liberalist and market-oriented (Campbell and Pedersen, 2007) and not only coordinated. That said, in both countries the approach to NPM has been to pick out elements, for example, performance management in Sweden (Pollitt and Bouckaert, 2011) and in Denmark especially modernization of the administration (Greve, 2006) and to a limited extent marketization (Pedersen and Löfgren, 2012, Greve et al., 2016). By choosing Denmark and Sweden to conduct the comparative case study on the role of SOEs in the marketization of public service delivery, I was able to analytically reduce the complexity in the institutional context of the macro or country level surrounding the meso-level analysis of SOEs in marketization because they can be categorized as ‘most similar’ cases.

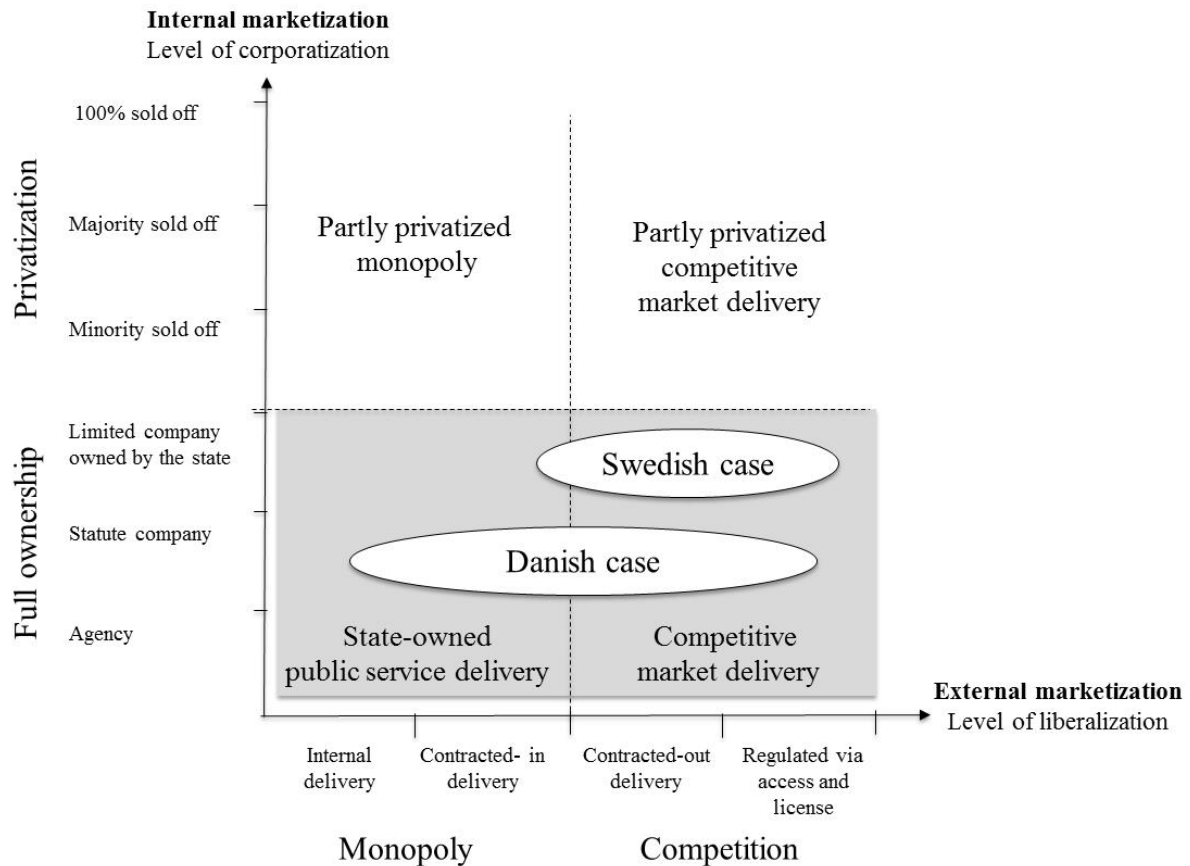
### **By purpose polar selection**

As the comparative case study is explorative, aiming at suggesting analytical generalizations about SOEs in marketization, Danish and Swedish passenger rail was chosen by purpose with a

polar outcome and not as representing a population (Eisenhardt and Graebner, 2007) as the terminology of most similar case design might allude to (Georg and Bennett, 2005). Passenger rail as a case was chosen because both categories of SOEs and marketization were in place and both categories were contested politically over time. At the same time they were ‘polar’ in the sense that, despite both countries having legally marketized public service delivery, the two countries have had different trajectories where competition in Denmark can be said to be ‘on hold’ while in Sweden it has been ‘full blown’. Thus there are both SOEs and marketization present to make a by purpose selection, although the different degrees of marketization make the case selection polar.

The two countries have had a long process of passenger rail marketization and have a tradition for state ownership, but have continually been privatizing SOEs (Willner, 2002, Parker, 2003) including in public transport (Sørensen, 2005, Alexandersson, 2010). In both Sweden and Denmark reform of the railway industry took place through a reform of the national SOE, the activities of which were so broad that they could be said to more or less encompass the industry itself (Brunsson et al., 1990, Longva et al., 2005, Sørensen, 2005, Olsen, 2007, Alexandersson and Hultén, 2008, Alexandersson, 2010). Some activities were sold off and the SOE became a passenger rail operator and at the same time both countries changed the regulation of the passenger rail sector to invite new companies in to create a market on competitive terms aligned with the regulation of the European Union (Dyrhauge, 2013, Bergantino, 2015). They chose different types of corporatization of the historical SOEs as DSB SOV (DSB) is a statutory company (Danish Ministry of Transport, 1998) and SJ AB (SJ) is a limited company (SJ AB, 2014) in internal marketization, but until now both countries have kept full state ownership. However, in external marketization both companies have had to compete, but have also been protected either through regulated monopolist rights as in Sweden or in negotiated contracts as in Denmark. Today the Swedish market for passenger rail is moving towards ever more competition and de-regulation (SOU, 2013, Finger, 2014, SOU, 2015, Castillo, (forth.) ) whereas in Denmark the government has decided to put competition on hold (Danish Minister of Transport, 2011, OECD, 2013). Figure 4 places the two countries in relation to internal and external marketization.

**Figure 4 Danish and Swedish cases in internal and external marketization**



The figure shows that the SOEs under scrutiny in internal marketization are fully owned SOEs, but with different legal foundations, as Danish DSB SOV is a statutory company and Swedish SJ AB is a limited company. In external marketization it shows that both countries have introduced competitive market delivery in terms of both tendering out and open access, but in Denmark there is also state-owned public service delivery that is not exposed to competition. By comparing the in-depth case studies of SOEs in Danish and Swedish passenger rail that were selected by purpose, I explore the role of the SOE in two polar outcome of marketization. Based on this I am capable of making analytical generalizations (Flyvbjerg, 2006) as mid-range theorizing about the role of SOEs in marketization (Georg and Bennett, 2005, Eisenhardt and Graebner, 2007) which is the concept of the Institutional Market Actor. Next to that the in-depth case studies also point to important mechanisms that are not found in both cases namely re-conversion in the Danish case and displacement across governmental levels in the Swedish case. The results of this PhD can then be further developed by other case studies or tested on a bigger population through other research methods in the future. In the following section I will elaborate on how I conducted the case studies.

### **3.5 Conducting the case study**

The case studies were based on qualitative data consisting of document analysis, elite interviews conducted as explorative, semi-structured and historical interviews and a few observations (Leech, 2002, Kvale, 2007). The interviews were used during the process to focus, deepen and triangulate the findings from the document analysis and are considered to be fundamental in a case study (Eisenhardt and Graebner, 2007, Yin, 2009) to secure validity.

As mentioned then the two case studies were conducted as two single in-depth case studies, but with the intention of comparing them. My approach was to retain the complexity of each individual case through thick case descriptions, while at the same time fleshing out empirical findings across the cases related to the development of analytical generalizations about SOEs in marketization as in a comparative case study approach. The comparison was always the main purpose and both case studies were guided by the same overall research question. An attempt was made, if not to standardise them, to harmonise the data collection in the two countries (Georg and Bennett, 2005) by focusing on a minimum of the same actors and when possible the same types of document. As a case study research should be “recursive cycling among case data, emerging theory and later extant literature” (Eisenhardt and Graebner, 2007, p.25) the two cases were in dialogue in thinking and on paper over time, but as my research process will show, each case had its own timely period and focus to retain complexity and allow for the uniqueness of the case to occur. In practice this means that I alternated between periods of focusing on only one case at a time and periods of comparison. In the following section I will describe the different methods used in the case study and how they related in conducting the case study.

#### **Explorative interviews**

For each case I started out by conducting eight explorative interviews with very knowledgeable actors in the public transport industry. The purpose was to gain an empirical understanding of my research field, but also to let new research topics occur (Dahler-Larsen, 2007). In both countries, I contacted people in my own network from my former positions in the industry, after which I used the ‘snowball effect’ wherein they suggested new persons to talk to (Goldstein, 2002b, Kvale, 2007). This led to different types of respondent in the two cases and also to different focuses on the activities of the two SOEs. The aim was to secure a thorough contextualization leaving space for the complexity of the phenomenon in the individual case.

Next to this, the explorative interviews also served the purpose of trying to establish ‘secondary sources’ (Ankersborg, 2007) that might speak more freely than primary sources in a politicized field. This was important as especially the Danish case turned out to be very sensitive. I decided to prioritize openness over precise documentation (Harvey, 2012) in this stage of the research and therefore the Danish explorative interviews and some of the Swedish explorative interviews were not recorded. Instead I took notes during and immediately after the interviews. Next to this I offered personal anonymity, so the interviewees are listed according to general job category (manager, employee) and overall organization. This led to an open dialogue that helped me focus my research questions and analytical approach and guided my case study work. In Sweden the interviews were conducted later in the process and therefore three of them were recorded. These resemble more closely the semi-structured interviews described below than the very first Danish explorative interviews. See Appendix 1 and Appendix 2 for a list of respondents, places and interview dates.

### **Document analysis**

Document study and analysis played a key role in the case studies. The case studies are primarily based on document study of official written sources such as policies, legal documents, national auditor reports and commission reports supplemented with annual reports from the SOEs. Where I initially searched for the same types of document when possible, it turned out that the documents in the two cases differed, reflecting the institutional environment in the countries and also in the sectors. In Denmark the basis of policy development is often found in minister-ordered consultant reports, the actual policies are found in cross-departmental policy reports and political agreements in combination with actual legislation. When problems occur the national auditor investigates the events and provides substantial retrospective reports on different issues, for example, on the first contracted-out activities (Danish Auditor General, 2002), on DSB’s economy after the problems occurring with DSBFirst (Danish Auditor General, 2014) and on the ownership policy of the state (Danish Auditor General, 2015). These documents are of a high standard and the national auditor even had in some cases access to commercial data from the SOE relating to tenders, which are not normally covered under the Open Administration Act. The policies and legislation were used to identify changes in the internal and external marketization and the national auditor reports served the purpose of identifying disputes, central periods and problems occurring in implementation owing to interpretations by the rule makers, all of which was later used as background in the interviews.

In Sweden commissions and their reporting in white papers including direct drafting of legislation play a prominent role in policy and regulatory development. These reports also include appendices made by researchers on specific topics like the market development and regulatory changes. During the years being studied, big commissions on the transport sector were carried out and these were the main documents used for the Swedish case to map changes in internal and external marketization over time (SOU, 2008, SOU, 2013, SOU, 2015). The commissions consist of representatives from the whole sector and therefore these documents not only feed into policy and regulation development, but also serve as main reference points for the sectorial actors. These reports served the purpose of identifying disputes and central periods, and were supplemented with extracts from relevant legislation on external marketization and ownership policies in relation to internal marketization. Next to this I also used retrospective national auditor reports on the corporatization of SJ (Swedish National Auditor, 2005). Additionally, Alexandersson (2010) in great detail mapped the de-regulation of the Swedish railway in his PhD, which also served as a secondary source. He also led the latest commission that finished in 2015 (SOU, 2015).

To get into the SOEs' perspective as rule taker it was much easier to select the same types of document for the two cases. I focused on publicly available strategies and annual reports to map the SOEs' activities and the companies' perspectives on the reforms. In Sweden I managed to get annual reports from 1988 to 2015, excluding 2001. In Denmark I analyzed reports going back to 2001. These publications are very professional and often produced by an external communication company; thus they can be seen as 'telling stories' about the company (Breton, 2009). The stories I looked for were official statements in relation to being an SOE that I could understand as interpretations of the institution by the SOE as rule taker. Therefore I focused on the mandatory legal statements and direct quotes by the CEOs and Chairmen of the boards, which I later triangulated with historical elite interviews with the same persons and with semi-structured elite interviews with representatives from the executive management in both SOEs.

To secure reliability, for both cases I constructed a database with the documents divided into SOE, ministries, competitors and auditor reports in Denmark and white papers (commission reports with suggestions for regulation) in Sweden. After the first two conference papers, I moved my database to NVivo software, which can assist in qualitative data analysis. The



document analysis, both on paper and in Nvivo, centred on broad themes related to the theory of marketization and specified for each paper and mapping changes over time. Alongside the problems of starting to use software over a third of the way through the process, I also faced problems with the program's technicalities. As I started the second round of my Swedish document analysis in Stockholm in May 2015, I could not access the work I had done on the Swedish and Danish cases in the winter of 2015 that was the first round of coding for article 3. Therefore I created a second file for the second round of data analysis on the Swedish case focusing primarily on SJ's annual reports as preparation for the interviews with the CEOs and Chairmen of the Boards. Back in Denmark, I could again access the file so I coded the documents for article 4 in the original data file from winter 2015. However, I experienced further problems with the original file so I created a third file for article 4 that then didn't include the coding for article 3. This meant that the coding for articles 3 and 4 was in separate files. These problems caused a lot of wasted time, but also meant that I coded and re-read the documents and thus got deeper into the material. Next to that, SJ's annual reports from 1988 to 2000 could not be transferred to and coded in NVivo because of formats, so in those cases I coded them on paper and wrote notes on the side. The latest contract between DSB and the Ministry of Transport could be transferred, but not be coded in Nvivo, so in that case I wrote notes using the memo function in Nvivo. NVivo holds a lot of opportunities for advanced data analysis, but in my case I used the program to get an overview of and analyze the themes among the many data sources across the two countries over the thirty-year period and, almost as importantly, to be able to come back into the themes when I had been away from a case for a while. Next to the work in Nvivo, I found it useful to work on the analysis in paper form as well, where I constructed timelines, organizational charts and other visualizations to help create the overview. The document analysis in the first three articles formed the basis of the first draft of long conference papers (Christensen, 2013, Christensen and Greve, 2013, Christensen, 2015a) that served as case reports and were later shortened, focused and turned into articles as presented in this PhD. The interviews were done on top of that. Parts of article 4 were derived from another conference paper (Christensen, 2015a), but as mentioned new coding was done and it was sent directly to a special issue and not presented at a conference.

### **Semi-structured elite interviews**

For both cases, then, all of the interviews were conducted after the first round of document studies and they were used to triangulate the case study by gathering new information about the

decisions that were taken and discovering new information about key events (Goldstein, 2002b) as well as to get into the former and current interpretations of the role of the SOE (Streeck and Thelen, 2005). As Berry (2002) points out, elite interviewing using broad open-ended questions might be the best choice when “depth, context, or the historical record is at the heart of data collection” (Berry, 2002, p. 682). I was fortunate enough both via private network contact, by continuing using the snowball method and by contacting important sectorial actors identified in the to get access to all relevant actors and for the most part at the executive or senior expert level; thus the interviews can be seen as elite interviews that shed light on the interpretation of the role of the SOE in marketization. The document analysis emphasized the regional level and the labour unions more than the ‘snowball’ and network contacts suggested which turned out to be important in both cases. These interviews highlighted the important regional shift in Sweden and the political nature of DSB in sectorial policy projects. As I realized that the cases were sensitive early in the process I decided to continue to offer personal anonymity in the semi-structured elite interviews. However, I needed more precise information and therefore I decided to tape the interviews (Harvey, 2012).

I contacted the interviewees via mail on official CBS paper (Goldstein, 2002a) with an enclosed description of my project and if possible with the one recommending the person cc’d on the letter. Many people responded very quickly and interviews were set up. In some cases I had to resend the letters, though that was often enough for the interviewees to agree to meet. I never needed to do follow-up calls. In the letters I also clarified that they would be taped and the interviews transcribed and I could offer anonymity. The interviews in Sweden were for the most part conducted during a one-month research stay. This meant that I clearly stated my period in Stockholm. What could easily have been a disadvantage because of lack of flexibility when conducting interviews with elite persons with a busy schedule turned out to be an advantage, as I was squeezed into time slots in the early morning or late afternoon. In Denmark, on the contrary, interviews were often moved and I ended up conducting the interviews over a much longer period than intended. The use of field notes and reflections after each interview in both cases was essential for remembering central parts and impressions. In the field notes I also made descriptions of how the interview went, where it took place and other observations and analytical points that needed further investigation.

The interviews lasted between forty and ninety minutes each with a Danish average of sixty-one minutes and a Swedish average of fifty-four minutes, which is a sufficient amount of time (Harvey, 2012). Before starting the taping I recapped the project and the formalities regarding anonymity and let the interviewees ask clarifying questions. It helped to create a good and open atmosphere. The interviews were conducted as semi-structured open-ended interviews. Each interview guide was tailored, but centred on SOEs in both internal and external marketization. For the interviews outside the SOEs, the interview guides were all centred on the position each organization has in internal and external marketization and their relationship to the SOE and how it had developed over time. For interviewees inside the SOE the interviews were centred on internal and external marketization as seen from the inside and how they interpret this in terms of both strategies and daily activities. See Appendix 3 for examples of the interview guides. Some of the respondents wanted to know the themes beforehand and I sent them via email. Before the interviews, I wrote interview guides in a notebook where I also wrote follow-up questions (Berry, 2002). The notebook was also used to write down additional questions during the interview. The idea of having the interview guides in a notebook in a handwritten format and not a printed copy was to create a situation of conversation (Berry, 2002). It also allowed me to work 'on the go', especially in Sweden, to quickly recall an issue or theme from a previous interview before conducting the next.

I started out by asking them about their background and position and then I went into themes and later the detailed questions relevant to the individual interviewees. In general I tried to let the interviewees speak, but to guide the interviews I asked for examples and followed up on issues that I found of special interest (Leech, 2002). My interpretation is that the interviewees were very open and honest when answering the questions. Often they expressed doubts about their own interpretations and reflections, but also turned back to questions and added additional dimensions or examples. However, because of the taping I got the impression that some interviewees were more self-conscious than I experienced in the explorative interviews. They looked at the recorder and were very concerned about facts. I experienced in several interviews the challenges of doing a triangulation between document analysis and elite interview in a sensitive policy area. In many interviews the interviewees started out by referring to the same documents that were the basis of the document analysis. My explorative interviews and private network contacts turned out to be valuable preparation for this as they had made me aware of

key concerns, conflicts and important issues beforehand (Berry, 2002) and giving me the opportunity to push back with pre-written critical follow-up questions (Leech, 2002).

Most of the interviews were transcribed in full, but in some cases the recordings were too bad to be able to transcribe and in one case the person ended up sending me to another person he found more knowledgeable, so I decided not to transcribe his. One key interview was not recorded in entirety owing to problems with the recorder. In that case I went home and wrote everything down I remembered as with the explorative interviews. The interviews were transcribed by country by student assistants and together with the spread of Danish interviews this delayed the approval process, which turned out to be more time-consuming than expected and a disadvantage. To strengthen validity, the transcriptions were sent for approval with a timeframe of two months. Most respondents responded within the given timeframe, but in a few cases it took more than six months to get approval and nine follow-up emails were being sent at the end on a bi-weekly basis. Next to this, some respondents became nervous about their anonymity when they saw the transcripts after a long period of time. Here, I underlined the need for approval of the interview in its entirety, but I then offered to send potential direct quotes for approval. None of the quotes used in the PhD has been edited in this process, but approved directly by email. When respondents made corrections in the full transcripts it was in relation to facts and in a few cases deletion of passages or personal views on concrete cases that could reveal their identity. I used tracked changes in the documents and so I was able to see the full version when I analyzed them .

I used both paper analysis and later Nvivo for coding the interviews per article (articles 3 and 4) based on the elements of internal and external marketization and the open category of the role of the SOE. Contrary to the document analysis where the coding was also to map changes and derive facts about formal changes and organization, the interviews were analyzed primarily as interpretations of these changes and mapping of the practice of the SOE in marketization and only secondarily to derive facts about key events that were not accessible in the document analysis. For both articles 3 and 4 I coded them again in Nvivo to strengthen them for publication. As the interviews were my own material and conducted by me, from the moment they were conducted and long before analysis and later supplementary coding they were part of the overall research process as general knowledge creation and in thinking on how to comprehend and analyze the cases and to conceptualize the institutional market actor.

I conducted the interviews in Sweden in Danish using Swedish terms and words and the interviewees spoke Swedish. From my professional background, I knew the Swedish terminology for the sector beforehand. My experience was that it made the contact easy and people were positively surprised that I did not conduct them in English. Especially for people who were not used to being interviewed, it made a relaxed environment and the interviewees talked freely and openly. I had a Danish-Swedish research assistant to transcribe my interviews and she pointed to a few times where I missed openings for follow-up. That said, my impression both during the interviews and afterwards when analyzing the transcripts is that I got a wealth of detail and good responses. Conducting the interviews in ‘Swedish’ additionally opened doors to new respondents in the ‘snowball’ as well as invitations to sectorial events during my stay that I might have missed if the interviews were conducted in English.

In the PhD I did not interview politicians, that is, current and former ministers and members of the transport committees from the different parties. This was a conscious choice as I wanted to move the focus away from the decisions to make a reform to the implementation of the reforms where the idea is that administrators as rule makers and managers as rule takers play vital roles in interpreting the reforms. In the interviews with the ministries, I could sense that these ‘interpretations’ were a product of the changing governments and administrators therefore seemed a bit concerned to express difficulties about a given set-up. In Sweden, however, an individual minister cannot intervene in the SOE, only the government as a whole backed by the parliament, so it seemed less important. In the Danish case, on the contrary, the political dimension was much more explicit and therefore I used press releases to cover when the minister intervened directly as interpreter of the existing institutional framework (article 2). The politicians, especially the ministers, could have been useful in understanding the role of the SOEs especially to expand on how they are involved in sectorial policy process in general, but also if the purpose had been more on why the reform was agreed on.

### **Historical elite interviews**

Along with the semi-structured elite interviews I also conducted historical elite interviews with all living former and present CEOs and Chairmen of the Board from DSB and SJ, inspired by the ideas of oral history (Leavy, 2011). Like the semi-structured interviews, these were open-ended, but centred on a timeline, and the focus was on personal experience, memories of events,

opinions and perspectives from the participants in that particular period when they worked for the companies. They thus hold a more narrative approach than the other interviews conducted for the project. The reason for choosing them was that they were the responsible management that made the interpretations by the rule-taker the SOE during marketization. I decided only to contact the CEOs and Chairmen of the Board who were fixed and not constituted. I succeeded in conducting all of these except for the first Danish CEO of DSB, Knud Heinesen (2000–2002). To get access to these people was the biggest challenge of the project when my network couldn't help. To obtain contact information I Googled their names, found organizations they were related to and contacted them, contacted journalists and other researchers and in some cases sent letters by post. There turned out to be a substantial network effect. As soon as I got one on the hook the next one was easier and so forth. In some cases, I offered to get potential quotes for acceptance to get them on the hook for an interview. That said, as soon as they were on they were all extremely generous and interested in the project and very open about their time in the SOEs.

The approach by Leavy (2011) on oral history focuses on doing more interviews with the same person. As this was not possible within the scope of this project I instead did extensive preparation for each interview based on my document analysis. I did a structured analysis of the annual reports focusing on the official statements of the CEOs and Chairmen of the Boards. I established a timeline and critical themes and events on a company level and made interview guides based on these (see Appendix 3 for examples of the interview guides). Next to this I read portrait interviews and official press releases concerning them and their office and if possible I read their biography related to the period when they worked for the SOEs (Adelsohn, 2014). These interviews are not anonymous as it was the persons themselves and their interpretations of their office that was important. I recorded the interviews and the full transcripts were sent for approval. In the Danish case quotes were also to be approved in most cases. I expected hassle regarding approval of the thirteen transcripts, but only three had major changes with whole passages being rewritten in a more official style. In two of these cases some valuable information was deleted. In three other cases only minor factual changes were made. My opinion is that this material holds many more stories and perspectives that are not explored fully in this dissertation, but they were very valuable for understanding the turns in the interpretations of the SOEs' role in marketization in articles 3 and 4 next to the official statements in the SOEs' annual reports and strategies .

In the literature on hybrid organizations there is a call to combine the macro level as societal institutions, the meso level as organizations and the micro level as individuals to reveal analytical perspectives and insights on hybridity (Thornton and Ocasio, 2008). However, this has proved difficult (Pache and Santos, 2013, Skelcher and Smith, 2015). From this perspective, this PhD focuses primarily on the interrelation between the macro level as policy and regulation by rule makers and the meso level as strategies by organizations. However, conducting interviews especially the historical elite interviews with the Chairmen of the Boards and CEOs, allowed it to touch upon the individual level, too. Within the perspective of gradual change I analyzed the interviews as representative of the rule taker, that is, at the organizational level. I granted them special privileges, though, and thus also alluded to the individual level. A future study could be to more seriously engage with the individual level and thus contribute to the advancement of the hybrid literature in this regard as well.

The table below provides an overview of the use of sources by article. In each article more detailed descriptions and reflections are provided in the methodology sections.

**Table 3 Overview of the use of document analysis and interviews by article**

	<b>Explorative interviews</b>	<b>Semi- structured interviews</b>	<b>Historical interviews</b>	<b>Main documents</b>
<b>A1: Choosing SOE over PPP</b>				Official reports Public material from MoT
<b>A2: Return of the hierarchy</b>	X			Official reports Press releases from MoT Annual reports
<b>A3: SOEs as institutional market actors</b>	X	X	X	Official reports Annual reports Contracts Ownership policies
<b>A4: Hybridity in the governance of SOEs</b>		X	X	Contracts Ownership policies Annual reports

## **Research process**

As the process was more iterative among case studies, theories and articles than the above table suggests, I will describe the different phases of my research process in detail below. Figure 5 illustrates the research process.

### *Phase 1: Outlining (November 2012–November 2013)*

In the first phase of the PhD I explored the broader concept of marketization and public transport in the literature, which empirically led to my focus on SOEs in marketization. I did a literature review of institutional theory focusing on the gradual transformation discussions by Streeck and Thelen (2005) and Mahoney and Thelen (2010), which inspired me as an analytical lens to open up the phenomenon of SOEs in marketization. In the same period I conducted the explorative interviews in Denmark and the first Danish document study. During this phase I drafted the conference papers that led to articles 1 (Christensen and Greve, 2013) and 2 (Christensen, 2013). The conference papers were long and detailed and introduced light theoretical descriptions of the Danish case, thus serving as case reports (Flyvbjerg, 2006).

### *Phase 2: Specifying focus on SOEs (September 2014–April 2015)*

This phase commenced with a two-month research stay at the Centre for Regulatory Studies at the Faculty of Law at Monash University.<sup>5</sup> I started my literature review very much inspired by Australian scholars like Roger Wettenhall and Ian Thynne, who have contributed substantially to the literature on SOEs. Afterwards I started my Swedish document analysis and conducted the explorative interviews in Stockholm. In this phase I also started to use NVivo to structure my document analysis and therefore I also did a second round of document study of my Danish case. This led to the construction of timelines and my first attempt to compare the two cases. This work was put into a long conference paper for IRSPM 2015 (Christensen, 2015a), which won the prize for the ‘Best Paper by a New Researcher’ and led to article 3 and parts of article 4.

### *Phase 3: Interviews (May 2015–March 2016)*

This phase started out with a six-week research stay at the Stockholm Centre for Organizational Research (SCORE) where I also conducted the main part of my Swedish case study. I did a second round of document study focusing on the annual reports of the SOE and conducted the semi-structured interviews and historical interviews. On returning to Denmark I started the

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<sup>5</sup> The current name is the Centre for Commercial and Regulatory Studies.



successful publishing process of article 2 (Christensen, 2015b). I also commenced the second round of the Danish case study including document study of the annual reports of the SOEs and conducting the semi-structured and historical interviews. This led to the second round of comparison following which I prepared article 3 for publishing and, through an additional structured document study of the contracts, ownership policies and annual reports, I also wrote the first draft of article 4. Article 1 was also prepared and sent for publishing, but was later rejected with very useful review comments.

*Phase 4: Analytical reflections (April 2016–September 2016)*

In this phase I focused on analyzing and sharpening the results and contributions of the case study including coding the interviews in Nvivo for article 4 and doing a completely new coding for article 3. I did this in two interdependent ways, by receiving external reviews on drafts of this introductory paper<sup>6</sup> and by making both successful and unsuccessful publishing attempts relating to the articles. Based on the review comments of all my articles, I was fortunate enough to get highly qualified academic input and thus engage in academic discussions *during* the finalisation of the PhD. This feedback influenced and sharpened the introductory paper, which in turn influenced how I revised the articles and got article 4 accepted for publishing (Christensen, 2017 (forth.)), got article 1 prepared for a new journal and accepted for revise and resubmit, and got article 3 submitted to a new journal. However, publishing while writing also means that the concepts might differ slightly between the first publication and the introductory paper as there is more than one year between the two.

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<sup>6</sup> External discussants Professor John Campbell, Dartmouth College, and Professor Giuseppe Grossi, Kristianstad University, at Closing Seminar, 21 April 2016, Copenhagen Business School.

**Figure 5 Overview of the different phases of the project**

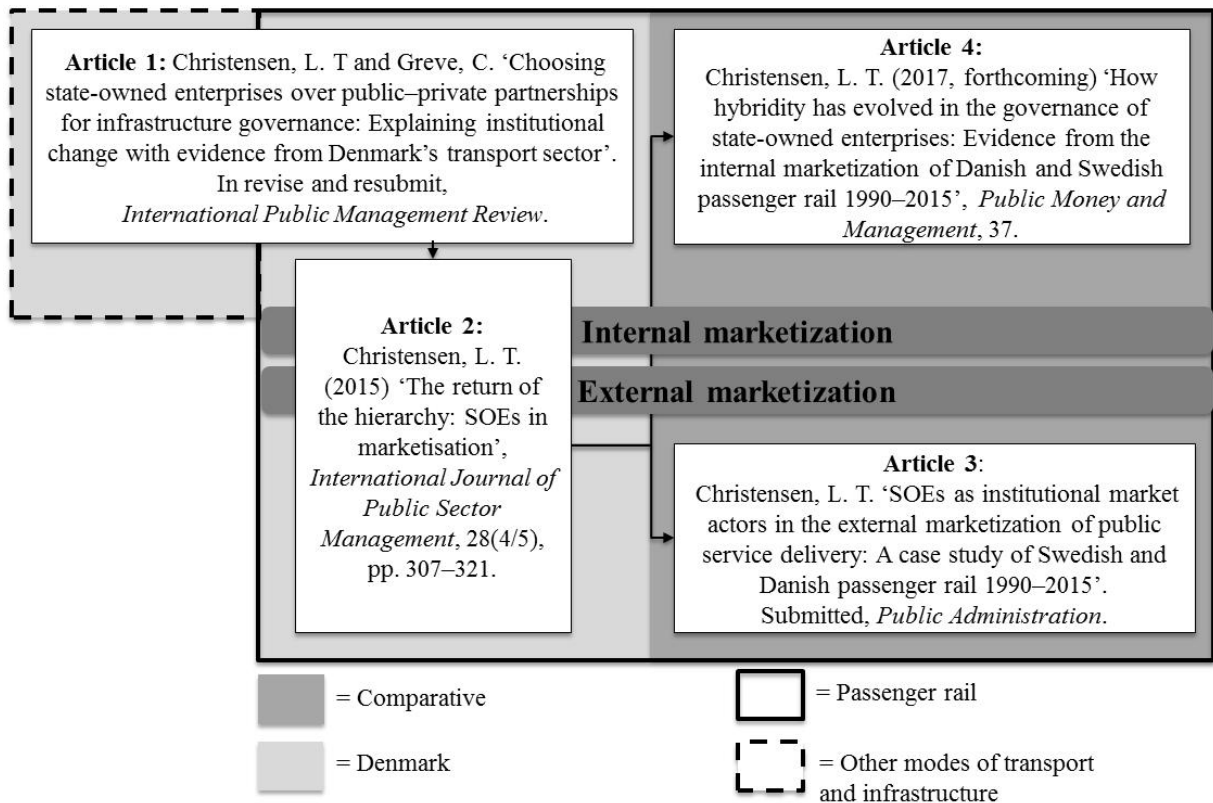
	Phase 1: Outlining	Phase 2: Specifying	Phase 3: Interviews	Phase 4: Reflections
<b>Theory</b>	<ul style="list-style-type: none"> <li>Broad study on marketization</li> <li>Institutional theory</li> </ul>	<ul style="list-style-type: none"> <li>Specific study on SOEs and marketization</li> </ul>	<ul style="list-style-type: none"> <li>Literature review and contribution related to publications</li> </ul>	<ul style="list-style-type: none"> <li>Re-cap of overall literature</li> <li>Theorizing of case study as a whole</li> </ul>
<b>Case study</b>	<ul style="list-style-type: none"> <li>8 DK explorative interviews</li> <li>DK document study</li> </ul>	<ul style="list-style-type: none"> <li>8 SE explorative interviews</li> <li>SE document study</li> <li>First comparison</li> </ul>	<ul style="list-style-type: none"> <li>18 SE semi-structured interviews</li> <li>7 SE historical interviews</li> <li>16 DK semi-structured interviews</li> <li>6 DK historical interviews</li> <li>SE + DK study, part 2</li> </ul>	
<b>Articles</b>	<ul style="list-style-type: none"> <li>Article 1 as conference paper</li> <li>Article 2 as conference paper</li> </ul>	<ul style="list-style-type: none"> <li>Article 3 as conference paper</li> </ul>	<ul style="list-style-type: none"> <li>Article 2 published in IJPSM</li> <li>Articles 1, 3 and 4 to journals</li> </ul>	<ul style="list-style-type: none"> <li>Article 3 rejected, then improved and submitted to PA</li> <li>Article 4 accepted for publishing by PMM</li> <li>Article 1 rejected, then improved and now in revise and resubmit to IPMR</li> </ul>

In the following the four articles are presented in abstract form before the conclusion section. Full versions of the articles can be found in Part II.

## 4. Overview of the four articles of the PhD

This section consists of the titles, abstracts and publication plans for the four articles that are the basis of this PhD dissertation.<sup>7</sup> Figure 6 illustrates their relationships to each other and to the themes of the dissertation.

Figure 6 Relationship of the articles to the themes of the PhD



The articles are found in full length in the PhD thesis's Part II.

**Article 1: 'Choosing state owned enterprises over public-private partnerships for infrastructure governance: Explaining institutional change with evidence from Denmark's transport sector'.**

<sup>7</sup> During the time of the PhD I also co-authored together with Sophie Sturup a conference paper for the World Conference on Transport Research, 2016: 'Deepening partnerships in Danish rail provision: Balancing efficiency and governance' and the article 'Sustainability through partnerships after the contract is sealed: Evidence from Danish passenger rail', which has been submitted to a special issue of the *European Journal of Transport and Infrastructure Research*. They focus on Danish passenger rail, but as they are based on another methodology and different focus they are not included.

Co-author: Professor Carsten Greve, Department of Business and Politics, Copenhagen Business School.

Publications status: In revise and resubmit, *International Public Management Review*

**Abstract:**

**Purpose:** The purpose of this article is via the perspective of historical institutionalism to resituate SOEs in academic discussions on infrastructure governance by explaining why SOEs can be the preferred over PPPs in infrastructure governance.

**Design/methodology/approach:** The article is based on a document study of the institutional elements of all Danish transport infrastructures: roads, bridges and tunnels, rail, airports and harbours.

**Findings:** The new modern Danish model for SOEs for mega projects was chosen at a critical point in time when the public–private partnership model was starting to grow in other countries. The model combines a professional board and management with state-guaranteed loans and user charges. The model was layered on the existing agency model for transport infrastructure governance and became locked in for new mega-projects and thus excluded PPPs as a model in Danish transport infrastructure governance.

**Originality and value:** The article contributes to the call to understand contemporary SOEs by identifying and explaining the development and use of a *new* 100% SOE that is perceived to outperform marketized solutions.

**Article 2: Christensen, L.T. (2015) ‘The return of the hierarchy: SOEs in marketisation’<sup>8</sup>**

*International Journal of Public Sector Management*, 28(4/5) pp. 307–321.

Special issue: Corporate governance, accounting and accountability of state-owned enterprises and agencies at local, national and regional level: Taking stock and next steps in theory and practice.

Published: 4/11-2015

DOI: <http://dx.doi.org/10.1108/IJPSM-04-2015-004>

**Abstract:**

**Purpose:** The purpose of this article is to contribute to the conceptualisation of SOEs as a mode of governance in marketisation via the perspective of historical institutionalism.

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<sup>8</sup> This article is published following a journal standard that uses –ise and not -ize as the rest of the PhD thesis.

**Design/methodology/approach:** The article is based on a qualitative case study of the marketisation of Danish passenger rail from the 1990s to date where marketisation has been set on hold since 2011 due to the activities of the SOE.

**Findings:** The article shows that market governance was layered on the hierarchical governance of the SOE that was later turned into a hybrid governance mode through corporatisation. This layered set-up provided the state with a double governance grip that drove marketisation until 2011. However, the SOE as a hybrid created ripple effects between the market and the hierarchy that hampered the marketisation. The hierarchical governance turned towards centralisation and market governance was put on hold. The hybridity of the SOE was endogenously displaced via closing down of commercial activities, leading to a re-conversion of the SOE towards the hierarchical mode.

**Originality and value:** The article contributes to the discussions about hybridity and recentralisation in post-NPM era. It presents a case on how hybridity is altered and evolves in SOEs as a hybrid mode of governance between hierarchy and market in marketisation and how this can lead to re-centralisation.

**Article 3: ‘SOEs as institutional market actors in the external marketization of public service delivery: A case study of Swedish and Danish passenger rail 1990–2015’.**

Publication status: Submitted to *Public Administration*

**Abstract:**

**Purpose:** The purpose of this article is to explore the role of state-owned enterprises (SOEs) as market actors in the external marketization of public service delivery from a historical institutionalist perspective

**Design/methodology/approach:** The article is based on a qualitative comparative case study of the SOEs in passenger rail in Denmark and Sweden from 1990 to 2015.

**Findings:** The article shows how marketization results in a layered set-up of public service delivery where the SOE becomes what we call an institutional market actor bridging sectorial challenges. In Sweden this role has a New Public Governance form as the monopoly is fully dismantled and regional authorities endogenously displace the historical role of the SOE leaving the SOE as market actor in drift, but with sectorial expectations on national level. In Denmark over time external marketization is put on hold because of problems with the SOE as market actor, but the national authorities safeguard the SOE in a New Weberian Model as sector coordinator.

**Originality and value:** The article contributes to the academic discussions about the role of contemporary SOEs in public governance.

**Article 4: ‘How hybridity has evolved in the governance of state-owned enterprises: Evidence from the internal marketization of Danish and Swedish passenger rail 1990–2015’.**

Publication status: Accepted for publication in *Public Money and Management*, 37, 2017

Special issue: Performance measurement in hybrid organizations

**Abstract:**

**Purpose:** The purpose of this article is to explore how hybridity evolves in the governance of state-owned enterprises (SOEs) in marketization.

**Design/methodology/approach:** The article is based on a qualitative comparative case study of passenger rail in Denmark and Sweden from 1990 to 2015.

**Findings:** The article shows that the SOEs are converted into commercially-oriented companies before corporatization and that hybridity occurs in relation to the sectorial role that is layered in market-based set-ups. Danish DSB is reconverted as the layered sectorial role expands via the actor’s interpretations. The hybridity is reduced and the conversion enhanced for Swedish SJ via commercial orientation in the formal governance set-up, but hybridity persists informally.

**Originality and value:** The article contributes to the academic discussion on hybridity in public organizations and governance by showing the relevance of including 100 per cent SOEs where hybridity is about goal ambiguity and not mixed ownership. The article suggests adding the *interpretations* of the governance set-up by the rule makers *and* rule takers as a driver of change in the hybridity between governance and organizational level.

## 5. Conclusions

The explorative comparative case study of the marketization of passenger rail in Sweden and Denmark from 1990 to 2015 shows that both countries took a point of departure in the NPM logic of both internal and external marketization. The old SOEs were on an organizational level already *converted* into commercially-oriented companies before the formal corporatization. In relation to external marketization the market reforms were initially *layered*, which kept the SOEs as bases for passenger rail with the new markets added on where the SOEs also became market actors among others but with the sectorial role of public service provision *layered* in a market-based set-up of a Swedish commercial monopoly and a Danish negotiated contract. With corporatization, both SOEs experiences hybridity between the levels of commercialized market actor in the new markets and the sectorial role. The implementation of this layered set-up with the SOEs both as converted SOEs with a layered sectorial role and as market actors in external marketization takes different trajectories in the two countries.

The Danish case suggests a new fifth type of gradual change: *reconversion*. Over time DSB was redirected back towards old goals despite formal commercialization and professionalization (articles 2 and 4) and problems as a market actor in the *layered* external marketization (article 3). This took place as the *layered* sectorial role was expanded via interpretations in the SOE's strategies and daily handling of the hybridity between commercial activities and negotiated contracts by the rule makers and the rule takers (article 4), but also as the SOE was faced with political demand because of problems as market actor to cut cost and close down the commercial activities (article 2), but finally land an extended negotiated contract (article 3) that put external marketization on hold.

In Sweden, on the contrary, the commercial orientation in the governance set-up reduced the hybridity and strengthened the conversion towards NPM logic. The hybridity between the *layered* sectorial role and the *converted* SOE was formally reduced with the dismantling of the commercial monopoly (article 4). This was enforced further as the regional transport authorities as endogenous actors in external marketization took over parts of the sectorial role of the SOE leaving SJ as a market actor in *drift* (article 3). Despite the *displacement*, the hybridity persisted outside the formal governance set-up of SJ as societal expectations to handle national sectorial challenges. The Swedish case thus points to the dynamic between governmental levels as a driver for marketization and an important relationship to investigate in future analysis of SOEs

in marketization. In the table below the development is illustrated and the following two sections will elaborate and discuss the findings.

Table 4 Gradual change mechanisms in external and internal marketization in Denmark and Sweden

	Denmark	Sweden
<b>Internal marketization as corporatization</b>	<p>SOE <b>converted</b> to commercially-oriented company.</p> <p style="text-align: center;">↓</p> <p><b>Displacement</b> through cost-cutting and closing down of commercial activities and <b>reconversion</b> appears because of failure in the market role and interpretations in daily handling and strategies.</p>	<p>SOE <b>converted</b> to commercially-oriented company.</p> <p style="text-align: center;">↓</p>
<b>External marketization as liberalization</b>	<p style="text-align: center;">↑</p> <p><b>Layering</b> of new markets on top of the SOE, which becomes a market actor in the layered set-up.</p> <p>The sectorial role is <b>layered</b> in a negotiated contract that persists and put the external marketization on hold and lead to <b>re-conversion</b>.</p>	<p><b>Layering</b> of new markets on top of the SOE, which becomes a market actor in the layered set-up.</p> <p>The sectorial role is <b>layered</b> in a commercial monopoly supported by negotiated contracts that over time is dismantled.</p> <p><b>Displacement</b> of the historical role of the SOE by regional transport authorities as endogenous actors.</p> <p style="text-align: center;">↓</p> <p>SOE as market actor in <b>drift</b> also because of lack of formal reinterpretation of its role on national level.</p>



The PhD thus contributes to the revitalized and current debate about contemporary SOEs with new empirical insights from two important Nordic countries that have a history of state ownership where case studies about contemporary SOEs are few (Alexius and Örnberg, 2015, Bruton et al., 2015, Grossi and Thomasson, 2015). The different trajectories also point to an important difference in the two countries that should be considered when discussing marketization in the Nordic countries (Greve et al., 2016, Van de Walle et al., 2016).

### **5.1 Denmark: Marketization as reconversion and a New Weberian SOE role**

In the Danish case the SOE was turned into a hybrid governance mode through corporatization (article 2) and a hybrid organization (article 4) having both commercial activities at arm's length with the option of participating as a commercial market actor in public tenders of its own traffic and negotiated activities on subsidy from the state and in the layered external marketization. This layered set-up provided the state with a double governance grip that together with the hierarchal governance of policies and political agreements drove the external marketization until 2011 (article 2). However, the hybridity of the SOE created ripple effects between the internal and external marketization that hampered marketization when financial and operational problems occurred in its commercial activities that created a governance dilemma for the state as both owner and regulator (articles 2 and 3). The internal marketization was turned towards centralization (articles 2 and 4) and the external marketization was put on hold (article 3). The hybridity of the SOE was endogenously displaced by tiring out the SOE via cost-cutting and closing down of commercial activities and by strengthening the new negotiated contract (articles 2, 3 and 4). This took place via interpretations by the SOE and the rule makers (articles 3 and 4) and can be said to have led to a reconversion of the SOE towards its old institutional repertoire in the hierarchical organization of the Ministry of Transport.

This implies that the hybridity of the SOE as a governance mode and organization changed over time, not because of legal changes in ownership or statute, but because of the interpretation of the role of the SOE by the Ministry of Transport and the SOE. This took place in changes of strategy by the SOE, in changes of organizational set-up and policies by the Ministry of Transport and in the negotiated contracts between the two parties as the sectorial role was expanded (articles 2, 3 and 4). The SOE as a mode of governance made it possible for the Ministry to gain control over the sector through recentralization when major problems occurred

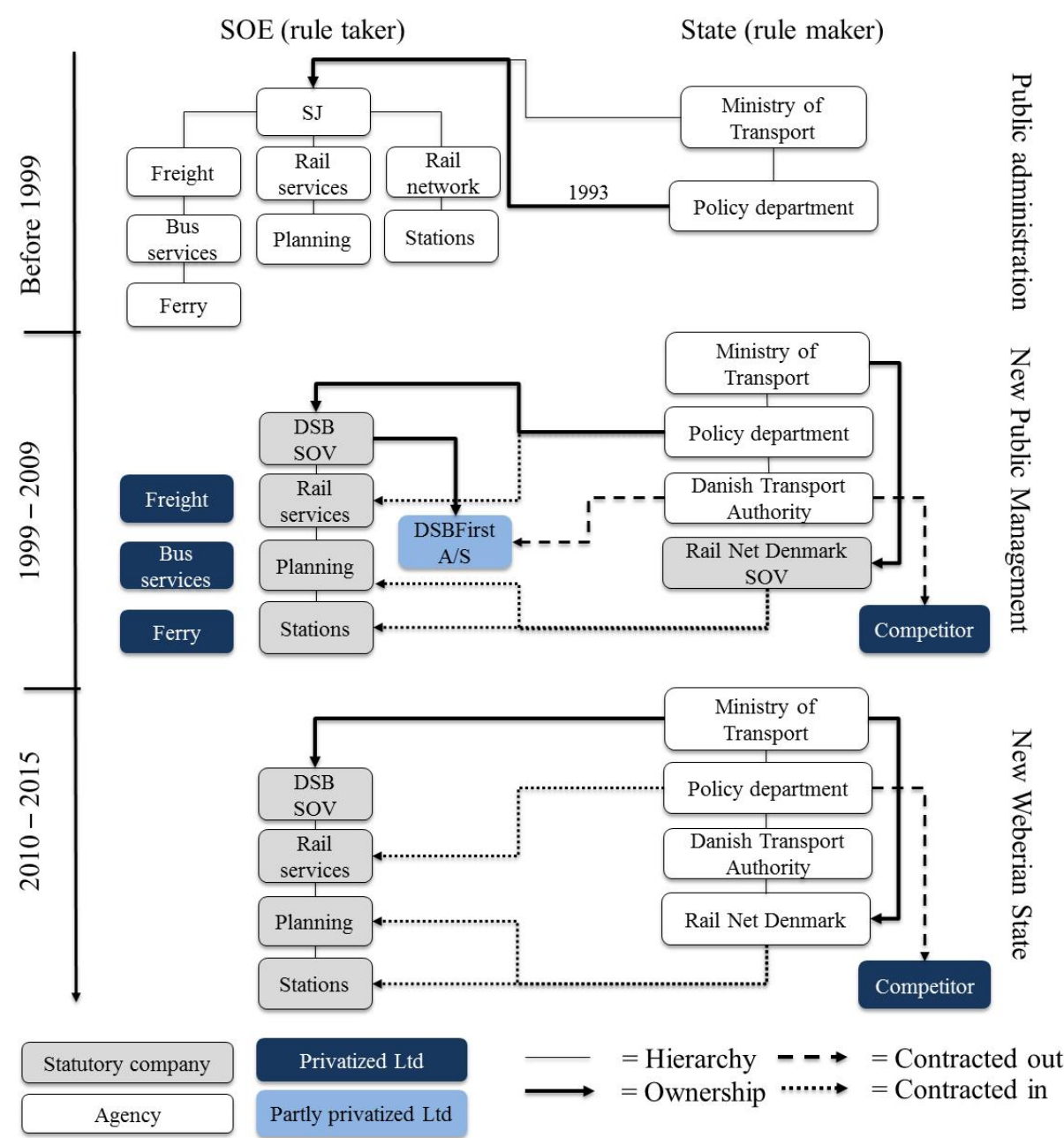
in the external marketization owing to the associated company of the SOE. This points to the fact that by having an SOE as a governance mode in public service provision, external marketization does not inevitably lead to more liberalization, but can be recentralized not only on an executive level (Dommett and Flinders, 2015) or as a part of major reforms (Pollitt and Bouckaert, 2011, Christensen, 2012), but in a sector through actors' interpretation of an existing institutional set-up.

The Danish case points to a potential fifth type of gradual change: *reconversion*. Conran and Thelen (2016) identify conversion as an endogenous change process where there is no exogenous change and no formal change of the original institution, only reinterpretation. Conversion can appear because there is a need to reinterpret an old institution (Streeck and Thelen, 2005). Both cases show that conversion takes place in internal marketization as a reinterpretation of the old institution – the historical SOE – but that there is also exogenous change as layering in external marketization upon the converted SOE. It is, however, not drift because there is reinterpretation about the old institution – the SOE – at the same time. This indicates a great interdependence between the two gradual change processes of conversion and layering. Where layering can lead to displacement where endogenous actors exploit the new opportunities as in the Swedish case and therefore gradually break down the old institution, the Danish case suggests that, when layering does not succeed, reinterpretation and reconversion back to the old institution can happen and the institution regain relevance. Where (Campbell, 2003) points to how politicians reversed major reforms because of political resistance, reconversion seems to have to do with the important rule makers and rule takers in implementation between the converted and the layered institution.

The concept of reconversion alludes to a more general consideration in the public governance literature about the potential for a more prominent role of the state in public governance in a post NPM era as put forward in the literature on the New Weberian State (Pollitt and Bouckaert, 2011, Greve et al., 2016, Van de Walle et al., 2016). The PhD suggests state ownership as a dimension in this and especially in situations of marketization where state ownership holds the potential of a double governance grip that can balance the coordinative problems occurring in marketization as a supplement and alternative to full marketization (Del Bo and Florio, 2012, Florio (ed.), 2013).

Figure 7 illustrates the development in the Danish case study based on articles 2, 3 and 4 and how it moved towards a New Weberian model for SOEs in marketization where the state prioritized control over competition in marketization. The figure illustrates the point that is also put forward by the New Weberian literature in general in relation to other aspects of public governance (Pollitt and Bouckaert, 2011), that the SOE is converted and thus modernized, but, because of problems in marketization, it is reconverted and keeps a central role in the sector.

Figure 7 The gradual institutional change of the relationships between rule maker and rule taker in the Danish case



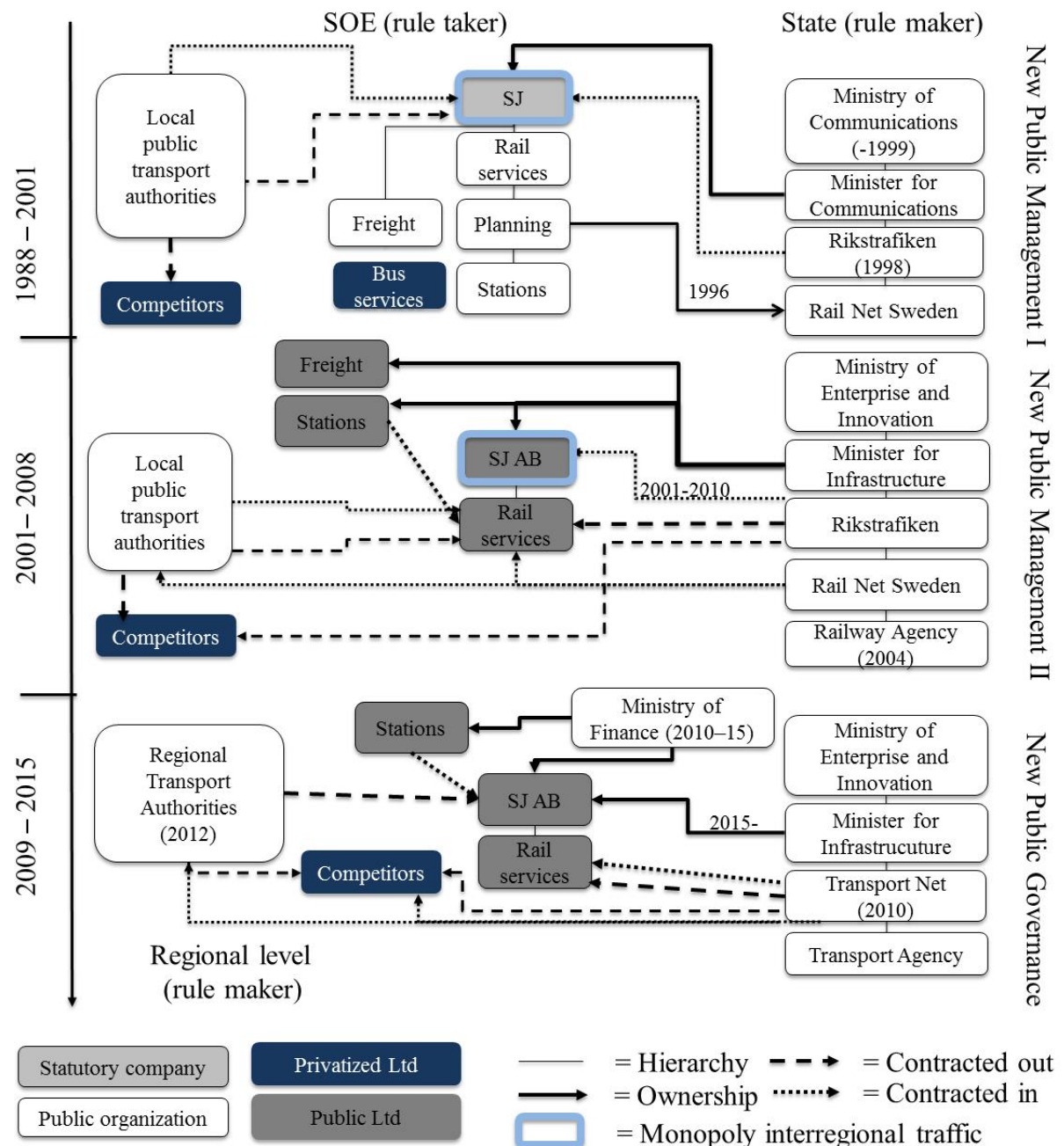
## **5.2 Sweden: Marketization across governmental levels and a New Public Governance SOE role**

In Sweden both internal marketization and external marketization started earlier, and more tasks were moved away from SJ from the beginning, creating more actors than in the Danish case (article 3). There was a formal separation between the layered national sectorial role and ownership policy and the layered sectorial role was dismantled and external marketization expanded (article 4). Next to that, dominant local and later regional transport authorities were influential as endogenous actors in external marketization that accelerated external marketization and in this process also displaced the historical role of the SOE as coordinator on regional level, which weakened the role of SJ as market actor considerably despite a strong historical position (article 3). Focusing primarily on external marketization, Alexandersson (2010) terms the Swedish marketization ‘accidental de-regulation’ because of how actors pushed the new institutional set-up when Statens Järnvägar was dismantled in 1988. This PhD thesis shows that this has continued since 2010. By means of analyzing external marketization as displacement the PhD shows that the regional transport authorities not only accelerated external marketization beyond the legislation’s original intention, but also as endogenous actors took over the role of the SOE (article 3). Another factor that this PhD thesis suggests is that the role of the SOE was further reduced in internal marketization as the ownership policy over time evolved towards ever more conversion towards NPM logic (article 4). These two developments left SJ as market actor in drift (article 3). The latest transport commission even suggested considering a privatization process for SJ (SOU, 2015). What the Swedish case, however, also shows is that societal expectations persist based on historical legacy via interpretations of the role of SJ in negotiations with politicians about commercial activities and in SJ’s corporate strategy and voluntarily attempting to become the leader in sector coordination (article s 3 and 4).

Figure 8 illustrates the development in the Swedish case study based on articles 3 and 4 and suggests interpreting the Swedish case as a move towards a New Public Governance model for SOEs. The figure illustrates the point from New Public Governance that there are many influential sectorial actors (Osborne, 2010) in external marketization and that the challenge in competition is to secure coordination among these actors. The PhD suggests that the SOE becomes a sectorial actor among others, but that the SOE has a privileged position and a central role in marketization because of both state ownership in internal marketization (article 4) and

historical legacy (articles 3 and 4). The role of the SOE is therefore more negotiated and informal because it is still perceived responsibly by external stakeholders and because it delivers on an operational level the major part of interregional transport services, though now on commercial terms. Therefore it still faces informal hybridity (article 4).

Figure 8 The gradual institutional change of the relationships between rule maker and rule taker in the Swedish case



### **5.3 Conceptualizing the SOE as an institutional market actor**

The conclusions above answer the research sub questions on how internal marketization influenced the modes of governance between the state and SOEs and how SOEs have been engaged as market actors in the external marketization of passenger rail in Denmark and Sweden between 1990 and 2015. It points to how internal and external marketization are mediated through the SOEs and that the role is changing over time, but with national differences that lead to two different models of SOEs in marketization. It confirms Paz (2015) finding that the relationship between SOEs and the state in marketization is bi-directional; it does not go only in one direction where marketization influences the SOE, but also the other way around and that it is ambiguous (Rentsch and Finger, 2015). This leads to the answer of the overall research question of what the role is for SOEs in an era of marketization of public service provision, and I suggest answering this via the concept of what I term ‘institutional market actor’ (IMA). The SOEs hold privileges based on their historical position, but in the transformation to market actors the dynamic between old institutional privileges and market actor behaviour creates a position for the SOE that goes beyond that of a market actor in a narrow sense and could be seen as those characterizing an organization as institution-like suggested by Streeck and Thelen (2005). The strategic possibilities thus create normative expectations among sectorial stakeholders to bridge sectorial challenges that occur in external marketization that constrain the SOE. This places the IMA in between the historical governance model and the NPM logic of internal and external marketization as shown in the table below.

**Table 5 Institutional market actors: A conceptual framework**

		<b>Institutional Market Actor</b>		
	<b>Historical governance model</b>	<b>New Weberian model</b>	<b>New Public Governance model</b>	<b>NPM logic</b>
<b>SOE role</b>	The SOE is a political institution in the state.	The SOE is a mode of governance with commercial independence, but strong political ties based on legacy.	The SOE is a sectorial market-based actor among others with an informal privileged position based on legacy.	The SOE is a market actor on the way to becoming privatized.
<b>SOE as an object in internal and external marketization</b>	Political governed monopoly that provides a given public service on regulated market terms, but subsidised by the state.	Strong formal and historically-based institutional and sectorial role and responsibilities as a coordinator that is political governed, but transferred to market-based set-up	Weak formal or no institutional sectorial role and political interference, but historical legacy creates the basis for an informal sectorial role as coordinator with substantial stakeholder expectations.	Commercially-oriented state-owned organization that works at arm's length from politics and provides public services in a regulated but competitive market.
<b>SOE as a subject in internal and external marketization</b>		SOE is commercially driven organization.  Its tight relationship to the political level means that it has ownership access and can influence sectorial development via its own strategies, but also constrain its ability to act as commercially.	SOE is commercially driven organization.  SOE has closeness to the political level because of ownership, but most stakeholders take account when influencing sectorial development and achieving its commercial ends.	

In the following the IMA is conceptualized in four analytical dimensions that derive from the explorative comparative case study of the SOEs in Danish and Swedish passenger rail. To do this, the next section recaps the historical role of the SOE. Following that the four analytical

dimensions are discussed in relation to first how the IMA extends the historical role of the SOE and second how it extends and contributes to the contemporary enquiry into SOEs in marketization. Finally, the implications of the IMA are outlined.

### **A historical understanding of the role of SOEs in public service delivery**

Thynne (1994) identifies two contrary theoretical propositions on how to deliver public service: the orthodox based on the historical SOE and the public choice or NPM logic based on competition and preferably private enterprise. Based on the historical SOE public service is delivered via a public bureaucracy that is organized as a large enterprise in a single provider structure (monopoly) where labour is on open-ended contracts and the services are generally financed by tax funds. In the public choice perspective public service should be provided by small private or independent enterprises in competition where labour is organized on performance contracts and the services are based primarily on user charges or earmarked taxes (Thynne, 1994, p. 76). From a public management perspective, Farazmand (1996) characterizes an SOE as an organization before marketization. He points to SOEs being legally and legislatively created by the government with a monopoly status or minimal competition, but that they provide price-tagged goods and services in order to make profit and finance themselves and hold the legal ability to borrow in the financial market. He stresses that they work in a business-like manner with the political power of government and political influence, but that they have autonomy and are independent from political control. He characterizes SOEs as stable environments with high job security where the management has autonomy and discretion and while being created for single purpose they are often multifunctional and adopt corporate strategies of survival and organizational expansion.

### **Contemporary SOEs conceptualized as institutional market actors**

As put forward in the introduction to the theory section the explorative comparative case study has led to four dimensions that characterize the institutional market actor which will be discussed in the following.

The institutional market actor (IMA) is:



1. An SOE has obtained economic and judicial independence via internal marketization as corporatization, acts on commercial terms and sells services with a price tag on, and is governed via a 100 per cent ownership relationship with the state.

In relation to the historical definitions of the SOE this dimension is an amendment to the realization of the SOE as a different kind of organization from other public organizations by being commercially oriented (Wettenhall, 2003a). The SOE is a commercially-driven organization and, even in a situation like the Danish one where it is still statutory company and has a negotiated contract, the SOE is not an agency, but an operational organization that delivers a service on commercial terms. This makes the SOE different from an agency (Farazmand, 1996, MacCarthaigh, 2011) and emphasizes commercial operations as a legitimate part of government (Wettenhall, 2003a). It also stresses arm's length in judicial and financial terms and that this is governed in an ownership relationship that is different from political governance (Christensen and Lægreid, 2003) because it focuses on the economic performance of the SOE. In comparison with the older definition of SOEs, the ideal of internal marketization introduces ownership policy as something non-political and highlights the importance of a research agenda about corporate governance in SOEs (Alexius and Örnberg, 2015, Grossi et al., 2015). However, the PhD shows this as a process of *conversion* that can take different trajectories where the SOE has a high level of influence (article 4), but also that ownership can become highly political and a solution to problems in external marketization (article 2) and even lead to reconversion (articles 3 and 4).

2. The SOE faces competition in its previous monopoly on public services because of external marketization and thus also has a relationship to the state as a market actor.

This is novel for the concept of the IMA in comparison to the historical SOE definitions and it means that the SOE is no longer an intended monopoly as before. It also builds on Thynne (2011a) that highlight the important of the maturity of the SOE. In relation to the IMA it is important that it is the *former* monopoly activities that are in focus and not a new SOE-model as in article 1. Public service provision is exposed to external marketization and relates to the NPM model where there are competition and rivalry in public service provision (Kettl, 1993), which can of course be limited (Kettl, 2010). For the role of SOEs it means that the SOE has several relationships towards the state as pointed out by (Rentsch and Finger, 2015) especially focusing

on the regulator role in relation to external marketization. In relation to the conceptualization of the IMA the PhD shows (articles 2 and 3) the introduction of competition as a *layering* process where the SOEs become market actors in the new public service markets, but alongside other sectorial roles. In this process the SOEs are trying to utilize their former position in different ways to stay market dominant, but the legacy also constrain them commercially (articles 3 and 4). Article 2 shows that it creates a double governance grip for the state, but that it backfires when implementation goes wrong owing to problems with the SOE as a market actor in external marketization and weak ownership control in internal marketization.

The PhD shows that there are new types of SOE that occur in marketization that do not face competition and that can be considered monopolies as they though being a SOE they work as tendering organizations. This is the case in article 1 about Danish transport infrastructure governance where a new modern SOE model is layered on the agency model of public transport infrastructure. This is also the case in article 3 in the Swedish case where on regional level first as tendering organizations and later as regional transport authorities have taken over the historical role of the SOE. Finally, it is the position that the Danish SOE puts into play in article 4 as a potential role for DSB in the future. Though important, SOEs as tendering authorities are not IMAs because they are not market actors in competition about service provision.

3. The SOE has a sectorial role of serving policy purposes for the state that stems from its historical and political legacy as a former monopolist that is transformed into market-based arrangements and network arrangements where the SOE has a special position of bridging the challenges that occur in external marketization.

The transformation of the sectorial role is different from the historical SOE where this was constituted in the monopoly (Thynne, 1994, Thynne, 2011a) and the SOEs were regarded as having major political influence as such (Farazmand, 1996). It is also something that is not dealt with in NPM literature because it should be transformed into contracts (Kettl, 1993) and coordinative tasks should be turned into agencies (Verhoest et al., 2012). The PhD, however, shows by studying the SOEs in marketization that the monopoly is *next to* the other processes turned into a sectorial role in a market-based form as Danish negotiated contracts and Swedish commercial monopoly. This influences both internal marketization as in articles 2 and 4 where it is studied as layered on ownership of converted SOEs and therefore becomes a driver of

hybridity and in external marketization as in articles 2 and 3 where it is studied as part of the layering of tendered contracts and open access that creates opportunities and constraints for the SOE as a market actor. The sectorial role adds to the literature on contemporary SOEs the idea that next to ownership (Bruton et al., 2015) and regulator relationships (Rentsch and Finger, 2015) there is also a policy relationship as suggested by Paz (2015). The PhD contributes by showing how it develops over time in article 4 and how it influences external marketization in articles 2 and 3, which form the basis for the fourth dimension.

4. The sectorial role develops both formally and informally via interpretations by primarily the state as rule maker and the SOE as rule taker, but also via other sectorial stakeholders in the sector via institutionalized expectations based on historical and political legacy.

This point relates to the political influence of the SOE as an institutional actor in comparison with the historical SOE and NPM logic. Farazmand (1996) argues that the SOE has major political influence but is politically independent. Some of the NPM arguments for reforming the SOE have been to establish an arm's length position both by strengthening the independence of the SOE's management and at the same time by reducing the power of the SOEs via depoliticization (Wettenhall, 2001, Thynne and Wettenhall, 2004). Where the sectorial role is defined in the third point, this dimension highlights that the SOE influences the development of its own role and the sector in general in as a rule taker. The SOE has operational knowledge and capabilities that the ministries and agencies do not have and size that stems from its former monopoly position (article 3), but also ownership status (article 4). This is possible as the monopoly is transferred into very simply and not especially specified market-based institutions at the beginning of marketization and loose ownership policies, which leaves a lot of discretionary room for the rule makers and takers to interpret the role of the SOE in marketization. This is with time formalized, but informally the role is negotiated via expectations beyond the formal institutions (articles 3 and 4). This is also related to the fact that society as such holds expectations of the SOE that go beyond the formal set-up and could be said to force the SOE to include broader sectorial concerns and point to other important stakeholders than just the state (Yeung, 2005). The Swedish case shows that, even when the market-based role is phased out, there is a sectorial role that stems from the historical and political legacy of the monopoly that is transferred into a New Public Governance (Osborne, 2010) set-up where the SOE has a privileged position in the sectorial development among the

other sectorial actors that occurs with marketization. To go back to the proposition of this dimension, this PhD shows that in an era of marketization the SOE is still influential and has political power, but this comes together with political involvement that also includes handling other stakeholders' normative expectations based on the historical role.

### **Implications of the concept of the institutional market actor**

The concept of the institutional market actor contributes to the academic enquiry into contemporary SOEs (Bruton et al., 2015) in public governance (Thynne, 2013, Bernier, 2014, Florio, 2014a, Grossi et al., 2015) with an approach that stresses the SOE both as a policy tool for the state and as a market actor in public service delivery. The PhD thus contributes to the academic discussion of gradual change in the post NPM era (Christensen and Lægreid, 2011c, Bezes and Lodge, 2015) by suggesting that when analyzing a reform of an organization that has institutional features, but also becomes a market actor, more mechanisms are at play simultaneously and can change over time and even be reversed.

The concept of the institutional market actor suggests a way to approach and create analytical clarity about SOEs in public governance based on their role in the market (Ahrne et al., 2015). Conceptualizing the SOEs have over time proven difficult because as a term it is used very broadly (Grossi et al., 2015) and as analytical object it goes under different terminologies: public enterprises (Wettenhall and Thynne, 2002, Florio and Fecher, 2011), state-owned enterprises (Ennser-Jedenastik, 2014, Kankaanpää et al., 2014, Bruton et al., 2015) and government-owned enterprises (Christensen and Lægreid, 2003). There have been various attempts to make typologies based on judicial and economic dimensions (Thynne, 1994, Wettenhall, 2003a, Van Thiel, 2012). Others have tried to incorporate the empirical diversity of all companies with some state ownership under the concept of the SOE (Bruton et al., 2015, Grossi et al., 2015). I suggest that it is worth trying to expand our analytical understandings of this myriad of organizations under the overall term SOEs by focusing on their roles in marketization and thereby contributing to further clarification of contemporary SOEs in public governance. Next to the concept of IMA the PhD also identifies tendering SOEs (articles 1 and 3) that are not market actors, but hold other roles that are important to understand better in the future.

This leads to the practical implications of the lack of academic interest in SOEs over the last decades (Florio and Fecher, 2011, Bruton et al., 2015, Grossi et al., 2015). The PhD shows that policy thinking about SOEs as a governance tool is lacking. In Denmark the ownership policy was not updated for over ten years (Danish Ministry of Finance et al., 2003, Danish Ministry of Finance et al., 2004, Danish Ministry of Finance, 2015) and in both countries there has been neglect of the relevance of ownership as a governance tool in combination with marketization as shown in article 3. On an international level it is only recently that the OECD has brought (all the time existing) SOEs back into policy reform discussions (OECD, 2014), for example, in infrastructure governance (OECD, 2015). I hope that this PhD will be an inspiration for both SOEs and public reformers and that in future research there will be a high involvement of practitioners that can lead to better public governance practice in this important, but neglected area.

#### **5.4 Further research**

In the light of the findings of this PhD, I suggest three areas that could be developed further in new research projects.

The first area is a further conceptualization of the institutional market actor in more sectors and contexts. One way could be to study other sectors where there are both 100 per cent SOEs and marketization of public services, such as utility sectors like waste, energy and water. Rentsch and Finger (2015) give an example of this where they study different utilities in different central European countries that point to different relationships, for example, telecom and rail. They also highlight the importance of international expansion and how the SOE has different preferences in these kinds of activity. Along this line, case studies of other countries outside the European context would be highly interesting such as Paz (2015) case study of Brazilian Petrobras where she points to other important institutions and actors in a developing context. Articles 1 and 3 point to the importance of the regional level and thus points to studying other governmental levels like local and regional companies, as also suggested by Grossi et al. (2015). By doing so, the concept would be strengthened in terms of identifying other roles for SOEs in marketization based on other institutional dimensions and actors that influence the role of contemporary SOEs in today's public governance.

The second area is an exploration of the concept of the institutional market actor with SOEs with mixed ownership as Bruton et al. (2015) suggests, thus further elaborating on internal marketization and the hybridity literature (Denis et al., 2015). Grossi and Thomasson (2015) have done a case study of Copenhagen-Malmö Port focusing on accountability, and in-depth case studies of the development over time of cases like this would enhance our understanding of the role of the SOEs and how the state matters (Bruton et al., 2015) when private partners are involved. Research on PPPs and contracting out points to the public obligation third parties experience when becoming part of the state (Salamon, 2002, Greve and Hodge, 2013, Kettl, 2015) and Bruton et al. (2015) show that the state prioritizes control in important sectors despite shared ownership. During the time of this PhD, two papers were drafted that indirectly explore the potential 'SOE' role for a third party when long-term tenders are re-won by the same private party (Sturup and Christensen, 2016, Christensen and Sturup, Forth.). The papers point to the fact that these actors become institutionalized in more formalized relationships based on detailed contracts, but over time cooperation evolves that makes the relationships stronger than the contract, although this 'extra relationship' comes at a price as it seems to create a less attractive market for future competitions and the public part, despite the good relationship, has to pay for all adjustments along the way.

The third and last research area the PhD points to, but does not fully explore, is the importance of the agent or the micro level of CEOs when analyzing SOEs in marketization. The role of the CEOs has caught some recent attention (Enns-Jedenastik, 2014, Mortensen, 2016) and the micro level has been especially highlighted from an institutional logics perspective on hybridity (Alexius and Örnberg, 2015, Skelcher and Smith, 2015), but also from the perspective of institutional entrepreneurs (Bernier, 2014). These agents are extremely powerful and have a great influence on the reinterpretation of the role of the SOE in marketization as they are given great discretion in formulating corporate strategies and have privileged access to negotiations with the ministries on the development of the sectorial role and the performance criteria for SOEs and sectorial development as such. They often come from outside, from other SOEs or private sectors bringing in new ideas and concepts that influence the way the SOE is transformed from below in implementation. This is relevant to understand as the political direction and understanding of the SOE in general is scarce and gives further discretion for these agents in handling public resources and assets in the SOE.

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## **PART II**

### **Article 1**

#### **Choosing state owned enterprises over public-private partnerships for infrastructure governance: Explaining institutional change with evidence from Denmark's transport sector**

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#### **Abstract**

This paper shows why State Owned Enterprises (SOEs) are sometimes preferred over the more known Public-Private Partnerships (PPP) in infrastructure governance contrary to the academic debate and policy focus the last two decades. The Danish case of transport infrastructure is examined where a new modern SOE model is developed and used in mega projects. This paper uses theories of historical institutional change focusing on path dependency and the gradual change mechanisms of layering and conversion to analyze the institutionalization of the SOE model and to argue how and why it excluded PPPs. The SOE model was chosen at a critical point in time when the PPP model was starting to grow in other countries. The SOE model combines a professional board and management with financing via state guaranteed-loans and user charges. The SOE model was layered on the existing agency model for public provision of transport infrastructure and became locked-in for new mega-projects. Combined with a general lack of institutional support for PPPs and strong economy excluded the PPP model in Danish transport infrastructure governance. The paper contributes to the renewed academic interest in SOEs and the results are relevant to other countries coping with public-private mixes in infrastructure governance.

#### **Introduction: Why Choose a State Owned Enterprise over a Public-Private Partnership?**

This paper focuses on why State Owned Enterprises (SOEs) are sometimes preferred over the more known Public-Private Partnership (PPP) model in building and financing new

infrastructure. Infrastructure governance is a vital element in today's economic growth debate (OECD, 2015b). The European Union has recently launched an "Investment Plan for Europe" to boost the development of European infrastructure (European Commission, 2014). Transport Infrastructure is considered a main element in economic growth as it creates mobility in a society (Sclar, 2005) is the largest sector for PPP projects in value terms in Europe in 2014 (European Investment Bank, 2015). The academic debate on infrastructure governance in the transport sector has been dominated by the Public-Private partnership (PPP) model for several decades (Hodge et al., 2010, Roumboutsos, 2016) and many transport infrastructure projects have also been characterized as mega projects (Priemus and van der Wee, 2013, Flyvbjerg, 2014). The state owned enterprises (SOE) model has been there all along, but there is little knowledge on how modern SOEs work (Florio and Fecher, 2011, Bruton et al., 2015, Grossi et al., 2015), and why the modern SOE model has developed to secure its place in infrastructure governance. The paper contributes to the growing literature on contemporary SOEs in public governance by analyzing SOEs in relation to the PPP model in the area of transport infrastructure. The research questions are: How do models for infrastructure delivery change between SOEs and PPPs in the transport sector? Why has Danish transport infrastructure governance preferred the SOE model over the PPP model?

We examine the case of Denmark where the SOE model is used in for key transport infrastructure megaprojects. Denmark does not seem to have integrated the PPP model in infrastructure governance compared to other European countries (Hammerschmid and Ysa, 2010), but in some other areas than transport the PPP model has been used (Petersen, 2010) and it has been up for political discussion over time. Denmark is regarded as one of the most efficient economies which may point to why new private finance was not needed. The case of Danish transport infrastructure may shed light over why SOEs persisted while the PPP model stalled in infrastructure governance. To examine the research questions and analyze the Danish case, this paper uses theories of institutional continuity and change in historical institutionalism (Pierson, 2004, Streeck and Thelen, 2005) and focuses on gradual change via the processes of layering, conversion, displacement and drift (Streeck and Thelen, 2005, Mahoney and Thelen, 2010, Conran and Thelen, 2016). The paper shows that the Danish SOE model for megaprojects was chosen at a critical point in time where PPPs were starting to boom in other countries, and 'layered' on the existing public provision of transport infrastructure. This new, 'modern SOE' model with a professional board, state guaranteed-loans and user charges

(“statsgarantimodellen”) became “locked-in” for transport infrastructure projects and increasing returns have appeared in using the modern SOE model. This development also has consequences for new choices for both mega-projects and transport infrastructure provision in general in Denmark where PPPs have challenged the modern SOE-model, but never succeeded in becoming an alternative.

### **Infrastructure Governance in the Transport Sector: State-Owned Enterprise and Public-Private Partnership in an Institutional Change Perspective**

There are several models of infrastructure delivery that governments can choose among in the provision of infrastructure from government-ownership to the inclusion of market actors in governance practices. OECD (OECD, 2015b) has recently provided a useful overview and distinguishes between 1) Direct provision, 2) Traditional public procurement, 3) State-owned enterprises (in full or in part), 4) Public-private partnerships and concessions, 5) Privatization with regulation (OECD, 2015b, p.2). Infrastructure governance is here defined the following way: “By the governance of infrastructure is meant the processes, tools, and norms of interaction, decision-making and monitoring used by governmental organizations and their counterparts with respect to making infrastructure services available to the public and the public sector. It thus relates to the interaction between government institutions internally, as well as their interaction with private sector, users and citizens. It covers the entire life cycle of the asset, but the most resource intensive activities will typically be the planning and decision-making phase for most assets. More specifically it refers to the delivery modality and the public and private sectors (...)” (OECD, 2015b, p.2). For the purpose of this paper, the focus is mostly on the SOE model and the PPP model, but in the presentation of the Danish case we do mention some of the other options as well.

**State-owned Enterprises (SOE)** has through history been used by states in situations with a lack of market or for strategic reasons (Wettenhall, 1998, Farazmand, 2013). Milward (2011) adds concerns for social and political unification and national defence as reasons for why state ownership chosen historically. SOEs can be seen as a policy instrument to obtain both social and economic goals (Thynne, 1994). The governance form had its peak in Europe from the 1940’s till 1980’s especially in the network industries (Parker, 2003, Milward, 2011). There is a variety of forms of SOEs from purely state-owned with statutory status to mixed ownership forms and public limited companies and efforts have been made to create sound typologies (Wettenhall,

2003, Van Thiel, 2012). The development, organization and reasoning for using SOE differ and often follow national trajectories (Greve et al., 1999, Van Thiel, 2012). In network industries, state ownership of infrastructure has been seen as the prominent governance model to secure a sufficient level of maintenance and equal access (Baldwin et al., 2012). A report by OECD (2014) shows that half of all SOEs are in the network industries. However, state ownership has at the same time been criticized for a lack of efficiency and on this background many SOE were privatized (Parker, 2003) or corporatized especially in the Anglo-Saxon countries (Wettenhall, 2001) as a part of broader public management reforms (Pollitt and Bouckaert, 2011) where new policy instruments based on private sector or third part involvement were explored (Salamon, 2002).

**Public-Private Partnerships (PPP)** became a policy option for governments in the early 1990s in earnest. PPPs are “long term contractual arrangements between a government and a private partner whereby the latter delivers and funds public services using a capital asset, sharing the associated risk” (OECD, 2012). Most reports date the beginning of modern day PPP in infrastructure projects to the British government’s Private Finance Initiative under John Major in 1992-1993. The British government wanted to encourage more infrastructure projects in order to modernize a run-down UK public sector. The government wanted to let private finance come to the fore to avoid having to use the public sector borrowing requirement. The UK made an updated policy on PPPs (PF2) and a recent review of the UK experience of PPPs has been made by the OECD (2015a). A PPP is organized as a design-finance-build-own-operate-transfer (DFBOOT) or variants thereof (Duffield, 2010). The public sector and the private sector enter into long-term contracts, share risks and aim to achieve mutually acceptable objectives. Since the 1990’s, the policy for PPPs has spread to many areas of the world, including USA, the rest of Europe, Latin America and most recently to India and China (Hodge eds, 2010, OECD, 2008, OECD, 2011). PPPs have come to the forefront of the policy agenda in Europe after a decline in the aftermath of the global financial crises where private capital dried out. 82 PPP deals in infrastructure projects were signed in 2014 (European Investment Bank, 2015). However, PPP as a policy instrument has had different trajectories in the EU (Hammerschmid and Ysa, 2010) and reservations remain among the member states.

The institutional literature is centering on the question of institutional continuity and change. In a recent article about how to distinguish different institutional approaches Koning (2015)

encourages scholars to distinguish between endogenous or exogenous change and to explore a sequential approach to its full potential. This paper follows this sequential approach and examines what Koning terms exogenous change mechanisms in an historical institutional perspective. The paper combines to strand of historical institutional explanation namely a focus on path dependency that emphasizes stability (Pierson, 2004) and gradual transformation that highlights change (Streeck and Thelen, 2005, Mahoney and Thelen, 2010).

The focus on path dependency (Campbell, 2004, Pierson, 2004) look for critical junctures and path dependencies. From the path dependency viewpoint, once a policy instrument emerges from a critical juncture when many options were open, further developments are “locked in” and set on a certain institutional pathway and create institutional stability. Pierson (2004) famously focused on four types of policy feedback types that lead to increasing returns. They are (1) large set-up costs, (2) learning effects, (3) coordination effects, and (4) adaptive expectations. Actors get used to a certain institutional path once they acknowledge the initial costs in setting up a program which is the subsequently difficult to alter; they learn from practicing the institutionalized way of handling matters; they minimize costs because coordination departs from well-known principles; and most of the actors involved in the field will adapt their practice to the expected institutional structure. This is called the “lock-in” argument where vested interests and power is at play. There are interests who will have a stake in keeping the institutional arrangement going and will defend the model against other models. Several interests may protect that specific policy instrument and work against new policy instruments that challenge the existing order.

The path dependency approach has been supplemented by later contributions in on historical institutionalism. While regarding path dependency as one way institutional change occur as abrupt change, most prominently Streeck and Thelen (2005) have focused on more gradual change mechanisms such as displacement, layering, drift, conversion and exhaustion (Streeck and Thelen, 2005, Mahoney and Thelen, 2010). The perspective suggests that a path is not completely sealed off, but can be subject to gradual change processes over time that is driven by ongoing interpretations and meaning making processes of the formal institution by influential actors that potentially can lead to major change. The change mechanism *layering* is when new institutional elements are ‘layered’ on the existing institutions because the institution cannot be changed. *Drift* is when an institution keeps its formal integrity, but is ‘drifting’ away from

the original intentions. Layering and drift are likely to occur when strong veto players are at stake as the old institution is not changed (Mahoney and Thelen, 2010). *Displacement* is when institutions are tired out from inside by strategic actors that endogenously tries to replace old institutions with new ones. *Conversion* is when a formal institution is redirected towards new goals. *Exhaustion* is when an institution is breaking down gradually due to time as a changer (Streeck and Thelen, 2005). When we examine the infrastructure development in the Danish transport sector we thus study the different infrastructure governance models as institutions. We both focus on critical junctures and the subsequent path where one of the models, but when analyzing the subsequent path we not only expect stability, but we pay attention to the different mechanisms of gradual change by studying how the models evolve over time.

## **Methodology**

This section focuses on how the empirical investigation of the Danish case has taken place. Guided by the theoretical framework and its insistence on documenting institutional features of infrastructure governance, we set out to map the institutional elements of the Danish transport sector in order to provide an overview not found anywhere else in the literature. The paper first describes the overall political and administrative organization of each infrastructure area. Then we describe the models of infrastructure delivery understood as the main financial and organizational model that is used to provide infrastructure (OECD, 2015b) that are in play within the five main areas of transport infrastructure in Denmark; roads, bridges and tunnels, rail, airports and ports. In the case of the Copenhagen metro both infrastructure and service provision will be described as they are to some extent integrated in the contracts. In the discussion section we then discuss and analyze focus, how and why the SOE-model for megaprojects and PPP are been institutionalized differently in a process of path dependency and layering.

To conduct this analysis we examined the websites under the Danish Ministry of Transport both for the historical and current overall organization of Danish Infrastructure and for each infrastructure area how transport projects are organized. Most of the relevant data was available on the internet. Where this was not the case, we supplemented the database with data from annual reports and formal strategies and government reports on the organizations in question. When possible we also used reports from the National Auditor Office to identify discussions and background on the selection of policy instruments both regarding choosing and the rejection of

new policy instruments in an area. Based on this database we then analyzed the sequence in which the transport infrastructure projects occurred in line with the suggestion from the institutional change literature by constructing both detailed organizational charts for overview and relations and time lines for each area to follow the potential process of institutional change. Next to this we followed the general debate on PPPs in Denmark the last 10 years and attended meetings, conferences, conducted interviews and other research activities that provided us with insights into key actors like the Ministry of Finance position on the question of PPPs in general.

In the following overview of the Danish case we show how the main infrastructure in Denmark is delivered via state agencies that contract out the construction work, but finance it over state appropriations. Next to this, a new SOE model with state guaranteed loans for mega projects became institutionalized early on and “crowded out” the possibility for PPP model for in transport infrastructure governance. Combined with the fact that the Danish state had financial resources to withstand the need to choose the PPP model we show how elements of the PPP model has been tried and also adapted to some extent in the new SOE model, but always based on public finance (through state guaranteed loans and user charges) and full control.

### **Developments in Infrastructure Governance in the Danish Transport Sector**

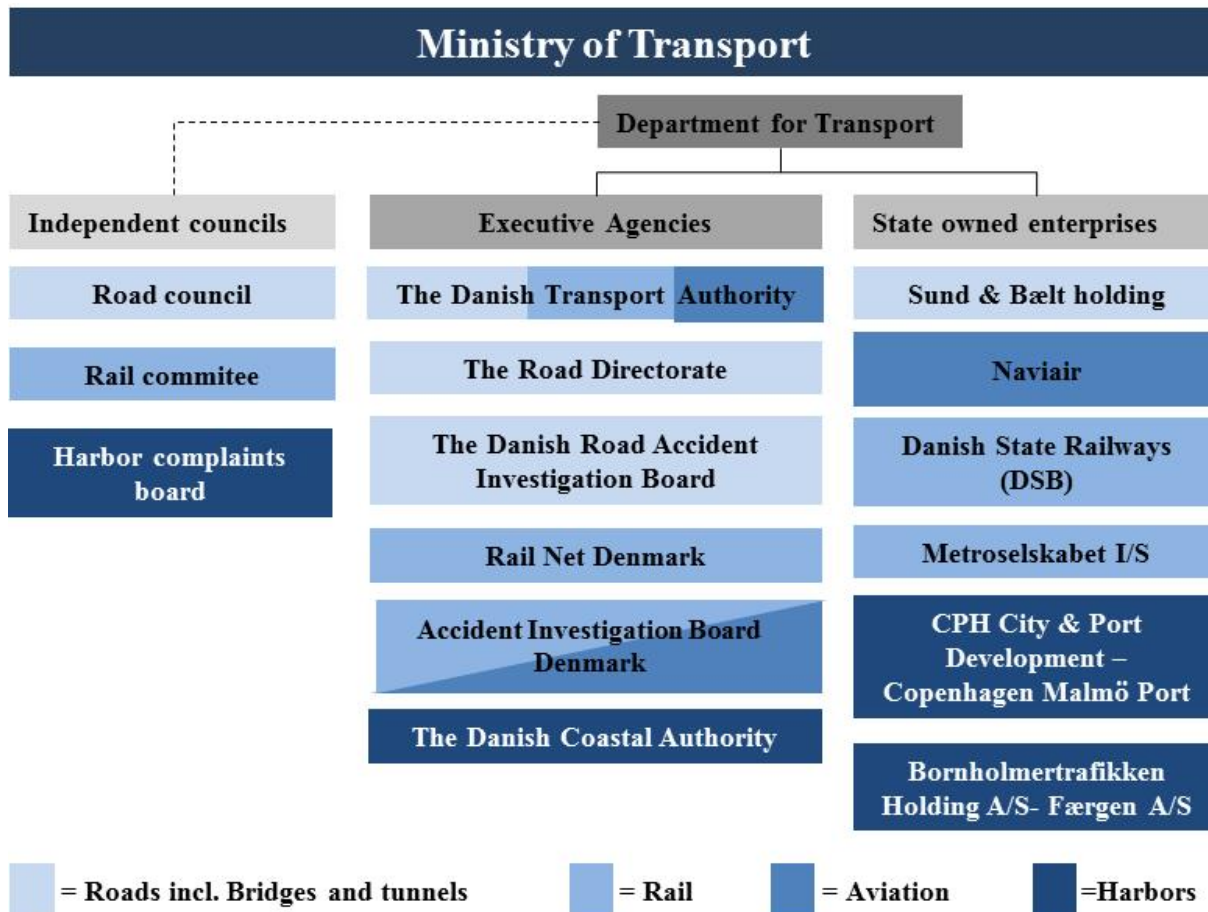
The responsibility of the transport sector in Denmark is based in a national Ministry of Transportation that is also responsible for the coordination with other levels of government. As a member of the EU, Denmark is obliged to implement EU-regulation and policies related to the transport sector. Focusing only on transport infrastructure<sup>9</sup>, the Danish Ministry of Transport consists of a Department, a number of executive agencies, independent councils and state-owned companies. The Department is responsible for the policy formulation, management of the ministerial area, strategic planning and the drafting of laws. The executive agencies are in charge of specific and technical issues of implementing and administering the transport legislation and policy. The independent councils are dealing with accidents, complaints and monitor the competition situation. The SOE's are independent organizational units owned fully or partial by the state, but managed and run by independent Board of Directors and Management Boards. The figure below illustrates the organization divided on type of organizational unit and mode of transport. It shows that the organizational division is mainly based on mode of transport with the exception of the Danish Transport Authority, which is involved in all modes of

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<sup>9</sup> Postal services are not included in the figure and in this paper.

transport except from harbors. Also the Accident Investigation Board Denmark is covering both rail and aviation.

Figure 1: Organizational chart of the Danish Ministry of Transport



Both the Danish regional and the local municipal level are also responsible for parts of the transport policy e.g. the municipalities are responsible for the main part of the road network, the regional transport organizations are tendering public passenger bus and owns train infrastructure and service companies. The involvement of different public authorities is also the case in relation to the policy development of PPP in Denmark. The policy has been spread out on different ministries and has not resulted in a coherent policy and regulation framework (Petersen, 2010). Today the Danish Ministry of Business and Growth with the Danish Consumer and Competition Authority in the forefront are responsible for advising public organizations on tender processes and PPP. However, the Ministry for Economic Affairs and Interior, the Danish Ministry of Transport and the Danish Ministry of Finance are to some extent also working with PPP. As Petersen points out, the use of PPP in Denmark has been marginal also in relation to



transport infrastructure (Petersen, 2010). In the following, the transport infrastructures; road networks, bridges and tunnels, rail network, airports and harbors will be described to show the dynamic of each area.

### **Road network**

The Danish road network is publically owned and is coordinated from the Danish Ministry of Transport with the Danish Road Directorate as responsible agency for the state owned roads that also holds a general sector responsibility for the road sector in Denmark. The road network is divided into the state road network which consists of motorways and some highways which is around 5 % of the total network, but with a 45 % share of the total traffic work. The municipalities are responsible for the rest of the network, where some of it is privately owned roads that are publically accessible. The Road Directorate and the municipalities are working on the planning, construction, maintenance and enlargement of the road-net. The road net is financed through state appropriations. Both the Road Directorate and the municipalities' administrations are tendering all the construction and maintenance work of the roads to private companies.

In 2009, the Road Directorate did the first and only PPP-tender for a road construction project the so-called 'Kliplev-Sønderborg'- motorway based on a Build-Operate-Transfer-model (BOT). The Road Directorate took over a project from a county that was merged into a new region in Denmark. In 2010 the contract was signed with a Danish-Austrian consortium KMG. The Danish state owns the road throughout the project, but the private part is responsible for the construction phase in all its aspects and the following maintenance all in all a 30 year contract. The construction phase was finalized one and half year before schedule and the project is considered a success both by the Ministry and the municipality. Despite of the success, the Ministry has not used the PPP-model in other road construction cases either on state or municipality level.

### **Bridges and tunnels**

Bridges and tunnels to secure better connection between the main islands and later to the neighboring countries Sweden and latest Germany are some of the biggest infrastructure projects in Danish history. Where bridges and tunnels normally are under the regulation of roads (see above), the Danish Ministry of Transport is responsible for new major projects through the

SOE 'Sund & Bælt Holding A/S'. Today, the company is responsible for the operation and maintenance of the two bridges the Great Belt Bridge and the Øresund Bridge and the construction of the future Fehmarn Belt Tunnel between Denmark and Germany.

The development of this model began in 1987 when the Danish parliament decided to build the in total 18 km long highway and railway connection the Great Belt Bridge. In this period the Danish State faced budget constraints and it was decided in order to finance it, that the organizational and financial model should be a SOE that could take up state guaranteed loans on the international capital market and that the bridge should be paid by user-charges. The actual construction work was contracted out to entrepreneurial companies and was carried out over a period of 10 years and the connection opened in 1997-98. The project was considered a success both by the population and the politicians due partly to higher traffic volumes than forecasted and lower cost of interest rates than expected. The same model was used in the construction of the 16 km long Danish-Swedish highway and railway connection the Øresund Bridge. A consortium equally owned by the Danish and Swedish state was made and it was financed through state guaranteed loans and paid by user-charges. The construction of the bridge was decided in 1991 by the Danish and Swedish governments and later the respective parliaments. The construction work was contracted out to engineer companies and it opened in 2000. Again an unexpected high increase in the transport work and lower interest rates than expected has made the bridge a success.

The successful cases have institutionalized a model in the area of tunnel and bridges on major projects based on the SOE 'Sund & Bælt Holding A/S'. The model is called an SOE with a state guaranteed loan ("statsgaranti-modellen") and also involves user charges and has been described in detail by Sund & Bælt (2014). The institutionalization becomes clear in the current project of building the Fehmarn Belt Tunnel between Germany and Denmark where a PPP-model was discussed, but abandoned in favor of a the SOE on the Danish part of the connection. Hence, even though the bridges are financed by user-charges, the PPP-model has not been used in the projects and the private sector involvement has been limited to contracting-out of the construction and maintenance work (Sund & Bælt, n.a.).

## **Rail network**

The rail sector has been heavily reorganized since the 1990's where the national Danish transport operator DSB was split up leading the unbundling of passenger rail service and rail infrastructure. This development has been a part of liberalization process of the sector and has been further strengthened by EU-regulation. The Ministry of Transport is responsible for the general regulation and policy development of the sector. Rail Net Denmark is the responsible agency for the overall responsibility for planning, maintaining and modernization of the Danish railway and signal system infrastructure. The Department of Transport is also responsible for the partial ownership of 'Metroselskabet' which is responsible for the Copenhagen Metro. Next to the national rail network and the metro, there are regional based publically owned rail companies that maintain and operate so-called 'local' networks. The municipalities own the companies either directly or through public regional transport companies.

The rail network is all publicly owned and is financed mainly through state appropriations. In 2003 the Rail Net Agency responsible for the rail net was turned into an SOE Rail Net Denmark with its own board of directors and management board and the purpose was to make the organization into a 'production company'. All agency-related tasks were moved to a new agency the Transport Authority that became the regulator in the rail sector. In 2006, the corporatization of the Rail Net Denmark was intensified with the political agreement of turning a part of the company into a public owned limited company Enterprise A/S with the purpose of a partly privatization of up till 25 % of the shares. In 2009, the corporatization of Enterprise A/S was set on hold due to financial problems in the company. The company stopped its commercial activities and was integrated back into the Rail Net Denmark. In the beginning of 2010, the corporatization of Rail Net Denmark was suddenly rolled back completely. The board of directors is discharged and the organization is turned into an agency and put under direct reference to the Minister. This event also leads to reorganization of sector where the coordinating role of the rail sector and the planning of rail projects are moved from the Transport Authority to the Rail Net Denmark once again. In 2009, an Infrastructure Fund with the value of 11, 9 billion Euros was founded based on the idea to coordinate all future infrastructure investments across modes of transport and the first program of investments had a clear focus on the rail network. This focus was further strengthened in March 2013, when the government unexpectedly decided to establish a Rail Fund with a value of 3,7 billion Euros on further rail infrastructure investments. For PPP related matters, this was a missed opportunity in the sense that private finance opportunities were not explored, let alone chosen.

On the municipal level, the metro in Copenhagen is organized in a SOE 'Metroselskabet I/S' (Metroselskabet) owned by the Danish State and the two municipalities in the inner Copenhagen area<sup>10</sup>. The Company has the responsibility for the operation and the development of new metro lines, but the actual construction and operation are contracted out. The decision to make a metro or light rail was passed in parliament in 1992 and in 1996 after a tender process the company Copenhagen Metro Construction Group was awarded the construction of the network and the Italian transport company 'Ansaldo STS' (Ansaldo) was awarded the deliverance of the train fleet system. Ansaldo also won the contract to operate and maintain the metro and re-won the contract in the second tender round. The actual operation and maintenance of the metro has in both cases been contracted out by Ansaldo to 'Metro Service A/S' (Metro Service)<sup>11</sup>. Hence, it was a contracting out model, but with PPP element because of the integration of delivering infrastructure in terms of the fleet and transport system combined operation and maintenance. This also goes for the Metro's second phase Cityring that was passed by the parliament in 2007. Ansaldo won the contract to deliver trains, system technology and infrastructure plus the first 5-8 years operation and maintenance of the metro line. The construction of the tunnels and stations was awarded to 'Copenhagen Metro Team'. So though the metro is being financed and owned by the state and the municipalities, the construction of the infrastructure and the operation is handed over to a private partner that has been involved in the metro since the very beginning. The Metro has been a success in terms of passenger satisfaction, reliability and passenger growth.

## **Airports**

The Ministry of Transport is responsible for the general regulation of aviation, but it is the Danish Transport Authority which is responsible for the regulation, planning and supervision of civil aviation. The sector is mainly market regulated and has a higher degree of privatization than other transport infrastructures in Denmark. There are both public and private airports in Denmark with Copenhagen Airport as the biggest and most important one. The airport used to be an SOE<sup>12</sup> under the Ministry of Transport, but in 1990 it was made into a private limited

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<sup>10</sup> Ownership; 50% Copenhagen municipality, 41,7 % the Danish State by The Ministry of Transport and Frederiksberg municipality 8,3 %

<sup>11</sup> Metro Service A/S was founded in 1998 and is owned by International Metro Service which is owned by ATM (Aziende Trasporti Milanese) and Ansaldo ATS

<sup>12</sup> Københavns Lufthavnsvæsen

company 100% owned by the Danish state and put under the Danish Ministry of Finance. In 1994, the Danish state started a partly privatization that continued through the end of the 1990's<sup>13</sup> and today the Danish state holds 39%.

### **Harbors**

There are around 120 harbors with freight traffic in Denmark and the Danish Ministry of Transport with the Danish Coastal Authority as the executive agency is responsible for managing the governmental interests in Danish sea ports and administrating the main body of legislation related to sea ports. The harbors in Denmark are mainly municipality owned, but there are also few state-owned harbors, including in Copenhagen which is owned by the Copenhagen municipality (55%) and partly by the Danish state (45 %) through the company 'CPH City and Harbor development I/S'. The operation of the harbor is executed through the company Copenhagen Malmö Port, which is joint venture between 'CPH City and Harbor development A/S' (50%), the Swedish municipality of Malmö (27%) and private investors (23%). In 2012, a new harbor law was passed by the Danish parliament, which opens up for a privatization of some parts of the harbor. The law makes it possible for the municipalities to engage in joint ventures with private sector partners in commercial activities and PPP-projects are mentioned as an option. Overall there is today a complex relation between the public and private sector within in the provision of transport infrastructure where PPP is neither an institutionalized part of the governance structure or as policy instrument among other.

### **Discussion: Modern SOE –model for mega - projects squeezed out a PPP model**

The Danish case shows that there is a range of different models of infrastructure governance in use in the supply of transport infrastructure. The main part of the transport infrastructure is provided via public model where agencies are responsible for the planning, financing and delivery of roads, rails and bridges. The infrastructure is financed via state and municipality appropriations, state guaranteed loans, user charges, and the construction work is mainly contracted out to engineering companies. In line with the general policy development in Denmark in the 1990s where many old SOEs were sold off or reformed, the government began an initial privatization (sale of assets) in a Danish transport SOE: Copenhagen Airport was privatized partly in 1992 and was extended with the further privatization in 2000. Also the

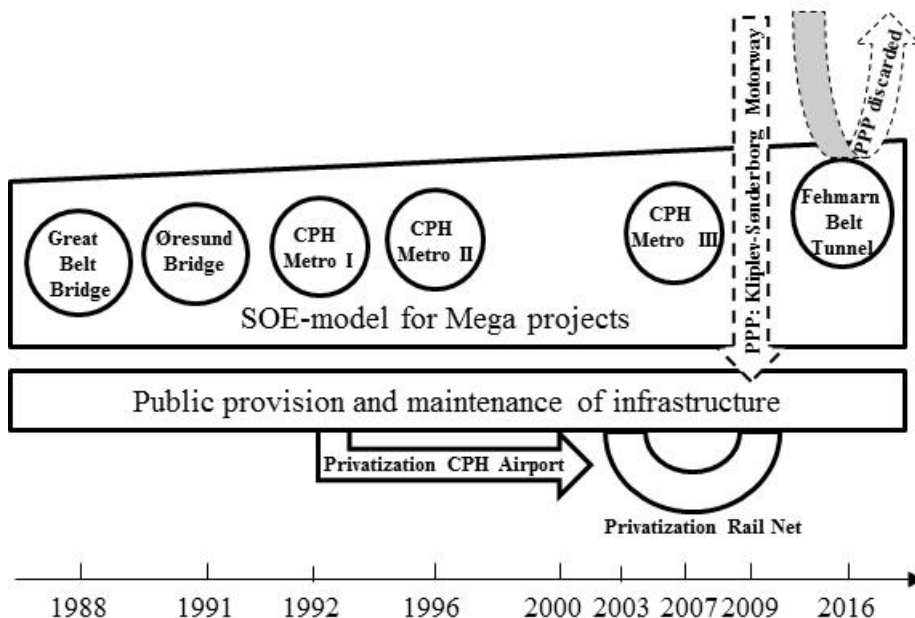
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<sup>13</sup> In 1996, 24% of the shares and again in 2000 additionally 17% of the shares was sold to private investors.

Copenhagen-Malmö port is another example of partial privatization of infrastructure. Finally, a privatization process of the Rail Net Denmark started, but it was later turned back into agency form. It is examples of endogenous institutional transformation where existing models of infrastructure governance are *converted* to new models of infrastructure governance. For Rail Net Denmark the conversion is reverted to the agency model.

The Danish case shows that there are relatively few actual PPPs in transport in Denmark as also pointed to by Petersen (2010), but there is an extensive use of a new modern SOE model that has proved to be resilient and continues to be a preferred model of infrastructure governance for especially transport mega projects. To answer the research questions on how models of infrastructure delivery change between SOEs and PPPs in the transport sector and why the SOE model is preferred over the PPP model in Danish transport infrastructure governance the following sections will in a historical institutional perspective first discuss the institutionalization of new modern SOE model for mega projects and second how this support a the rejection of PPPs in Danish transport infrastructure governance. Below the figure shows the institutional change processes in Danish infrastructure governance.

**Figure 2: The three institutional change streams in Danish transport infrastructure governance**



### The institutionalization of a new modern SOE model for transport mega-projects

*The first event* that sparked off the interest in the new modern SOE model for mega-projects was the decision by parliament in 1988 to build a new Great Belt Bridge in Denmark. This was the most visible megaproject in a long time, but also a project that had been on the cards for decades, but which no government had been able to get through with and public finance was scarce at that point. To establish this megaproject the government decided to establish a new independent SOE with mainly government board members and a management from the public sector. With this model it became possible to finance the project via government obtained loan using the Danish government's credit rating as security and the users were to pay off the loan via user charges. The bridge itself was to be constructed by contractors to the SOE. This model became known as the "statsgaranti-modellen": an SOE with a professional board, state guaranteed loans and coupled with the introduction of user charges (Sund & Bælt, 2014).

*The second event and third event* followed each other closely. In 1991, parliament in Denmark and parliament in Sweden voted for building a bridge across Øresund. They used the same model that had been established with the Great Belt Bridge; an independent SOE with board at arms' length from government and a professional management, state guaranteed loans and user charges. Later on the two project-based companies on the Danish side were organized in the umbrella SOE Sund & Bælt A/S that further institutionalized the layered element of mega-projects. Next to this, in 1992, the parliament decided on another mega-project in the shape of a Copenhagen metro (light rail) system. Here the organization was a joint venture between the Danish state and the Copenhagen municipality and Frederiksberg municipality. The company was established as an SOE (I/S) where both state and the municipalities had ownership. The actual construction of the metrosystem and the later daily management of the metro lines were contracted out to an Italian contractor. The finance model was built on sale of public owned real estate in an area of Copenhagen where available land was ripe for development. These events in 1991-1992 cemented the SOE with state guaranteed loans-model for transport infrastructure megaprojects in Denmark. The new SOE model became the preferred one within a short (5 years) span of time. They employed the same features: An SOE model with a professional board and management, and a financing model resting on a state guaranteed loan, introduction of user charges and for the Metro sale of land rights.

*The fourth event* was when the Metro was going to have an extension –project, the so-called Metro Ring. This megaproject was being shaped in the way of the already existing Metro-

project. After a bidding round, the same contractors were even chosen to perform the task of building the actual infrastructure and running the Metrorail service.

*The fifth event* was when the discussion on the Fehmarn Belt megaproject began to emerge. The Fehmarn Belt connection will connect Denmark and Germany through a tunnel and/or a bridge. There was consideration of a PPP solution, but after initial calculations by a consultant company, the idea was abandoned, and the preferred model has been the SOE model with the Danish government (for the Danish side of the project) obtaining a state guaranteed loan and making users pay through user charges over a 30+ year period. Once again, the new modern SOE model prevailed in transport infrastructure governance with the same kind of organizational and financial model.

Seen from an analytical perspective of institutional change theory the new modern SOE model for mega-projects was institutionalized upon the existing agency model for infrastructure governance as a new institutional *layer*. The new layer consists of new project-oriented organizational forms, introduction of user-charges and state-guaranteed loans on the commercial market. It never threatens the old agency model, but we will argue that this layered SOE model became “locked-in” after it was first used for the Great Belt Bridge and create a form of path-dependency that excludes new layers e.g. PPP as a model in infrastructure governance. The path dependency takes place through Pierson (2004)’ feedback types. As a mega project there were large set-up costs that had to be paid back from the model itself over a long period of time. Next to that there were learning effects as the SOE model was progressively being adjusted and eventually the two companies building the bridges were connected in one company (Sund & Bælt) which led to coordination effects as Ministry of Transport could govern and negotiate with the same board and management of the SOE across more mega projects. This made the new SOE model flexible and easily manageable for the government. In this line Sund & Bælt (n.a.) argues that fewer transaction costs are used in the SOE model than in the PPP model with complex contracts and risk management schemes. When there have been controversies – for example with noise complaints in the Metro system leading to an extension of the completion date, or the exact pricing of the user charge – the government has been able to negotiate with the SOE to find a solution. There is however no knowing of the counterfactual claim that the presence of private finance would have gotten the actors to act in a different way, and maybe find savings in the budget rather than just postponing completion. What we argue is that the



institutionalization of this new layered SOE model for mega projects in transport infrastructure governance creates an institutional path dependency in transport infrastructure governance in general that excludes PPPs as a model in new transport mega projects even in moderated forms. This will be elaborated on in the next section.

### **The rejection of PPP as new separate model of transport infrastructure governance**

In 2009 the Danish Road Directorate tried a version of PPP with a BOT model when they decide to build a new piece of motorway between Kliplev-Sønderborg. The Road Directorate did not come up with the idea for a PPP, but took over a project from a county. Despite the success in terms of finishing before time and on budget, the model is not further replicated. The county who originally had enthused about a PPP was not in existence anymore, and the Road Directorate did not feel a need to pursue a policy towards PPPs. As it could have been an attempt of layering where a new model is layered upon the existing, it does not lead to any major change in the public provision of transport infrastructure in Denmark that stays public organized and financed.

Next to that private sector actors came to realize that when the Metro project was decided and later the Fehmarn Belt (although that has taken a lot longer to agree on), that private actors has to adapt to the SOE model with state guaranteed loans and user charges, because this was the preferred model for the Danish government. Suddenly shifting to a private finance model, and giving up the interests from the state was not going to be viable. Key stakeholders in government and in SOEs all had a vested interest in keeping the SOE model going, and private finance injections into the finance model would alter that situation. Therefore, private finance was not used in the transport megaprojects in Denmark. The SOE model with state guaranteed loans and user charges therefore do not seem to be challenged easily. Later, the robust Danish economy has made it unnecessary for the Danish state to experiment with PPP. When other countries began to experience with the PPP model in the 1990's and 2000's, the Danish transport mega-projects were already "locked-in" to the SOE model with state guaranteed loans and user charges.

The lack of support for PPPs in transport infrastructure governance follows the general picture about PPPs across various Danish governments during the last two decades. Where the UK and other countries have PPP units staffed with professional expertise (OECD, 2011), Denmark has

not had a comparable, specialized PPP unit in the powerful Ministry of Finance. Instead PPP guidance has been offered by a small office in the Competition and Consumer Authority which is an agency within the Ministry of Business and Growth. PPPs have been on the agenda in the Danish Productivity Commission (2013), but commission's recommendations and other reports have been ignored. The Ministry of Transport does not seem to prioritize knowledge on PPPs. In 2014, the Danish government published a report on infrastructure investments (Danish Government, 2014) was published, but Denmark is still a long way from other countries more elaborate policy planning for infrastructure.

### **Conclusions: SOE as a substitute to PPP in transport infrastructure governance**

Based on the puzzle why SOEs prevail after decades of policy focus on PPPs in infrastructure governance this paper has analyzed and explained the development of a modern SOE model in transport infrastructure governance in Denmark. Using theories of historical institutional change, the analysis shows a number of models for infrastructure governance across transport areas in Denmark and that a new modern SOE model was *layered* on top of the predominant agency model when the first transport mega-project was decided in the late 1980s where public finance were scarce. Subsequent decisions on further transport mega-projects in quick succession therefore used the modern SOE model as inspiration. The modern SOE model consisted of an independent SOE with professional board and management and a finance model consisting of state guaranteed loans and user charges (and exploitation of land use in the case of the Metro). The paper pointed to a sequence of five events that has institutionalized the new modern SOE as a layered model for mega projects in transport infrastructure governance, which, it is argued, created a path dependency via policy feedbacks that excluded PPP as a viable model in transport infrastructure governance in Denmark. Next to that there has in general been a lack of institutional support in Denmark when it comes to PPPs that together with Denmark's economic status as an AAA-economy made private finance through the PPP model less relevant.

The paper contributes in three ways to current debates. First, it contributes with an empirical overview of the various models for transport infrastructure governance in Denmark and how they institutionally evolve and relate that show the relevance of analyzing public-private mixes (Wettenhall, 2010) when understanding infrastructure governance today. Second, especially in relation to the PPP literature it reveals how the PPP model can be rejected in a modernized

public sector as the Danish one (Greve et al., 2016) where alternative new models closer to traditional public infrastructure delivery can exclude PPPs. Third, the paper makes an important contribution to the call to understand contemporary SOEs (Florio, 2014, Bruton et al., 2015, Grossi et al., 2015) by supplementing current explanations that SOE prevail because of mixed-ownership as hybrid organizations (Bruton et al., 2015) and because of financial performance, emergency role for the state, privatization reversal or international expansion. The paper shows the development and use of a *new* 100% SOE is perceived to outperform marketized solutions.

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## Article 2

### The return of the hierarchy: SOEs in marketisation<sup>14</sup>

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## Introduction

When state-owned enterprises (SOEs) began to be privatised in the 1980s–1990s, either by divesting outright or by contracting out of activities (Hodge, 2000), it put the former preferred service providers of national public services in European public transportation under pressure (Finger, 2014). These so-called New Public Management (NPM) reforms (Hood, 1991) or marketisation as the process whereby previously state-provided goods and services are transferred to market-based arrangements (Flinders, 2010), are known to have followed national trajectories with different impacts (Pollitt and Bouckaert, 2011, Vries and Nemec, 2013). While cases where the reforms have been rolled back are understudied, however, the post-NPM era has drawn attention to the re-centralisation of the state (Pollitt and Bouckaert, 2011, Christensen, 2012, Dommett and Flinders, 2015). This paper presents the Danish passenger rail case, which experienced marketisation reforms in the 1990s that were implemented in the 2000s (Sørensen, 2005) leading to a mixed set-up of contracted-out activities and ownership through negotiated contracts. Any further marketisation has been on hold since 2011 owing to major problems with the activities of the SOE DSB SOV (DSB) that were contracted out (Danish Minister of Transport, 2011, OECD, 2013). The case therefore provides valuable insights into the complexity and opportunities involved for the state in controlling SOEs during marketisation and how re-centralisation occurs as a response to this.

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<sup>14</sup> Abstract not included owing to CBS PhD publishing guidelines for already published papers. Abstract in original is found in Part I, chapter 4

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From a public governance perspective the role of the state can be studied via modes of governance as different forms of coordination. Hierarchical based governance is where public authority is used via bureaucracy as a process of rules in the organisations (du Gay, 2005, Weber, 2013 (1978)) or external via regulation (Frances et al., 1991, Baldwin et al., 2012). With marketisation, the market-based governance focusing on competition was introduced to supplement the supposed rigidity of the hierarchy with the promise of providing efficiency and innovation (Hood, 1991, Donahue and Nye, 2002, Salamon, 2002) where the state should steer, not row (Osborne and Gaebler, 1992). In the post-NPM era (Christensen and Lægreid, 2012), or time of New Public Governance (Osborne, 2010), networks in terms of partnerships and other hybrids have claimed to be governed by trust in co-existence with other modes of governance as ‘shadows’, with the state playing a facilitating role among various societal actors (Scharpf, 1997, Thynne, 2013). In this complex setting of public governance, the literature has paid little attention to the role of SOEs in marketisation as hybrids between hierarchy and market (Thynne, 1994, Wettenhall, 2001), where the role of the state is that of both owner and regulator (Wettenhall and Thynne, 2011). To explain the development and co-existence of different modes of governance in post-NPM (Christensen and Lægreid, 2012) the perspective of historical institutionalism (Streeck and Thelen, 2005, Mahoney and Thelen, 2010) offers a view of mechanisms of reproduction and changes to reforms of the public sector that highlights institutional complementarities (Bezes and Lodge, 2015) and evolving hybridity in public administration (Christensen and Lægreid, 2011). Hence, it can explain the development of SOEs as a hybrid governance mode that can lead to re-centralisation in marketisation.

This paper focuses on how the SOE as a hybrid mode of governance between hierarchy and market has evolved through the marketisation of Danish passenger rail. The paper shows that the market-based governance was layered onto the hierarchal governance mode of the traditional SOE, which was later turned into a hybrid governance mode through corporatisation. However, the SOE as a hybrid governance mode has created ripple effects between hierarchy and market that hamper marketisation. The hierarchical governance of centralisation and control takes over, yet the existence of the SOE makes it possible to put marketisation on hold. To outline this argument, the paper is divided into three sections. First is a theory chapter that elaborates on the modes of governance in a historical institutional perspective. The second part is the qualitative case study of Danish passenger rail and finally the results are discussed.

## **Hierarchy, market and hybrids: perspectives on modes of governance in marketisation**

The analytical distinction between hierarchy, market and networks as modes of governance (Thompson et al., 1991) originates from different social science disciplines. In a transactions cost perspective hierarchy as organisation can reduce the costs of market transactions (Coase, 1937, Williamson, 1975, Ouchi, 1991) whereas Weber (2013 (1978)) from a sociological stand has praised hierarchy as a superior way of organizing. Powell (1991) points to the many aspects of social life that is based on trust and norms in networks which Ouchi (1991) categorize as clans coordinated by traditions. Economic sociologists have stressed the importance of hierarchy as political institutions to create private markets (Fligstein, 2001) and more recently that organisation and markets are interrelated via different types of actors that transcend the public-private divide (Ahrne et al., 2015).

In a public governance perspective, the three modes of governance hierarchy, market and network represent analytical distinct ways for the state to govern by setting procedures and organizing (Salamon, 2002, Hughes, 2010). Hierarchy as a mode of governance is related to the notion of bureaucracy as a process for rule following linked to the exercise of power and authority over subordinate functions or organisations (du Gay, 2005, Weber, 2013 (1978)). It is also exercised towards external organisations through nationalisation of activities or regulation of former state activities (Frances et al., 1991, Baldwin et al., 2012). It thus encompasses direct government (Leman, 2002) as the steering of activities through internal procedures and organisations, statutes, regulation and policies that set the direction for a given sector. With NPM Hood (1991) points out, that hierarchical governance changed towards professionalization, delegation and corporatisation of public service organisations which also involved performance contracts as instruments in internal organisation (Thynne, 1998).

NPM or marketisation of public service provision (Flinders, 2010) introduces more modes of governance for the state (Salamon, 2002) where the modes become institutionalised in different ways (Lascoumes and Le Gales, 2007). A market-based governance mode implies the inclusion and adoption of market mechanisms, such as introduction of contracting out and divestment of activities (Donahue and Nye, 2002, Kettl, 2010). Market-based governance is said to overcome



the rigidity of hierarchy and create efficiency and innovation in public service provision by including the private sector – that is, third parties – and thus creating arm's length between policy and implementation (Hood, 1991, Osborne and Gaebler, 1992). However, contracting also turned out to be between public organisations (Hodge, 2000). In this paper the market-based governance mode includes the divestment of parts of the SOE, contracting out of services and open access traffic (Finger, 2014).

Network governance highlights that public governance also includes a variety of societal actors (Koopman and Klijn, 2004, Rhodes, 2012) and focuses on the diversity of hybrid organisational forms that have arisen with NPM e.g. different types of Public Private Partnerships (Wettenhall and Thynne, 1999). Hybridity in this perspective is related to mixed ownership (Grossi and Thomasson, 2015) or mixed objectives (Pache and Santos, 2013). In marketisation, SOEs are interesting because they are public organisations that provide public services, but on market-based terms (Wettenhall, 2001). Their hybridity derives from the combination of state ownership that entitles a sort of publicness or social responsibility (Thynne, 1998) combined with legally independence with economic autonomy or even a company form based on private law (Van Thiel, 2012). Hence, they work on the boundaries between the public and private spheres (Hughes, 2012) as policy instruments (Thynne, 1994, Thynne, 2011, Bernier, 2014) with management at arm's length where a board of directors are responsible for the activities, but at the same time being discretionary through state ownership e.g. performance contracts or policy changes (Wettenhall and Thynne, 2010, Thynne, 2013). They are thus combining features of hierarchical and market-based governance. In Table 1 the three modes of governance are presented in relation to focus, main actors and components.

**Table 6 Overview of the modes of governance in public governance of passenger rail**

	<b>Hierarchy-based governance</b>	<b>State-owned enterprise</b>	<b>Market-based governance</b>
<b>Focus</b>	Direct government	Ownership	Privatization and Contracting out
<b>Main Actors</b>	The government and ministry	The Ministry and state owned enterprises	The regulatory and procuring authority and the market actors
<b>Components</b>	Orders and commands Regulation and laws Policies Centralization/decentralization of administrative structures	Corporatization including independent board of directors and management Performance based management and contracts incl. financial and social objectives	Contracting out of services Authorizations and open access traffic Divestment

Above the three modes of governance are presented as analytically distinct, though interrelated and co-existing as a repertoire in today's public governance. It is widely acknowledge that these modes are all present and combined (Wettenhall and Thynne, 1999, Thynne, 2000, Thynne, 2013) which create ever more complexity and hybridity (Christensen and Lægreid, 2011). The state and its commands remain (Farazmand, 2013), but is supplemented by various actors (Koopanjan and Klijn, 2004, Rhodes, 2012) and diverse organisational (Kettl, 2010) and regulatory (Baldwin et al., 2012) set-up that involves public and private mixes including SOEs in both networks, contractual exchanges and under authoritative commands (Wettenhall and Thynne, 1999, Thynne, 2000, Thynne, 2013). This paper follows Christensen and Lægreid (2012) suggestion that post-NPM the focus of public governance should be on how different modes are mixed and altered, and how hybrid organisational forms are created. It thus explores the development over time of a certain kind of complexity and hybridity namely how the SOE as a hybrid mode of governance has evolved via marketisation between market- and hierarchy-based governance modes and how re-centralisation occurs as a response to this.

The gradual transformation perspective on institutional change (Streeck and Thelen, 2005) with its focus on the inherent ambiguities and gaps between formal institution and how they emerge over time, are implemented and enforced can contribute to this ambition (Christensen and Lægreid, 2011, Bezes and Lodge, 2015). Streeck and Thelen (2005) identify five different types

of gradual change: layering, drift, displacement, exhaustion and conversion. Layering describes the way in which the new institutional elements are ‘layered’ over the existing institutions, because the institution in itself is unchangeable. Displacement is when new institutions are tired out from inside by strategic actors that endogenously try to replace old institutions with new ones. Drift is when an institution is not renegotiated, but keeps its formal integrity and so is ‘drifting’ away from its original intentions. Exhaustion is when an institution is breaking down gradually rather than abruptly, owing to time. Conversion is when a formal institution is redirected towards new goals.

When using this perspective to explain how SOE as a hybrid mode of governance has evolved in marketisation between hierarchy and market using Danish passenger rail as case, the focus is on how the three modes of governance are altered, mixed and implemented through the interpretations and behaviour of actors e.g. ministries, SOEs, minister, agencies. All together, the institutional account offers an analytical understanding of the marketisation as an ongoing process whereby institutional actors will constantly interpret the institutions both as part of a meaning-making process and as tools in obtaining its own self-interest (Hall, 2010).

## **Methods**

This paper is based on a qualitative case study of the marketisation of Danish passenger rail with a special emphasis on the SOE DSB from the beginning of the 1990s to date. It is a single within case study that thus provides understanding of a contemporary phenomenon where the borders between phenomenon and context are not evident (Yin, 2009). In the attempt to understand SOEs of today, as suggested by Florio and Fecher (2011), in-depth case studies seem central to advance our conceptual understanding. Hence, the case study contributes by drawing analytical generalisations, focusing on creating a ‘thick description’.

When moving from contextual understanding to analytical generalisations case selection is crucial (Georg and Bennett, 2005). The rail sector is an interesting sector within which to explore the evolving role of SOEs as hybrid governance mode in marketisation. The sector has from the very beginning as a private initiative been seen as crucial for the state’s economic development and therefore been subject to ongoing debates about the appropriate level of state intervention (Lodge, 2002). Furthermore, with the rail reforms of the 1980s in the United

Kingdom it proved difficult to find the boundary between public and private (Kettl, 2010, Finger, 2014) and new modes of governance have since been explored (Sørensen and Longva, 2011). Today it is a sector with many SOEs (OECD, 2013, OECD, 2014), which are regarded as posing a special challenge to marketisation (European Commission, 2013, OECD, 2013). Finger (2014) concludes, that the institutional arrangements of passenger rail in Europe are very different and follow national trajectories. Denmark is as an EU-member influenced by the European railway reforms and has been seen as one of the forerunners because legally its market is deregulated and the first attempt to contract out traffic was regarded as a success<sup>16</sup>. However, today there is a dominant incumbent operator, a strong national level and the Danish case has been chosen because the marketisation is set on hold. In line with this special issue DSB is a statutory company that can be categorised as agency 2 (Van Thiel, 2012), although its activities that led to the defer of marketisation are agency 3 type. Hence, the case provides insights into the complexity and opportunities involved for the state in controlling agency like SOEs during marketisation of state provided public services balancing ownership and market reforms.

The case study is primarily based on document study of policies, legal documents and reports from the Danish Auditor General supplemented with annual reports from the SOE and press releases from the Ministry of Transport<sup>17</sup>. The documents are from the 1990s onwards. Eight semi-structured interviews were conducted with management and employees from the Danish Ministry of Transport and sectorial experts. The interviewees were identified via the snowball method (Goldstein, 2002, Kvale, 2007) and their comments were used to deepen and triangulate the findings from the document analysis, which is fundamental in a case study (Yin, 2009).

## **Institutional change in the marketisation of Danish passenger rail**

In the following the marketisation is analysed focusing on the three different modes of governance: hierarchy, market and SOE and how they evolve over time in the perspective of historical institutionalism. The analysis is thus structured in three phases that are based on major changes in marketisation. The first phase 'Towards deregulation' covers the period from 1993 to 2002 when the formal legal institutional framework for marketisation was set up. The second

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<sup>16</sup> Conference in the Danish Association for Transport Economics (TØF): European Tendering in Passenger Rail Services, the Danish Competition Authority, Copenhagen, 21 November 2013.

<sup>17</sup> References to primary sources are not included in the analysis and reference list, but can be obtained by contacting the author

phase, 'Diverse governance', relates to the period from 2003 to 2009 when marketisation was implemented. The third and final phase is called 'Competition full stop' and covers the years 2010 to 2015 when marketisation was put on hold.

### **Towards deregulation (1993–2002)**

The reforms focusing on marketisation commenced in 1993 as the general directorate DSB under the Minister of Transport was transformed into a state company and subordinated under the policy department of the Ministry of Transport (Longva et al., 2005). In 1998, the legal framework for tendering out rail services was passed in parliament constituting the institutional framework for the introduction of market-based governance like contracting out and open-access traffic.

In 1999, DSB was turned into an independent public company by law. This corporatisation meant that DSB continued to be an organisational unit under the Ministry of Transport, but had to be run as a company by a board of directors and a management team. That said, the Minister appointed the majority of the board of directors and had the option to change the board at any time. DSB was considered to be economically independent from the state budget and had to comply with the accounting procedures laid down in the Danish Financial Statement Act and the special requirements for public limited companies. A negotiated performance contract was introduced that described the kind of services DSB was to provide to the state against a yearly subsidy. The introduction of a public independent company was a development towards a hybrid governance mode where ownership at arm's length and performance contracts were introduced. A board of directors and management team became responsible for the corporatisation and commercial activities at arm's length from the Minister. That said the hierarchical mode was present being placed under the policy department and with the Minister being able to change the board and renegotiate the contract at any time. The hybridity of the SOE as a governance mode is evident in the DSB statute, which makes a distinction between activities in the negotiated contract that are subject to the transparency requirements of the Public Access to Documents on Public Files Act and commercial activities, which are not. Hence, the negotiated contract activities and the commercial activities, for example, tendered traffic, have different transparency requirements and therefore different levels of hierarchical governance control.

In 2000, the market for open-access passenger traffic was opened and in 2001 the first part of DSB's regional traffic was tendered out by the Ministry of Transport. DSB participated in the tender to protect its status, but the contract was awarded to private company Arriva (Longva et al., 2005). After losing the tender, the CEO and board of directors were replaced. The introduction of open access in passenger rail did not lead to the entrance of new train operators. DSB did open a Danish–Swedish route on open access conditions, but after a while the traffic was incorporated into DSB's negotiated activities for the state (Longva et al., 2005).

DSB's corporatisation was a conversion whereby the existing hierarchical institution was redirected towards new goals as a market-oriented passenger rail operator. Its corporatisation was, however, also layered, since it introduced hybridity into the SOE as a governance mode that put negotiated and commercial activities under different institutional set-ups. Market governance was introduced in Danish rail through a process of layering where contracting out and open access were added as supplements to the existing institution, the SOE. Where the formal institutional framework was established in 1998, it is first with the actual tender process and with an operator that applied for open access, that the mode of market-based governance is implemented in Danish passenger rail. It meant that the Ministry of Transport had to establish separate procedures for contract management with Arriva alongside the handling of the new negotiated DSB-contract. The case when open access was absorbed back into DSB also shows that despite the formal institutional framework that was in place, it did not lead to an institutionalisation of the market as a new mode of governance, but a consolidation of the SOE as a hybrid governance mode.

### **Diverse modes of governance (2003–2009)**

In 2003–04 it was decided to reorganise the sector under the Ministry of Transport (Longva et al., 2005). All agency-related tasks were moved to a new agency, the Danish Transport Authority that was given the responsibility for tendering out passenger rail services including contract management. The then current Minister of Transport underlined that the purpose was 'to remove any suspicion of double roles or confusion as to the capacity of the ministry in future tenders' (Danish Ministry of Transport, 2003). The market governance was strengthened through hierarchical governance when the liberal-conservative government of 2003 secured a parliamentary majority to tender out one-third of DSB's passenger traffic before 2014. At the same time, DSB and the Ministry of Transport entered into a negotiated performance contract

for the period 2005–14 and so institutionalized the SOE as a hybrid governance mode in marketisation.

In 2004, it was decided that one of the most important commuter lines to Copenhagen Kystbanen was to be tendered out. In the period 2005–06, a lack of performance in its daily operations combined with the political decision to further tender out its traffic weakened DSB. Furthermore, the government suggested more market-based governance in terms of a potential full or part privatisation of DSB. Then in 2006 the Kystbane was tendered out as ‘Øresunds traffic’ as part of two coordinated, but distinct tenders by the Danish Transport Authority and the Swedish regional tender authorities, respectively. The hierarchal governance in terms of political agreements and discussions of more market combined with the implementation of further market governance in terms of contracting out put pressure on the SOE.

In 2007, DSB managed to improve its performance in Denmark and DSB won the Danish and Swedish contracts for ‘Øresund traffic’ through two different branches of DSB. First a joint venture between DSB and the private Scottish transport company FirstGroup plc. The result created a new situation for the Ministry of Transport. The Danish Transport Authority became contract manager in relation to DSB’s associated company Kystbanen A/S as part of market-based governance. At the same time, as part of the hybrid mode of governance, the Minister of Transport was responsible for both ownership of DSB in relation to the negotiated contract and supervising its commercial activities, that is, Kystbanen A/S. Hence, the Minister of Transport was responsible for both parties in the contract.

In 2009 the market-based governance was institutionalised through the re-tender of the first traffic from 2001, which was recaptured by Arriva and the announcement of a new tender on ‘Lille Syd’ (Roskilde-Køge-Næstved) and plans for further tendering out of regional traffic around Odense no later than 2012. Next, the Minister of Transport launched a new policy strategy, ‘A growing railway sector’, to increase competition in the passenger rail sector. In 2008–09, DSB continued to improve its Danish operation despite the problems with the takeover of especially the Danish part of the ‘Øresund-traffic’ in 2009.

The hybrid governance mode of the SOE was strengthened by stability in terms of a ten-year contract, but also put under pressure by the institutionalisation of market-based governance that

is supported by hierarchical governance of political agreements and strategies for more market-based governance and the arm's length principle between the political level and the contract level. The Ministry of Transport gets a double governance grip on the marketisation using both hybrid and market-based modes of governance as layered institutions. However, the conversion of the SOE into a market actor that wins contracted-out activities points to a new double role for the Minister of Transport as both regulator of DSBFirst and owner of DSB in the overall governance of the Danish passenger rail sector.

### **Competition full stop (2010–2015)**

At the end of 2010 and in 2011 the situation changed dramatically. DSB was successfully performing its negotiated activities, but at the end of 2010 there were massive financial and operational problems with the contracts of the two branches of DSBFirst. In 2010, when H.C. Schmidt from the liberal party became Minister, the hierarchical dimensions of the hybrid governance were strengthened by the Minister overruling the DSB board of directors and intervening directly in DSB's strategy. At the same time, the hierarchical support for market-based governance was enhanced as the Minister tried to strengthen the competition in tenders for DSB's traffic by engaging in a dialogue with other operators. The tender plans for 'Lille Syd' were cancelled in 2010, but in the beginning of 2011 another tender for the regional traffic around Odense was announced. In 2010, the Swedish operator SJ started up open access traffic, but by 2011 it had already withdrawn.

Owing to financial problems, the Swedish part of DSBFirst's contract was handed over to the Swedish tender authority in 2011, and today DSBFirst runs only the Danish part of the contract under the name DSBØresund A/S. In 2011, DSB also came under suspicion for illegal state subsidy to the Danish part of the operation. The CEO was fired and later the same year the chairman of the board resigned. In October 2011, with a new government in power, market-based governance was not part of the official political programme. Later the same year, future tender plans were officially cancelled because of major infrastructure projects on the network and the critical situation with DSB. At the beginning of 2012 a new CEO was hired and the focus was on operational improvement, cost cutting and the closing down of many commercial activities. The hierarchical governance was further re-centralised when the contract management and tendering out of passenger rail traffic was moved back to the policy department from the Danish Transport Authority in 2012 making the policy department once again responsible for



both ownership of DSB and for contract governance in relation to tendered traffic. With good performance in the negotiated contract, but immense problems in the commercial activities, the governance problem of the hybrid governance mode became evident. The problems with DSBFirst fell back on DSB and it became an ownership – hence hybrid governance – challenge because it seemed as though the problem was supervision of the ownership rather than the tendering process. It kept being a question of political responsibility when DSB underperformed, be that in commercial activities or in negotiated activities.

In the period from 2013 to March 2015 DSB has been renegotiating its contract with the Ministry of Transport. The negotiations have been kept behind closed doors, but DSB's 2013 annual report launched a new strategy emphasising DSB as a coordinating unit in the transport sector that does not engage in tender activities as market operator, making a clear move away from the former strategy of becoming a commercially driven company. A new contract had not been entered into before the end of 2014, when the contract ran out, and during the negotiations the CEO of DSB stepped back. In March 2015 political agreement about a new contract was reached and market governance was officially put on hold until 2024 by the social democratic party. DSB will keep its negotiated traffic and there will be a reintegration of the tendered line Kystbanen into DSB's operation. Only the contract with Arriva will be put out for tender when it expires. The agreement holds the promise of analysing the potential for tendering out all of DSB's traffic from 2024 and turning DSB into an agency. However, the political agreement – hence hierarchal governance – clearly puts market-based governance on hold and institutionalizes the SOE as hybrid governance mode, not as a commercial rail operator, but a coordinating and for now operating transport organisation.

In this period, the hierarchical governance is changing towards centralisation and thus control by the Minister of Transport both towards the hybrid governance, the SOE, and, later, also over the contract management in market-based governance. With the political agreement in 2015, hierarchical governance is putting market-based governance on hold and the hierarchical dimensions of the hybrid SOE are being enforced in both strategy, organisation and negotiated contract. Hence, market-based governance as layered institution does not threaten the old institution of the SOE that seems to be redirected once again and almost converted back to a coordinating role of the rail sector under the Ministry of Transport. This can be understood as an

endogenous displacement that could potentially tire out the SOE and change its current position of being seen as too big to fail in public service provision.

## Discussion

The analysis of Danish passenger rail has showed how the marketisation was first implemented, only to be put on hold and reversed because of the development and altering of the SOE as a hybrid mode of governance between hierarchy and market. The Danish state has returned to a hierarchal governance repertoire of internal coordination via the SOE. In the following, the development will be discussed based on an historical institutional theoretical account that focuses on the roles of institutions and institutional change in explaining policy development (Streeck and Thelen, 2005, Mahoney and Thelen, 2010).

In the case of Danish passenger rail, marketisation is a process of layering where new market modes of governance in terms of contracting out and open access are added as supplements to the existing institution, the SOE. Hierarchical governance as policies, political agreements and statutes supports the introduction of contracting out and open access from the end of the 1990s to 2011. In this period the layered model seems to create a double governance grip on the marketisation by the state because the availability of an alternative mode of governance is used to balance the power of the SOE through threats of privatisation alongside continuous political agreements and strategies for more market governance. The case where open access in 2001 was absorbed back into the hybrid governance form DSB, however, shows that the formal institutional framework in place did not necessarily lead to the institutionalisation of the market as a new mode of governance. For the contracted out activities, only one of the lines was institutionalised in market mode through more rounds of tendering out. The other was absorbed back into DSB in 2015. Thus the layering of market as a governance mode never becomes a threat to the previous existing institutional set-up, the SOE. Layering as a mechanism of institutional change explains why, despite having regulation in place, marketisation is not necessarily a linear development towards more competition. In this case it is because of the SOE, which is also changing and becoming a hybrid governance form in the same period.

The corporatisation of DSB is a conversion wherein the existing institution is redirected towards new goals to become a market-oriented passenger rail operator. The corporatisation is therefore

also layered since it introduces hybridity in the SOE as a governance mode that has both negotiated and commercial activities under different institutional set-ups. Where the negotiated activities are under the Open Act requirements and are thus part of the hierarchal mode of governance of transparency and accountability, the commercial activities are exempted from this regulation and are to be supervised by the board of directors. The commercial turn allows the SOE to participate on equal terms with other operators when the SOE's own traffic is contracted out as a result of the introduction of market governance. The Ministry of Transport separates the handling of ownership of the hybrid governance and market governance. However, it is when the SOE wins a contract that it becomes evident that the institutional set-up over time might lead to unexpected ripple effects because the Minister of Transport is responsible for both sides of the contract. When major financial and operational problems arise, the state's double governance grip of the market and hybrid governance modes backfires and becomes a double responsibility, where the state has to balance its roles as owner and regulator, making intervention difficult, the solution seeming to be a return to the hierarchal governance mode of centralisation.

The hierarchical governance mode is important during the whole period, but in different ways. In the first two periods it sets the legal framework for other modes of governance and enhances the implementation of market governance through policies and political agreements. By organising a division between ownership of the hybrid mode of governance and the contracting out and contract management of the market governance there is a development towards less rowing and more steering, and therefore arm's length. However, when faced with problems in market governance owing to the commercial activities of the SOE, the arm's length principle is discarded. The Minister of Transport intervenes directly in the SOE's strategy, and later on contract management is centralised in the policy department. To get control over the sector, the market governance is put on hold. This, however, leaves the state in a situation where governance is reduced down to either the hybrid governance mode, that is, the SOE that caused the problems in the first place, or more hierarchical governance. The SOE seems too big to fail. With the appointed new chairman of the board and a CEO focusing on trimming the organisation, one could, however, talk about a strategy of internal privatisation where DSB is potentially tired out with cost cutting, closing down commercial activities and following a strategy as a coordinating organisation that might lead to endogenous displacement leading to a weaker SOE in the future. However, the political agreement that put market governance

officially on hold until 2024 leaves the SOE in a stable position, but under hierarchical control and thus almost re-converted to its old institutional form without hybridity.

## **Conclusion**

This paper focuses on how the SOE as a hybrid mode of governance between market- and hierarchy-based modes of governance evolves in the marketisation of Danish passenger rail from the 1990s to 2015. The qualitative case study of the development of Danish passenger rail has been analysed and discussed from the perspective of gradual change in historical institutionalism by Streeck and Thelen (2005) to explain hybridity and re-centralisation in NPM and post-NPM (Christensen and Lægheid, 2011, Bezes and Lodge, 2015).

The paper shows that market-based governance was layered on the hierarchal governance mode of the traditional SOE via contracting out and open access. The SOE was turned into a hybrid governance mode through corporatisation having both negotiated activities on subsidy from the state and commercial activities at arm's length with the option of participating as a commercial operator in public tenders of its own traffic. This layered set-up provided the state with a double governance grip that together with the hierarchal governance of policies and political agreements drove the marketisation until 2011. However, the hybridity of the SOE created ripple effects between the market and the hierarchy that hampered the marketisation when financial and operational problems occurred in its commercial activities that created a governance dilemma for the state as both owner and regulator. The hierarchical governance was turned towards centralisation and the market mode of governance was put on hold. The hybridity of the SOE as mode of governance was endogenously displaced by tiring out the SOE via cost cutting and closing down of commercial activities and a new negotiated contract, leading to a re-conversion of the SOE towards its old institutional repertoire in the hierarchical organisation of the Ministry of Transport.

The paper points to that the hybridity of the SOE as a governance mode changes over time, not because of legal changes in ownership or statute, but in the interpretation of the role of the SOE by the Ministry of Transport and the management of the SOE. This takes place in changes of strategy by the SOE, changes of organisational set-up and policies by the Ministry of Transport and in the negotiated contracts between the two parties. The hybridity of the SOE makes it

possible for the Ministry to gain control over the sector through re-centralisation when major problems occur in the market-based governance due to the associated company of the SOE. The paper therefore argues that by having a SOE as a governance mode in public service provision, marketisation is not inevitable towards more market-based governance, but can be re-centralised not only on executive level (Dommett and Flinders, 2015) or as a part of major reforms (Pollitt and Bouckaert, 2011, Christensen, 2012), but in a sector through actors' interpretation of an existing institutional set-up. The case thus provides insights into the complexity and opportunities involved for the state in controlling agency like SOEs during marketisation of state provided public services balancing ownership and market reforms. The focus on actors' interpretation of the institutional set-up in historical institutionalism and the modes of governance provide a framework to understand the ongoing nature and national dynamics in European passenger rail as described by Finger (2014).

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### **Article 3**

## **SOEs as institutional market actors in the external marketization of public service delivery: A case study of Swedish and Danish passenger rail 1990–2015.**

Publication status: Submitted to Public Administration

### **Abstract**

This article presents a gradual change perspective on the role of state-owned enterprises (SOEs) in the external marketization of public service delivery as their monopolies are liberalized. Based on a qualitative comparative case study of passenger rail in Denmark and Sweden from 1990 to 2015, the article shows how external marketization results in a layered set-up of public service delivery where the SOEs become what we term institutional market actors (IMA) bridging sectorial challenges. The Swedish IMA has a New Public Governance form as the monopoly is dismantled and local/regional authorities displace the historical role of the SOE, leaving the SOE as a market actor in drift with sectorial expectations on a national level. In Denmark, over time, external marketization has been put on hold because of problems with the SOE as a market actor, but the national authorities are safeguarding the SOE in a New Weberian IMA form.

### **Introduction**

Little academic attention has been paid to state-owned enterprises (SOEs) as part of contemporary public governance (Florio and Fecher, 2011, Thynne, 2011, Grossi et al., 2015). Outside the Anglo-Saxon world many SOEs have not been sold off (OECD, 2014) but have become actors (Christensen, 2015, Paz, 2015, Rentsch and Finger, 2015) in the public markets created by the New Public Management (NPM) reforms (Hood, 1991, Pollitt and Bouckaert, 2011). The SOEs have inherently stayed state owned as part of the state under some kind of public scrutiny (Wettenhall, 2001) while their activities have moved towards contracts, partnerships, etc. under market regulation (Wettenhall and Thynne, 2011). This article aims at contributing to the renewed academic interest in SOEs by exploring and conceptualizing the role of the SOE in this contrasting governance structure through the lens of historical institutionalism focusing on gradual institutional change as a process of interpretation between rule makers and rule takers (Streeck and Thelen, 2005, Mahoney and Thelen, 2010) after reforms are passed

(Hacker et al., 2015, Conran and Thelen, 2016). The article explores: How has the role of the SOE evolved in the external marketization of public service delivery via interpretations by the state and the SOEs?

In the 1990s privatization of SOEs emerged in the EU owing to broader EU policies on liberalization of markets and government budget difficulties (Parker, 2003, Clifton et al., 2006), and public service delivery in network industries was one of the first areas to be marketized (Hermann and Verhoest, 2012). These sectors have historically been independently organized, often in company-based organizations as SOEs (Milward, 2011). The SOEs were monopolies with managerial independence and political influence (Farazmand, 1996) and, following the ideological turn towards competition in public management (Hood, 1991), reducing the political influence of SOEs was also a motivation for reforms. In the current revitalization of the study of contemporary SOEs there is either a normative policy tool (Salamon, 2002) approach to SOEs as being potential alternative to (failed) private sector involvement (Thynne, 2011, Florio (ed.), 2013) or an actor-centred approach focusing on SOEs as hybrid organizations (Bruton et al., 2015, Grossi et al., 2015, Grossi and Thomasson, 2015). This article contributes to newer approaches that highlight a dual relation (Christensen, 2015) with a gradual institutional change perspective (Streeck and Thelen, 2005) that takes the ambiguity that exists between the state and the SOE as an actor (Rentsch and Finger, 2015) as a bi-directional relationship in which historical and political legacy matters (Paz, 2015) into account.

This article is based on a comparative case study focusing on the development of the role of SOEs in passenger rail in Denmark and Sweden from 1990 to 2015 where regulation for marketization is in place and where 100 per cent state ownership of the rail operator exists (Sørensen, 2005, Alexandersson, 2010). Passenger rail has been a thorn in the side of EU regulators while the EU has been pushing for reforms through a range of railway packages creating competition (Dyrhauge, 2013, Finger and Messulam, 2015), and many countries have had difficulties with the incumbent SOE that still dominates public service delivery (Finger, 2014, OECD, 2014). Where Denmark and Sweden are often considered as belonging to the same group of countries within a public management perspective (Pollitt and Bouckaert, 2011, Greve et al., 2016), this comparative case study based on document studies and more than fifty interviews shows divergence. The Swedish market for passenger rail has been moving towards ever more competition (SOU, 2013), even considering privatization of the SOE (SOU, 2015),

whereas in Denmark competition has been put on hold and an agencification of the SOE is being discussed. The two cases show how the role of the SOE changes over time in a subtle set-up with the SOE both as the backbone of public service delivery but also as a market actor among others with its strategic possibilities and constraints based on the historical legacy of its relationships and resources from the former institutional role. This leads to a broader sectorial role for the SOE than that of its competitors, which we term ‘institutional market actors’.

To outline this argument the article consists of four parts. The first is an overview of theories on SOEs in marketization and the perspective of gradual institutional change. Second, the methods section outlines how the comparative case study of SOEs in Danish and Swedish passenger rail was conducted. Third, the cases are analyzed before being discussed and conceptualized in the final fourth section.

### **A gradual institutional change perspective on SOEs in external marketization**

Earlier reasons for state ownership were to secure growth in situations with lack of market or to take over activities from the markets for strategic reasons (Farazmand, 1996). Milward (2011) adds broader concerns of social and political unification and national defence as motivation for former state ownership. As Lodge (2002) points out, then, public ownership and undertakings were as natural in public administration as privatization became in the 1980s and 1990s by its advocates. If not outright privatized through NPM reforms, SOEs can be said to have been reformed in two different ways. In internal marketization they were corporatized (Christensen, 2017 (forth.)), which created an ownership relation and not (only) a political relation to the state (Christensen and Lægreid, 2003). It created an economic and judicial independent actor within the state that could be a step towards privatization (Thynne, 2011). Second, which is under investigation in this article, came external marketization where the activities of SOEs were liberalized and the SOEs became market actors in the new markets of public service provision of their former activities (Christensen, 2015, Paz, 2015, Rentsch and Finger, 2015). Research has with divergent results compared the performance of SOEs with their private counterparts (Willner and Parker, 2007, Bruton et al., 2015) and how they have internationalized (Clifton et al., 2011). This article explores in a public governance perspective the role of SOEs in public service delivery in the external marketization of their former monopoly.

Two different strands of literature can be identified that focus on SOEs in external marketization. On one side is the public policy and organization literature that in the defence of the SOE as a policy tool (Thynne, 2011) focuses on issues of balancing autonomy and accountability on the back of NPM reforms (Thynne, 1994, Wettenhall, 2001) paying attention to new forms of (lack of) control through contracts (Wettenhall, 2001) and recently highlighting process in a hybridity perspective (Grossi and Thomasson, 2015) and that political influence prevail (Ennser-Jedenastik, 2014, Mortensen, 2016). A broader governance perspective that stresses other stakeholders for the SOE (Yeung, 2005) has been integrated to supplement the SOE–state relationship (Thynne, 2013) and a link to a regulation perspective has been made (Wettenhall and Thynne, 2011). On the other side is the literature on public economy and regulation of utilities. In the regulation literature external marketization is seen as sector specific (Milward, 2011) while passenger rail is about competition (Sclar, 2005) for the tracks in terms of tendered contracts or on the track for slots/rail access on commercial lines or competing tracks (Finger, 2014) with the SOE perceived as an obstacle to achieving this (Finger and Messulam, 2015). However, the public economy literature has regained interest in state ownership as an alternative policy tool to external marketization in utilities (Del Bo and Florio, 2012, Florio (ed.), 2013, Florio, 2014).

**Table 2 Overview of the historical governance of SOEs and external marketization**

	<b>Historical governance of SOEs</b>	<b>External marketization of public service</b>
<b>Main actors</b>	- Parliament, the minister and the SOE	- The regulatory and procuring authorities and the market actors including SOEs
<b>Components</b>	- Direct orders and commands - Policies on the political and societal objectives for the SOE	- Contracting out of services - Authorizations or licences - Sector regulation and competition law
<b>Organizational principles</b>	- Statute-based SOE - Political and coordination tasks for the sector in the SOE	- Contracts that define services and obligations towards the sector - Special service obligations on contract basis on negotiated contracts
<b>Finance</b>	- State subsidy on the Finance Act - Public spending and user payment	- Public payment for contracted-in and contracted-out services combined with customer payment

Gradual institutional change (Streeck and Thelen, 2005) offers a way of exploring the duality of the role of SOEs in external marketization as it offers a theoretically informed analysis of mechanisms of reproduction and change in reforms of a hybrid public sector (Christensen and Lægreid, 2011) that can highlight national differences (Bezes and Lodge, 2015). Where the public policy and organization literature stresses the negative implications for the state when moving away from the historical governance of the SOE, the literature on public economy and regulation of utilities has stressed the normative advantage of external marketization, only recently leaving room for a redefinition of public governance via SOEs. Both strands, however, share the perspective of the state defining the role of the SOE as a policy tool (Salamon, 2002). Newer approaches also focus on SOEs as influential actors while being policy tools (Bernier, 2014, Christensen, 2015), where the state-SOE relationship is ambiguous (Rentsch and Finger, 2015) and bi-directional wherein historical and political legacy matters (Paz, 2015). Gradual institutional change focuses on the imperfection of reforms and the room that leaves for the actors in play to change the institutions (Streeck and Thelen, 2005, Mahoney and Thelen, 2010). Institutions ‘are formalized rules that may be enforced by calling upon a third party’ (Streeck and Thelen, 2005, p.10) including organizations that are to some extent publically guaranteed. Institutions are to be studied as social regimes in which it is the continuous interaction between rule makers and rule takers as interpretations that drive institutional change. It makes the analytical focus on how reforms are implemented and not why they are passed (Hacker et al., 2015).

Four types of gradual institutional change are relevant: layering, drift, displacement and conversion (Streeck and Thelen, 2005). Layering is where new institutional elements are ‘layered’ on an existing institution because the institution in itself is unchangeable. Drift is when an institution is not renegotiated, and keeps its formal integrity, but is ‘drifting’ away from the original intentions. Displacement is when new institutions are tired out from inside by endogenous actors that try to replace old institutions with new ones. Conversion is when a formal institution is redirected towards new goals. In this perspective institutional change can occur because of either an abrupt shift by a coalition of actors or a subtle and relatively uncontested step where the change is about meaning making (Conran and Thelen, 2016). Consequently the article focuses on how the role of the SOE in marketization is gradually being changed by the actors with a special emphasis on the state and the SOE through the available institutions that occur with marketization.

## Methods

The article is based on a qualitative comparative case study of the incumbent SOEs in Danish and Swedish passenger rail to explore the evolving role of SOEs in external marketization. Inspired by Florio and Fecher (2011) call to rediscover contemporary SOEs, in-depth case studies have been conducted to help advance our empirical and conceptual understanding. To strengthen the analytical generalization the two cases were selected by purpose as two polar cases (Eisenhardt and Graebner, 2007). Hence, passenger rail is a network industry with state involvement both in infrastructure and via subsidies for services (Sclar, 2005) and a sector with many SOEs (Finger and Messulam, 2015). As members of the EU, both countries have been influenced by the European railway packages where Sweden is seen as a frontrunner (Finger, 2014). Denmark has set up legislation to comply, but has put liberalization on hold. So the cases present new empirical insights on the sector that together lead to analytical generalizations about SOEs in external marketization in a public governance perspective.

The period under study is marked by the beginning of external marketization in both countries – in 1988 in Sweden and in 1993 in Denmark. The case studies are based on explorative interviews and document studies triangulated with semi-structured elite interviews (Eisenhardt and Graebner, 2007). To strengthen the comparison of the two single in-depth case studies, the data collection was standardized in terms of interviewing a minimum of the same actors, when possible using the same types of document and using the same thematic coding scheme (Georg and Bennett, 2005). To outline the development and identify disputes for the SOEs, Danish national auditor reports, negotiated contracts and primarily Swedish commission reports were analyzed. In both cases the first type of documents are of high quality since the authoring organizations have privileged access to the SOEs and other actors in the sector. Annual reports were used to map the SOEs' market activities and interpretations of the reforms in terms of strategies. The interviews were conducted in Danish and Swedish respectively over two periods. In each case eight explorative interviews were carried out alongside the document analysis, with persons identified via the snowball method (Goldstein, 2002). The software Nvivo was used to structure the final document analysis based on the coding scheme: reform, SOE ownership, SOE commercial activities and SOE regulated activities with between three and six sub-themes and timelines of external marketization and the activities of the SOE were created.

The first part of the analysis made it clear that the role of the SOE has not always been formalized. To triangulate the findings and deepen the understanding of the role of the SOE, twenty-five Swedish and twenty-two Danish in-depth interviews were conducted with managers from public authorities, the SOEs and sectorial organizations like unions, industrial organizations and competitors. The respondents were identified as elite representatives of their organizations, but access was often obtained via the snowball method. The interviews were transcribed verbatim and coded like the documents and analyzed as interpretations of the role and here the focus was also on searching for contradictions. There was often quite a common understanding of how the role of the SOE has evolved, but with differing perspectives on the advantages of that. The following analysis takes a contextual and historical departure focusing on institutional change as a process of interpretations by the actors with a special emphasis on the SOE, the incumbent operator, as rule taker and the public authorities as rule makers that drive institutional change as a process of both powering interest and making meaning over time.

### **Analysis of the role of the SOE in external marketization**

In the following the cases of SOEs in the external marketization of passenger rail in Sweden and Denmark respectively will be analyzed. In both cases external marketization started out with a *layered* process where new market-based elements were put on top of the existing delivery by the SOE. In Sweden the implementation was, however, an example of *displacement* of many of the tasks of the SOE and *drift* of the SOE as market actor owing to strong regional transport authorities as important actors of change. In the Danish case, on the contrary, the *layered* market-based elements were weakened over time and the SOE was over time *reconverted* towards its historical role.

#### **The Swedish case of full-blown competition**

The Swedish railway industry was established through both state initiative and private actors (Swedish National Auditor, 2005). In 1939, owing to economic crisis, the sector was nationalized into a public utility, Statens Järnvägar, which became a state monopoly (SOU, 2008). The economic problems continued. In 1958 subsidies were introduced on unprofitable rail lines and in 1963 Statens Järnvägar was divided into a commercial part and a subsidized part. The company faced several economic problems through the 1970s and 1980s owing to a close-down of rail lines, falling freight revenues and a need to upgrade the network (SOU, 2013). Against this backdrop, de-regulation took off in 1988 with the vertical separation of rail network and rail services through the establishment of Banverket (Swedish Rail Net). At the

same time, the local transport authorities became responsible for local and regional train services. They took on this new responsibility in a marketized way and started the *layering* process of external marketization as they began to tender out unprofitable traffic in competition or enter into negotiated contracts with Statens Järnvägar. The first competitor entered the market on regional traffic in 1990 and in 1993 a new authority, Rikstrafiken, started to tender out the interregional subsidized lines (SOU, 2008). The national level followed the practice of the local level and commenced a *layering* process by tendering contracts for national lines next to the national monopoly of the SOE.

The corporatization of Ståten Järnvägar took place in 2001 and a 100 per cent state-owned company, SJ AB (SJ), was established (Christensen, 2017 (forth.)). The motivation, among others, was to secure better market access, so SJ was turned into a passenger rail operator and other parts of Ståten Järnvägar were turned into individual SOEs including freight, maintenance, cleaning and the stations (SOU, 2013). SJ kept its monopoly to run all interregional lines it found commercially viable. Next to this, SJ entered into a negotiated service level agreement with Rikstrafiken of ten commercial lines until 2010 (Swedish National Auditor, 2005). The corporatization created a powerful SOE as market actor that acted within the *layered* market set-up of tendered and commercial traffic based on its historically based rights and privileges in terms of former agreements and later negotiated contracts that excluded tender processes of central lines. In the Stockholm region SJ had a twenty-year cooperation with more local authorities about 'Trafik i Mälardalen' (TiM). SJ ran the regional services in its own name while the transport authorities paid for certain service levels and access to trains on the commercial interregional lines. There were political discussions about dismantling the commercial monopoly (SOU, 2013), which was safeguarded, but not strengthened as SJ wanted: 'SJ did not have a special purpose from the owners, but the Swedish population had the perception that SJ had [...]. We said we are a SOE and we think we should have a special purpose' (Ulf Adelsohn, Chairman of the Board, SJ, 2002–2011).

It is the local authorities that can be said to have taken over the historical role of the SOE stepwise in a process of displacement. Since 1999 the local authorities have been buying fleets through the shared company Transitio AB, establishing their own ticketing systems, and planning organizations and brands for their traffic, but with the traffic tendered out. Over time the local transport authorities have been given the rights to organize interregional commuter

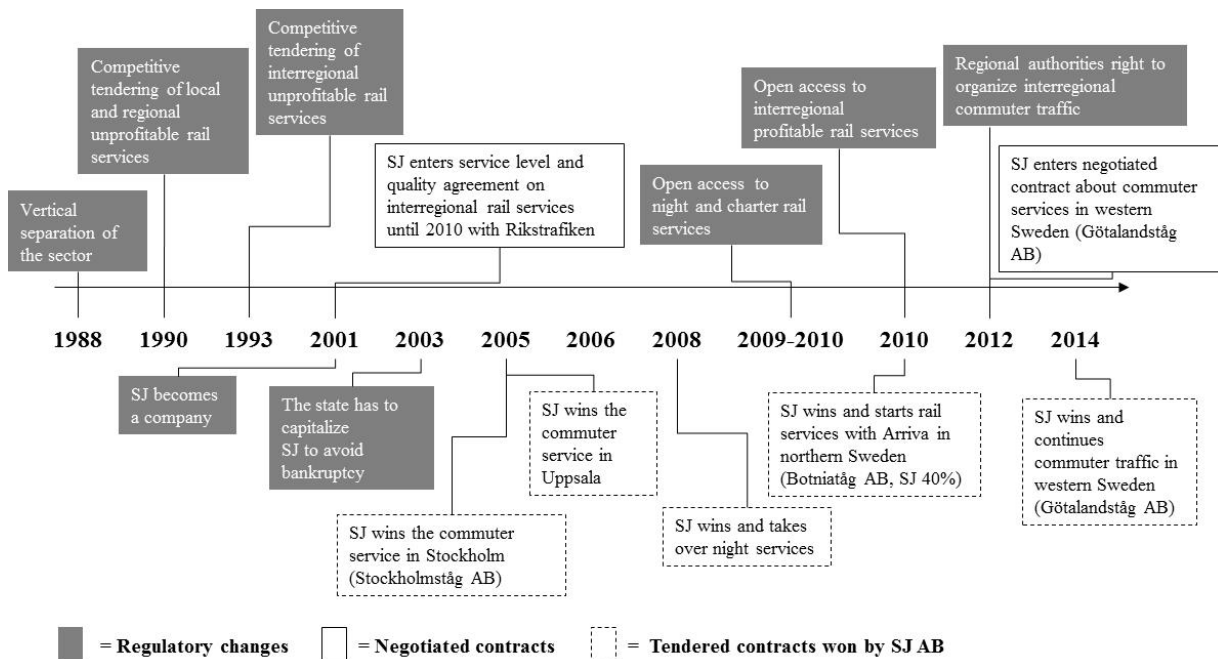


services together first by application and later in 2012 in the legislation for public transport (SOU, 2013) as they were turned into regional transport authorities. In 2012 they also got the task of developing plans for the interregional commuter services. In this line the regional transport authorities engaged in TiM decided to tender out the entire transport system under the name of MÄLAB. As a manager said, the plan was ‘to cut out the last protected parts of the regional market from SJ’ (manager, Stockholm regional transport authority (SL)). This was previewed to make a partly subsidized takeover of some of SJ’s current commercial lines and caused discussions about the limits for commercial and tendered traffic (SOU, 2015). The regional transport authorities have become powerful actors in external marketization moving from being only tendering authorities on mainly local traffic to being transport authorities controlling interregional services and thereby limiting the advantages of SJ as a market actor. According to a manager from the Ministry of Enterprise and Innovation: ‘They have almost become small SJ themselves.’

From 2008 onwards SJ’s commercial monopoly on the interregional lines of SJ began to be removed stepwise by opening up for competition first for commercial charter and night train services and finally for interregional services from 2010. A new market was created based on competition ‘on the tracks’ for the best slots with the Swedish Transport Administration in charge of granting slots on the network (SOU, 2013). The market is based on the operators providing fleet, ticketing systems, maintenance facilities and commercial brands and here SJ has advantages owing to its historical monopoly position. As a manager from SL says: ‘They are in practice an unregulated monopoly [...] they kept their fleet, bought new fleet, kept the brand sj.se etc. [...] precisely what traffic to conduct is transferred to the market which in practice means that you have given the mandate to the board of SJ and the CEO to manage it themselves.’ The national traffic of the country is still dependent on SJ, but now without the monopoly, and the same goes for the sectorial challenges. On a national level there is no single authority that has the responsibility for the sector (SOU, 2015): ‘Often it is the actors that see the problems and then try to coordinate’ (manager, Ministry of Enterprise and Innovation). In this sector coordination, SJ is perceived to have a special role by sectorial stakeholders, and SJ has placed itself centrally in sectorial organizations (Crister Fritzson, CEO, SJ, 2012–), but it does not want a formalized special purpose: ‘We are [already] running this company as the railway for entire Sweden’ (Chairman of the Board, SJ, 2011–). SJ is positioning itself in the new *layered* market as a market actor with a special responsibility as the biggest operator.

However, the main part of the public service is on a regional level, and SJ could be seen as a market actor in *drift* with no political strategy for the role of SJ and even with political considerations of privatization (SOU, 2015) in the air.

**Figure 1 Timeline of the Swedish case of full-blown competition focusing on SOE SJ AB**



### The Danish case of competition on hold

The Danish rail sector emerged as a result of both public and private initiative, but already in 1880 the state took over the main lines on the network and a directorate-general DSB was established with direct reference to the Minister of Transport. Next to this, the secondary rail lines were arranged in a myriad of 'private' corporations often with a mix of private, state and municipality capital, but they were handed over to the regions from the 1970s to 2000 (Longva et al., 2005). In 1993, the marketization of passenger rail commenced as DSB was transformed into a state company and subordinated under the Ministry of Transport. In the period 1996–1997 a vertical separation took place when the rail network was placed in a Rail Net Authority to be supervised by the Rail Agency (Longva et al., 2005). In 1998, the legal framework for tendering out rail services and open access traffic was passed in the Danish parliament. The same year DSB was corporatized into a statutory rail company to be run on business conditions and with the opportunity to run rail services abroad (Christensen, 2015). The internal marketization

opened up a role for the SOE as a market actor in the new *layered* external marketization in terms of tendered traffic and open access traffic both domestically and internationally.

The corporatization also led to another element in external marketization, namely, the negotiated contract between the Ministry of Transport and DSB that describes their public service responsibility. The first one ran from 2000 to 2004 and gave DSB monopoly rights over the interregional traffic. DSB kept a central role in the organization of the rail transport system, but also in the broader transport sector as a coordinator (Christensen, 2017 (forth.)). With the first tender of traffic in 2000, DSB tried to act as a market actor by bidding on its own traffic, but lost to Arriva. It is evident that the *layered set-up* created a dominant actor in the new market. DSB used its institutional role in the new commercial tendered activities and was accused of making a bid that would lead to a loss on the operation, which is against DSB's articles of association (Danish Auditor General, 2002). Alongside this, DSB started to compete for contracts abroad and, after they lost the first domestic contract, international expansion became part of the company's strategy (Christensen, 2015).

In the following years there was political support to further tender out traffic (Danish Ministry of Finance, 2003). At the same time the organization of passenger rail was changed towards arm's length as market regulation was moved to the new Transport Authority in 2003 and sectorial policy and ownership stayed in the Department of Transport. DSB and the Ministry of Transport entered into a new negotiated contract from 2005 to 2014 (Christensen, 2017 (forth.)). The second contract was entered into after Arriva had entered the market for passenger rail. DSB's interregional rail monopoly stayed, but its historically generated knowledge, systems and material in terms of education of train drivers, ownership of rail fleet, maintenance workshops, facilities for refitting, stations and ticketing systems were regulated in greater detail to secure better access for new operators as DSB had caused problems in external marketization. Despite this, DSB was still a market actor: 'There was consensus about the international, there was consensus about commercialization and there was consensus about tendering-out' (Søren Eriksen, CEO, DSB, 2007–2011; EVP, DSB, 2002–2006).

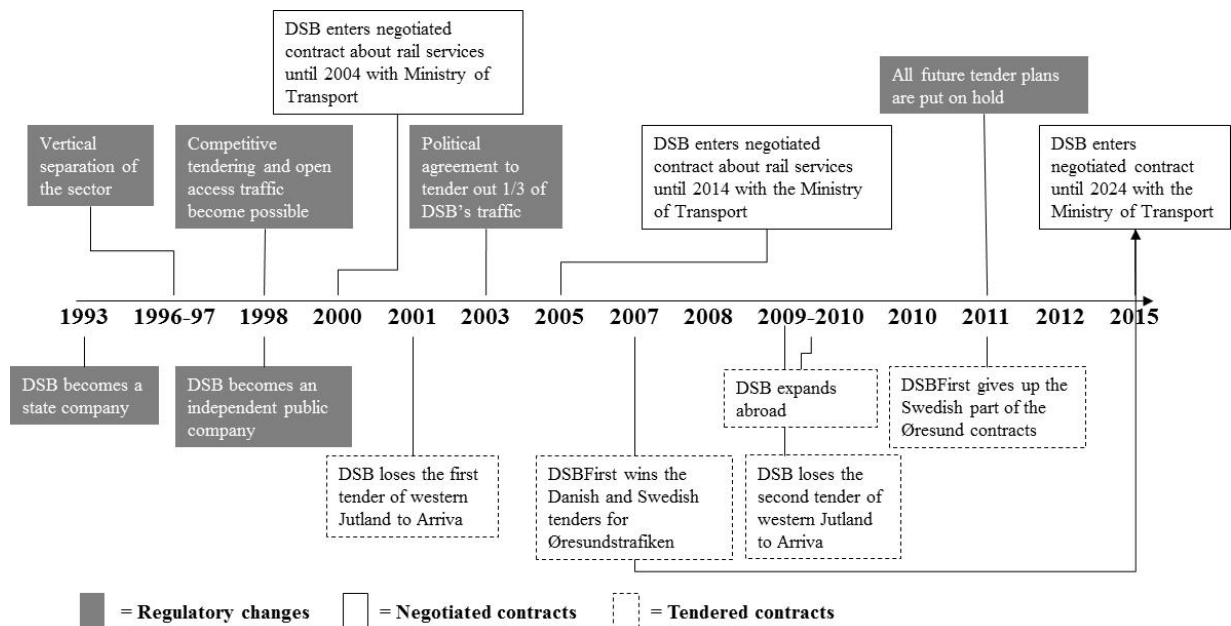
In 2006 DSB won the second Danish tender in cooperation with the Scottish company First Group. The partners also won the related tender in Sweden and became responsible for the commuter traffic north from Copenhagen and in southern Sweden (Øresundstrafikken). From

2009 onwards DSB both won contracts and bought activities abroad. DSB became the second biggest operator in Sweden and proclaimed: ‘An offensive strategy abroad is so to speak helping DSB to become more efficient and customer oriented on the home market’ (DSB, 2010, p.33). Later it became evident that the international activities were causing major problems and that the synergies had turned into debt for DSB (Danish Auditor General, 2011). DSB was accused of accessing illegal state aid through cross-subsidies of maintenance services in the Danish operation. DSBFirst handed over the Swedish part of the contract to the Swedish Authority in 2011, but kept the Danish contract. In 2011, all future plans for tendering out were officially put on hold owing to major projects in the sector and the major economic problems within DSB, and in 2012 the contract management was centralized back into the policy department within the Ministry of Transport. The Ministry was criticized for not having taken enough action regarding DSB’s financial problems (Danish Auditor General, 2014). It opened up for a redefinition of the role of the SOE in external marketization: ‘The lessons learned are that you cannot have a tendering policy without a policy for what do you want to do with DSB as a company. That is the place where, one might say, the railway policy has been ever since’ (manager, Ministry of Transport).

DSB was forced to cut costs and close commercial activities (Christensen, 2015) and a new strategy process started during the negotiation of a third negotiated contract (Christensen, 2017 (forth.)). The few competitors tried to push for more tendering out via reports and meetings with politicians and the Ministry (managers, Arriva) and even the unions moved positively towards competition as DSB pushed the labour conditions in the cost-cutting reforms (manager, Danish Rail Union). The EU also pushed for competition in discussions on the fourth railway package. The strategy process of the SOE took an unexpected turn: ‘We looked at the main purpose of DSB and concluded DSB is actually not created to operate trains, but instead to administrate the system, that makes it possible for as many as possible to use trains’ (Jesper Lok, CEO, DSB, 2012–2014). This perspective was later found in the political agreement behind the new negotiated contract 2015–24 where a potential role of DSB as an authority with responsibility for the fleet, ticketing and planning in external marketization is to be evaluated. This points back to what the competitors formulated: ‘DSB’s role and how to act comes down to their historical background and to a large extent also their expertise. Others are also asked, but then they are politically asked first’ (manager, Danish industry). The contract put tendering on hold until 2020 and the already *layered* element of the existing contracts for DSBFirst was integrated into

DSB's traffic. A manager in the Ministry of Transport interpret it as 'a narrow model for tendering out as opposed to a big one. And it represents the political consensus at that time [...] but it also represents an idea on how to solve the coordination problem.' The role of the SOE in external marketization can therefore be seen as *reconversion* back to the historical role of the SOE as the coordinator of the sector, although now on marketized conditions.

**Figure 27 Timeline of the Danish case of competition on hold focusing on the SOE**



## Discussion

The analysis from a gradual institutional change perspective has shown that the external marketization of passenger rail in Sweden and Denmark has created passenger rail sectors with more actors and markets, but at different paces, and with different uses of governance mechanisms and different governmental levels. The SOEs have in this set-up become strategic market actors where their historical institutional position both enables and constrains them. The following discusses this development in a gradual institutional change perspective and how it could be understood and conceptualized in a public governance perspective.

### Layered process of keeping the old institutional SOE while creating a market actor SOE

The historical background of the SOE in both countries is one of nationalization creating an SOE that becomes a sector. In the external marketization Swedish SJ's legally protected monopoly rights were gradually rolled back. In Denmark the legal framework was put in place

for open access and competitive tendering from the beginning, but next to this the DSB's monopoly rights were secured in negotiated contracts valid for ten-year periods of time. The reform of the SOEs into passenger rail operators could be argued to be through a *layered process*, where new elements were added to old ones. The reforms in both countries led to three different kinds of market. First a negotiated or protected market set-up based on the historical and institutional role of the SOE combined with, second, a new competitive tendering market and, third, a commercial open access market in which the SOEs became market actors. In answer to Florio and Fecher (2011) the cases show that when SOEs are not privatized at once, they are corporatized in internal marketization (Christensen, 2017 (forth.)), where they keep their historical role that becomes the institutional bases for the creation of new markets in which they become market actors. In a public governance perspective, this points to SOEs as tools for governments (Salamon, 2002) in the public-private mixes of today's public service delivery (Wettenhall, 2010). Where the literature has seen corporatization as a potential step towards full privatization (Thynne, 2011), the cases show that the role of the SOE evolves and can be enabled by the new governance mechanisms that are created in the layered set-up.

#### *Swedish displacement of the institutional SOE and drift of the market actor*

In Sweden there has been a clear separation of national sectorial and ownership policy and dominant local/regional transport authorities in the tendered market that seems to have weakened the role of the SOE despite its strong historical position. It is the local authorities that introduced tendering out of contracts at the beginning of the 1990s and actually moved the formal institutional market reform of 1988 further than intended on a national level, as also pointed out by (Alexandersson, 2010). What this study shows is that they are *displacing* the historical and institutional role of the SOE to the regional level, first, as local tendering organizations, by buying fleet, developing ticketing systems and brands, and finally, as regional transport authorities, by incorporating SJ's former commercial traffic into future tenders directly against the intention to de-regulate passenger rail as proposed on a national level. This spills over on the SOE, which, as a market actor with no formal privileges, can be seen as *drifting* as the institutional context changes, where it keeps its historical position as an SOE, but the role is not renegotiated. This shows the importance of the understudied local and regional level when understanding contemporary SOEs (Grossi et al., 2015).

#### *Danish reconversion of the SOE*

In Denmark neither open access nor competitive tendering have been implemented to a wide extent and the SOE is still a quasi-monopoly via the negotiated contract. Thus external marketization is reduced. Over time the new layered elements have become, so to speak, less threatening to the old institution, the SOE. Creating an arm's length position between the State and the SOE has been a guiding principle (Thynne, 2011), but the Danish case challenges this notion. While the arm's length principle is the ambition, owing to problems caused by the SOE as market actor in the layered set-up, the Minister of Transport has regained control over the decisions of DSB, the sectorial policy and the market governance (Christensen, 2015). As it is a statutory company, the DSB Act is a central institution, and the corporate strategies are interpretations of this. When the political level stays close to these ongoing interpretations of the SOE as market actor, it seems to strengthen the possibility of returning to the historical role of the SOE. In the Danish case the SOE is at first directed and interprets the role towards the new goals as a market actor, but later it is redirected back via interpretations towards the historical role and could be said to be *reconverted*. The Danish case is close to the policy tool approach of the SOE literature (Thynne, 2011, Florio (ed.), 2013), but it highlights that it is not only a matter of optimal regulatory choice by politicians (Del Bo and Florio, 2012), but also that contemporary SOEs as actors (Bernier, 2014, Paz, 2015, Rentsch and Finger, 2015) and the ministries (Christensen, 2015) influence the redefinition of SOEs as part of external marketization.

#### *SOEs as institutional market actors*

From the above it becomes evident that the institutional relationships that emerge following reforming of the historical SOE both constrain and enable the development of the role of the SOEs as market actors in the marketization of public service delivery. The SOEs do have some incumbent privileges born out of the historical and institutional role as SOE that consist of more than legally or contractually based privileges, namely knowledge, historical relationships, fleets and technologies that have value for sectorial development, as pointed out by Paz (2015), and this article shows that they also have political access and influence that together form their role in external marketization. The role of the SOE could be conceptualized as an '*institutional market actor*' since it creates institutional relationships for the SOE that go beyond those of a market actor in external marketization and relate to the historical governance and institutional role of SOEs. Within the institutional relationships the SOEs manage through a double strategy of commercial expansion and protection of their historical position. This is supported by

Rentsch and Finger (2015) who term the state–SOE relationships ambiguous. However, this study shows how it changes over time, that more relationships can occur and that, because of the ambiguity, it is not just a principal–agent relationship of powering interest, but also based on a process of puzzling and meaning making where influential actors are shaping the role of the SOE together.

For SJ the roles are closely related because it used its former monopoly to strengthen its position first in the tender market through alliances and later in the open access market owing to historical, now commercial assets like the fleet and the brand. However, SJ as a market actor without any formal institutional role is threatened by both the regional authorities and the commercial market actors. While not being formally renegotiated on national level, SJ is faced with historical expectations by other stakeholders (Yeung, 2005) and turn it into a strategy to play a privileged role in coordinating sectorial challenges pointing to a New Public Governance approach (Osborne, 2010) to the SOE. In the Danish case DSB used an international strategy to become less dependent on its domestic position. However, the international strategy backfired and DSB influenced the external marketization domestically. In this process, via its own strategies and the Ministry's wish to regain control, DSB has returned to being the institutional national SOE and for now is protected by a negotiated contract that can be seen as a New Weberian approach (Pollitt and Bouckaert, 2011) to SOEs.

## Conclusions

Two qualitative case studies of the development of passenger rail in Sweden and Denmark from 1990 to 2015 were used to analyze how the role of the SOE has evolved in the external marketization of public service delivery in the perspective of gradual institutional change put forward by Streeck and Thelen (2005). The literature on SOEs is growing and this article brings new empirical evidence to the Danish and Swedish developments (Bruton et al., 2015). The comparative analysis shows that the market reforms were initially *layered*, which kept the SOEs as bases for passenger rail with the new markets added on while the SOEs also became market actors among others. The SOEs hold privileges based on their historical positions, and in the transformation to market actors the dynamic between the two created a position for the SOEs that goes beyond that of a market actor and can be seen as that characterizing an institution. Against this background, it is suggested to conceptualize the role of today's SOEs in public service delivery as that of *institutional market actors* (IMA). The implementation of this layered set-up took different trajectories in the two countries. In Sweden, local/regional transport



authorities as endogenous actors pushed the layered set-up, which created a *displacement* of the historical role of the SOE to the regional level. It has left SJ as a market actor in *drift*, but with the societal expectations of solving national sectorial challenges and thus a New Public Governance IMA. In Denmark, the SOE was redirected towards new goals, but finally *reconverted* to a New Weberian IMA as sector coordinator because of problems with the SOE as market actor and closeness to the national political level.

The article contributes to the academic discussion of gradual institutional change in the post NPM era (Christensen and Lægreid, 2011, Bezes and Lodge, 2015) by suggesting that when analyzing a reform of an organization that has institutional features, but that also becomes a market actor, more mechanisms are at play simultaneously and can change over time and even be reversed. The IMA is a contribution to the current academic enquiry into contemporary SOEs (Thynne, 2013, Bernier, 2014, Florio, 2014, Grossi et al., 2015). It extends the actor-oriented accounts to SOEs by providing an gradual institutional perspective that can account for how historical and political legacy (Paz, 2015) and ambiguity (Rentsch and Finger, 2015) influence the state-SOE relationships and thus point to how state matters (Bruton et al., 2015) to contemporary SOEs.

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## Article 4

# How hybridity has evolved in the governance of state-owned enterprises: Evidence from the internal marketization of Danish and Swedish passenger rail 1990–2015

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### Abstract

Based on a comparative qualitative case study of Danish and Swedish passenger rail, this article shows that SOEs convert into commercially oriented companies before corporatization and that hybridity occurs as the sectorial role is layered in market-based set-ups. Danish DSB re-converts as the sectorial role expands via actors' interpretations. Hybridity is reduced and conversion enhanced for Swedish SJ via commercial orientation in the governance set, but hybridity persists informally.

**Keywords:** SOEs, hybridity, governance, marketization, passenger rail

**Impact:** There are two practical implications of this analysis: First, it shows the importance of closer analysis of the SOEs themselves and their strategic actions over time in future analysis of hybrids in other countries. Second, SOEs are here to stay in many sectors, so scholars and practitioners need to pay more attention to how SOEs interpret marketization reforms to understand their role in public governance. Equally, executives of hybrids need to consciously consider the political nature of their job and the subsequent expectations to perform accordingly even when political dimensions are not part of the governance set-up.

### Introduction

Hybrids and hybridization have been under scrutiny in many disciplines and, most recently, organizational studies and public administration are building common grounds (Bozeman, 2013, Denis et al., 2015). In the attempt to unpack hybridity, more theoretical approaches are being discussed (Bruton et al., 2015, Denis et al., 2015) that combine analytical levels and explanations among macro structures, meso organizations and micro individuals (Christensen

and Lægreid, 2011, Denis et al., 2015, Skelcher and Smith, 2015). However, there is a lack of cases in which hybridity is studied over longer periods of time with an explicit focus on the political dimensions of hybridization (Denis et al., 2015). This article addresses this gap and focuses on the hybridity of state-owned enterprises (SOEs) in Denmark and Sweden from the perspective of gradual institutional change (Streeck and Thelen, 2005), where hybridity is analyzed over time as a process through which formal politically decided institutions are changed via the interpretations in the institutional relation between rule makers and rule takers. The prevailing *raison d'être* that 'state-ownership reduces firms' profit imperative while introducing additional governance matters' (Bruton et al., 2015) points to a hybridity in the governance of SOEs. However, as Kankaanpää et al. (2014) indicate, there is a broad span in today's SOEs. It therefore calls not only for a better understanding of today's SOEs (Florio and Fecher, 2011) as hybrids on an organizational level (Bruton et al., 2015, Denis et al., 2015) but also for situating SOEs in the contemporary debate about hybridization from a policy and governance perspective (Christensen and Lægreid, 2011, Christensen, 2015, Grossi et al., 2015, McDermott et al., 2015).

The paper analyzes the research question: How does the hybridity in the governance set-up between the state and the SOE evolve in internal marketization? It answers this through a comparative qualitative case study of passenger rail SOEs in Denmark and Sweden between 1990 and 2015. These are two particular interesting cases to compare as they are often seen as similar 'Nordic countries' (Pollitt and Bouckaert, 2011) with Denmark as more market-oriented (Campbell and Pedersen, 2007). In this case, however, the roles are reversed. Both countries had SOEs with historical activities that covered the vast part of the public transport sector (Sørensen, 2005, Alexandersson, 2010). With the corporatization in 1999 in Denmark and in 2001 in Sweden both SOEs became rail operators in competition with other market actors without a special purpose in ownership, but with certain privileges in the marketization of public services. Since 2010 the Swedish SOE has lost its privileges whereas the Danish SOE's privileges seem to be strengthened. This paper shows how the hybridity has evolved differently and suggests considering hybridity as changing over time, not only as a result of ownership structures (Bruton et al., 2015) where hybridity might be controlled via better governance structure (Koppel, 2007, Kankaanpää et al., 2014) but also as *layered* governance set-up where hybridity is a process driven by the interpretations of the actors and where the SOEs play an active role in the formulation of their performance objectives.

The paper is structured in four sections. First the analytical perspective on gradual change in internal marketization is presented and discussed. Second, the methodological section outlines how the comparative case study of the governance of SOEs in Danish and Swedish passenger rail from 1990 to 2015 has been conducted. Third, the analysis is outlined, and, finally, contributions are discussed in the conclusion section.

### **Governing SOEs as hybrid organizations**

Hybridity is not a novel phenomenon (Skelcher and Smith, 2015) and SOEs are a historical hybrid form that has been understudied in recent years but has found new relevance (Florio and Fecher, 2011, Thynne, 2011, Bruton et al., 2015, Grossi et al., 2015). They are an important part of contemporary public governance also in transportation (OECD, 2014) and within the economy as such (Bruton et al., 2015). Public ownership had its heydays in the interwar and post-war periods and became the preferred solution to providing public service (Milward, 2011). Public ownership served social and political goals (Milward, 2011) so it was not unusual for SOEs to prioritize political and societal objectives over economic performance (Wettenhall, 2001). In the New Public Management (NPM) reforms (Hood, 1991, Pollitt and Bouckaert, 2011) – as a marketization process whereby previously state-provided goods and services are transferred to market-based arrangements (Flinders, 2010) – SOEs were the battlefields, and if not wiped away by privatization they were corporatized (Christensen and Lægreid, 2003).

From a public governance perspective, corporatization of SOEs (Wettenhall, 2001) can be described not only as judicial or economic reform but also as a process of *internal marketization* that stresses the move from hierarchal orders towards state-ownership at arm's length focusing on three elements based on NPM logic. One element is *professionalization of ownership* where companies are granted economic and juridical independence (Van Thiel, 2012) and ownership is governed via independent boards of directors and management with the purpose of professionalizing the relationship between the government and the companies (Christensen and Lægreid, 2003). The second element is *commercial reorientation* where organizations are disintegrated and specialized with the purpose of securing more autonomy (Hood, 1991). This is combined with a move from governing through policies to performance management (Pollitt and Bouckaert, 2011) focusing on commercial objectives (Wettenhall, 2001). The last element is

*de-politicization* of SOEs, which implies that political and coordination tasks should be moved to agencies (Verhoest et al., 2012).

Despite *internal marketization*, SOEs are still regarded as facing an inherent goal ambiguity that stems from a demand to exist as market-based public organizations (Wettenhall, 2001) where ownership by the state entitles certain societal expectations that could be governed by clear objectives (Thynne, 1994) and where governance matters (Bruton et al., 2015). This ambiguity has recently led to the study of SOEs as hybrid organizations (Grossi et al., 2015) highlighting mixed ownership (Bruton et al., 2015, Grossi and Thomasson, 2015), regulatory and governance challenges (Koppel, 2007, Christensen, 2015) and value configuration in management practices (Alexius and Örnberg, 2015). Using the Finnish case as an example, however, Kankaanpää et al. (2014) implicitly put forward the potential variation in hybridity as they show how activities vary from commercial markets to monopolies and that the political purpose of SOEs differs from none to special purpose. This paper studies how hybridity evolves over time as the historical repertoire of political and hierarchical governance of SOEs is mixed with NPM logic in a process of internal marketization. Table 1 shows the analytical dimensions.

**Table 3 Analytical dimensions of the hybridity in the governance of SOEs in internal marketization**

	<b>NPM logic</b>	<b>Historical governance of SOEs</b>
<b>Professionalization of ownership (professionalization)</b>	Economic and judicial independence Independent management and board of directors	State subsidy on financial act intervention by the minister as owner and bureaucracy in management
<b>Commercial reorientation of SOEs (commercialization)</b>	Specialization and disintegration of the organization Commercial objectives in a performance management set-up	Integrated organization Policies on the political and societal objectives for activities
<b>De-politicization of SOEs (de-politicization)</b>	Political and coordination tasks in agency	Political and coordination tasks in SOEs



The article applies a historical institutional approach on *gradual change* that bridges governance and an organizational focus and has the advantage of studying institutional change over time. Unlike other institutional perspectives in the hybridity literature that focus on informal institutions and the cognitive level (Denis et al., 2015), *gradual change* focuses on formal institutions as formalized rules (Streeck and Thelen, 2005) and has only sporadically been used in public governance literature on hybridity (Christensen and Lægreid, 2011). The focus is not to find the optimal design as in agency literature (Koppel, 2007, Kankaanpää et al., 2014), but to study the imperfection of reforms as rules that are seen as ambiguous with gaps, which leaves room for the actors in play to change the institutions in a gradual way in implementation (Streeck and Thelen, 2005). The idea is to move beyond the formal set-up to the study of how they are implemented in, for example, bureaucracies (Hacker et al., 2015) as a process of continuous interaction between rule makers and rule takers that interpret the formal institutional set-up and therefore become key to understanding institutional change (Streeck and Thelen, 2005). Streeck and Thelen (2005) identify five different types of gradual change; layering, drift, displacement, exhaustion and conversion. *Layering* is when new institutional elements are ‘layered’ on existing unchangeable institutions. *Displacement* is when new institutions endogenously replace old institutions. *Drift* is when an institution keeps its formal integrity but ‘drifts’ away from its original intentions. *Exhaustion* is gradual breakdown owing to time as a changer. *Conversion* is when an institution is redirected towards new goals (Streeck and Thelen, 2005). The following section presents how the comparative case study of hybridity in the governance of SOEs in internal marketization has been conducted from a gradual change perspective.

## **Methodology**

The paper is based on a comparative qualitative case study of hybridity in the governance set-up of two SOEs – Danish DSB SOV and Swedish SJ AB – in the internal marketization of passenger rail from a gradual change perspective (Streeck and Thelen, 2005, Hacker et al., 2015). From the backdrop of the limited focus on SOEs in recent years (Florio and Fecher, 2011), especially from a hybridity perspective (Bruton et al., 2015, Grossi et al., 2015), it seems appropriate to conduct in-depth case studies to advance both conceptually and empirically on this matter (Eisenhardt and Graebner, 2007). The two cases were carried out as single in-depth case studies, but were organized in a structured way around analytical themes about SOEs in internal marketization. In both countries, the period under study was marked by the

commencement of overall market reforms with a special emphasis on the period from corporatization to today. In Sweden the period was thus from 1988 to 2015 with special emphasis on 2001 onwards. In Denmark the period was from 1993 to 2015 with special emphasis on 1999 onwards. In the literature the two countries are often categorized together (Pollitt and Bouckaert, 2011), whereas in this paper they were chosen as polar cases in a by purpose selection (Eisenhardt and Graebner, 2007) to strengthen the analytical generalizations. Hence, they are polar in terms of corporatization where DSB is a statutory company and SJ is a limited company. In terms of sectorial role, both companies have been protected – through regulated monopolist rights in Sweden and in negotiated contracts in Denmark. Yet, in Sweden these rights were dismantled whereas in Denmark they persist. The comparison of the two in-depth cases therefore gives insights into how mechanisms and processes of change in the hybridity of SOE governance evolve over time in internal marketization.

Regarding the perspective of gradual change (Streeck and Thelen, 2005) the focus of the analysis was on how the formal institutional governance set-up is altered through interpretations by the rule takers, in this case SOEs, and the rule makers as the responsible resort ministry. Therefore, the analysis was twofold. First, the formal institutional governance set-up between the SOE and the owner was analyzed and the periods ‘market reforms’, ‘corporatization’ and ‘different directions’ were identified through document analysis of policies and legislation, ownership policies, contracts and annual reports<sup>18</sup> in NVivo, focusing on changes in the analytical dimensions of internal marketization. Second, the analysis focused on the SOEs’ interpretations after corporatization. For the ‘corporatization’ and ‘different directions’ periods, annual SOE reports focusing on strategy changes and statements by the board director and CEO were analyzed. The focus was on how SOEs perceive and act on changes within the institutional set-up and thus these paragraphs can be seen as interpretations. However, to understand the ‘different directions’ period, the annual reports analysis was supplemented with interviews that also served to contextualize and triangulate the case studies (Eisenhardt and Graebner, 2007).

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<sup>18</sup> References to documents are not included in the analysis and reference list, but can be obtained by contacting the author.

A number of interviews – ten in Sweden and eleven in Denmark – were carried out during 2015 and at the beginning of 2016<sup>19</sup> with a length of forty to sixty-five minutes. The CEOs and board directors were chosen because of their positions as being responsible for the SOEs. Next to this other members of the SOEs' management teams were chosen to elaborate on the strategic interpretations of the SOEs' commercial and political objectives. Finally, responsible ministries were contacted and managers involved in the governance set-up were interviewed as rule makers. The two latter categories of respondent were offered anonymity as they represent their organizations. The interviews were semi-structured and centred on the overall themes of changes in governance set-up, policies and SOE strategies, political involvement in the management of SOEs, handling of political and commercial objectives, and the role of SOEs in the sector. During the interviews the respondents were asked for examples and specific details and clarifications depending on the person's job. One manager did not respond to the interview request and another manager set up an interview with a fellow manager. All interviews were transcribed verbatim and sent to the respondents for approval, and a few corrections were made. Both statements and interviews were analyzed in NVivo focusing on how rule makers and rule takers interpret the hybridity between NPM logic and historical governance in the governance set-up in internal marketization. In the following section the case studies are analyzed and discussed focusing on the dimensions of internal marketization from a gradual change perspective.

### **Hybridity in the governance of SOEs in the internal marketization of Danish and Swedish passenger rail**

This section traces and analyzes the development of the governance set-up of Danish SOE DSB and Swedish SOE SJ AB. The section is divided into three sections. The section on 'market reforms' focuses on the background and result of the initial SOE reforms. The next section on 'corporatization' focuses on the corporatization and implementation of the two SOEs. The last section focuses on 'different directions' in the two countries. In all three sections the topic is how hybridity evolves in the governance set-up focusing on professionalization, commercialization and de-politicization as formulated by the rule makers in formal institutions and interpretations primarily by the SOEs as rule takers.

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<sup>19</sup> The details of the 21 interviews are not in the references owing to word limitations, but can be obtained by contacting the author. References are made directly in the analysis when quoted.

### Market reforms in Denmark and Sweden

Market reforms of the historical transport monopolies began in 1993 in Denmark and in 1988 in Sweden. These can be seen as *conversions* where there was a re-direction of goals with the purpose of creating *commercialization* of the companies. In Denmark the general directorate DSB<sup>20</sup> was turned into a state company subordinated under the policy department of the Ministry of Transport. This also included being moved from a separate line on the Financial Act to the line of the Ministry of Transport and being run as a commercial firm. At the same time the company started a specialization and disintegration process through which the rail network was separated out and the bus and ferry divisions were divested. In 1988 Swedish Railnet was separated from the rest of Statens Järnvägar<sup>21</sup> and the rail activities were organized through a public utility. As a public utility Statens Järnvägar was run in a business-like manner and, later, the disintegration commenced, for example, when the bus division was sold off.

The *de-politicization* took place as the old sectorial role of public service provision was transformed into a market-based form as a *layered* sectorial role as service provider on certain lines. In Denmark the historical sectorial role was turned into a new governance mode, namely, a negotiated contract with an annual subsidy between the Ministry and DSB's management. In Sweden the historical sectorial role, which was specified in an annual policy letter with a subsidy to run unprofitable local lines, was turned into an interregional monopoly on commercial terms. Responsibility for the unprofitable local lines was *displaced* to the local transport authorities. If Statens Järnvägar gave up commercially driven lines they were tendered out in specified contracts with an annual subsidy. This is another example of *de-politicization* as *layering* of the old sectorial role in a market-based form.

In Denmark, *professionalization* did not take place before corporatization as the general-director referred to the Ministry and did not to an independent board of directors. As Sørensen (2005) points out, DSB seemed to come under even more political control than before. In Sweden, however, *professionalization* did commence before corporatization as Statens Järnvägar was handled as part of the state's SOE portfolio under the category of big companies. Even before the corporatization to SJ AB in 2001, Statens Järnvägar had a board and was publishing annual reports on commercial objectives and production targets such as annual transport work and

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<sup>20</sup> De Danske Statsbaner (Danish State Railways).

<sup>21</sup> Swedish Railways.

passenger kilometres. The hybridity of the governance of the SOEs in internal marketization started out as a *conversion* of the old SOEs on an organizational level via *commercialization* that started before corporatization. This is combined with *de-politicization* – not in an agency – but as *layering* of the sectorial role of public service provision in the new market-based governance set-up of Swedish commercial monopoly and Danish negotiated contract. In Sweden this was further strengthened by the *displacement* of parts of the sectorial role to local authorities.

### **Corporatization in Denmark and Sweden**

Corporatization in 1998 in Denmark and in 2000 in Sweden strengthened the *commercialization* via further disintegration and specialization as both companies were turned into passenger rail companies to be run on commercial terms in compliance with the regulations for private companies. In Denmark, *professionalization* started when DSB was turned into a statute company with its own independent board of directors and management in 1998 with economic and judicial independence, and further disintegration took place as the freight divisions were sold off. The ‘DSB Act’ shows the hybridity in the interplay between the new *converted commercialization* and the *layered* sectorial role as the commercial activities are exempted from the Public Access to Documents on Public Files Act. In Sweden corporatization turned Statens Järnvägar into a limited liability company, SJ AB (SJ), and strengthened the *professionalization*. The corporatization enhanced the *commercialization* as former activities such as freight and stations were separated out. Despite the professionalized set-up, however, the state had to provide financial aid to avoid bankruptcy for SJ in 2003. Next to that, in terms of *de-politicization* SJ got a negotiated contract about service levels on ten interregional lines with the transport tender authority Rikstrafiken until 2010 that supported the commercial monopoly of the *layered* sectorial role. In the two countries there was thus a hybridity as there were two governance set-ups, namely, the *converted* commercial SOEs and the *layered* sectorial role, respectively. In Sweden both were handled via *professionalization*, with the exception of the supplementary negotiated contract that was handled by Rikstrafiken. In Denmark both were handled by the policy department of the Danish Ministry of Transport but in two different offices – one for the *converted* SOE as *professionalization* and one for the *layered sectorial role*.

The hybridity in the governance of DSB between *commercialization* and the *layered* sectorial role was clear in the first negotiated contract from 2000 to 2004 that in detail described DSB's sectorial role: '1.1 [...] promote a positive development in passenger rail traffic with a starting point in a sound financial situation for DSB' (Danish Ministry of Traffic, 2001). The contract concerned a certain minimum level of traffic on specified lines and stations, a regularity target with a penalty and finally a customer satisfaction target. In the second contract from 2005 to 2014 the traffic plan was further specified. In both contracts DSB was assigned the task of developing new targets for its own performance regarding the negotiated traffic. However, the *de-politicization* was limited as DSB had many coordinative tasks, which enhanced the hybridity. Next to delivery of public service, DSB also got coordination tasks for the sector on behalf of the Ministry of Transport. These included cooperation with other bus and rail operators about timetable coordination and fares. The second contract specified the coordination roles in much more detail and the newly established Danish Transport Authority took over a minor part of the timetable coordination. In the second contract DSB also got the task of developing an electronic ticketing system together with the regional transport companies. On an organizational level DSB tried to strengthen the *conversion* towards *commercialization* by launching a strategy focusing on commercial tendered contracts abroad. The Danish corporatization seemed to follow the ideals of *professionalization* and *commercialization*, but the *de-politicization* was limited in the governance set-up, as the *layered* sectorial role, despite being market-based, held coordinative and political tasks including formulating sectorial performance objectives. This enhanced the hybridity towards *commercialization* on an organizational level, and weakened the *conversion* of DSB towards NPM logic, as the *layered* sectorial role could be seen as a continuation of the historical role with a very limited focus on commercial objectives.

The governance set-up in *professionalization* in terms of ownership policies for the corporatized SJ supported the *conversion* of SJ towards *commercialization* of the organization. The primary ownership objectives were commercial objectives where political dimensions were limited to guidelines on corporate behaviour in relation to environment, gender equality and governance, which all SOEs were supposed to respect, but not in terms of specified objectives, which gave substantial discretionary room for SOEs to formulate their own objectives. When SJ was corporatized it was already known to be a front-runner within the area of the environment. In 2005 the ownership policy was modified and what could be seen as political dimensions of

regularity and passenger volumes started to be reported in the government's ownership reports, though not as enforced objectives. As such the corporatization of SJ AB followed NPM logic in terms of *professionalization*, *commercialization* and *de-politicization*. The only sectorial role left was the commercial monopoly on interregional lines, but, as it was also *commercialized*, the hybridity was reduced as the governance set-up focused only on commercial performance. However, both the political aid to avoid bankruptcy and the negotiated contract with Rikstrafiken that subsidized some parts of the commercial monopoly pointed back to the historical governance of the SOE, although now in marketized form.

### **Different directions for Denmark and Sweden**

From 2010, DSB in Denmark faced severe problems with its commercial activities abroad and the Minister started to overrule the management and board of directors, intervening directly in DSB's strategy. In 2011 the CEO was fired and the board director resigned, putting the *professionalization* under pressure. DSB closed down its tender activities and moved further away from *de-politicization* by gearing its strategy towards a sectorial role as a coordinating agency, even openly arguing for a DSB without train operation. This strategic turn was later reflected in the political agreement that led to a new negotiated contract in 2015 that is set to run until 2024. The agreement specified that the future role of DSB as a potential agency is to be analyzed. In the contract there are commercial targets for the first time and the contract can be cancelled if DSB does not comply, which strengthens *commercialization*. However, with the integration of previous tendered traffic into the negotiated contract, as DSB is to substitute for the Ministry of Transport in contractual relations with Swedish Transport Authorities and, on an operational level, to take over other tendered contracts if competitors fail, the *layered* sectorial role seems to put *de-politicization* on hold.

The hybridity between the *professionalization* of the *converted commercialized* DSB and the *layered* sectorial role in the governance set-up is further enhanced on an organizational level. Both CEOs and Ministry express that DSB is expected to absorb and handle sectorial challenges outside the contract: 'we can make an agreement with DSB about it [rail maintenance] and then we find a solution within the same economic set-up' (Manager, Ministry of Transport, 12.08.2015). This is also extended to commercial activities where the Minister intervenes ad hoc in strategic decisions relating to commercial activities, for example, types of ticket. It is thus in the implementation and interpretation of the governance set-up that the hybridity evolves

between the *converted commercialization* and the *layered* sectorial role. As a manager expresses: ‘the hat has to switch fast, and that is of course not possible in reality. We are talking to the same person, who is both owner and purchaser of traffic’ (Manager, DSB, 07.03.2016). Altogether, despite the formal *commercialization* and *professionalization* one could talk about a *re-conversion* where DSB is re-directed towards old goals. This happens because of interpretations of *professionalization* where the Ministers stay close to both sectorial and commercial activities combined with a *lack of de-politicization* where both DSB in strategies and the Ministry in everyday handling expand the political and coordinative tasks in the sectorial role of the SOE.

In Sweden, from 2008 to 2010 the *layered* commercial monopoly was gradually abolished and the contract with Rikstrafiken terminated in 2010, meaning that SJ formally had no sectorial role in the rail sector. The *professionalization* was strengthened when the ownership was moved to the Ministry of Finance, after which, in 2015, it was returned to the Ministry of Enterprise and Innovation. From 2012 the government started to modify the governance set-up of its SOEs, including SJ, by altering objectives in dialogue with the parties. For the first time what could be seen as political objectives became a part of the formal governance called strategic sustainability targets. Except for a punctuality target, they resembled previous guidelines more than sectorial responsibility. As such, the governance of SJ in internal marketization followed NPM logic. However, both rule makers and rule takers pointed to societal expectations related to the former sectorial role of providing public service that went beyond the formal governance set-up’s focus on *commercialization* which created hybridity: ‘I don’t believe that SJ could do that, even if we would think it was the best idea [to run only the commercial line Stockholm–Gothenburg]. Instead you have to work with what you have’ (Manager, Ministry of Enterprise and Innovation, 02.06.2015). SJ found that it takes political preparation and negotiation to close down commercial services. At the same time, SJ voluntarily took on the roles of ‘the People’s SJ’ in its strategy work and a coordinator via sector organizations and cooperation: ‘We must act much more strongly and get the sector to work in a better way’ (Crister Fritzson, CEO SJ AB (2012–present), 29.05.2015). In the Swedish case the hybridity between the *layered* sectorial role and the *converted* SOE has formally been reduced with the dismantling of the sectorial role, but the hybridity persists outside the formal governance set-up in interpretations that take place as ad hoc negotiations with politicians, in corporate strategies and via voluntary coordination in sector organizations.



## Conclusion

This article addresses the question of how hybridity as goal ambiguity in the governance set-up between state and SOE evolves in internal marketization through a comparative case study of SOEs in Danish and Swedish passenger rail from a gradual change perspective (Streeck and Thelen, 2005). The paper makes a clear theoretical contribution to the SOE literature by using, for the first time, historical institutional theory and its concepts of conversion, layering and displacement in a detailed, dynamic study of two contemporary SOEs that shows how those SOEs evolved through gradual change and ended with two different outcomes. The paper shows that both countries took as a point of departure NPM logic relating to internal marketization. The old SOEs, on an organizational level, were *converted* via *commercialization* before corporatization and *de-politicization* took place, as the sectorial role of public service provision was *layered* in a market-based set-up of Swedish commercial monopoly and Danish negotiated contract. In Sweden it was enhanced by the *displacement* of the formal sectorial role by the local authorities. Following corporatization, both SOEs experienced hybridity in the governance between the two. Over time one could talk about a *re-conversion* where DSB is re-directed towards old goals despite the formal *commercialization* and *professionalization* as the *layered* sectorial role gets expanded both in the formal governance set-up and via interpretations in strategies, policies and the daily handling of the hybridity by the rule makers and the rule takers. On the contrary, in Sweden the *commercialization* and *professionalization* in the governance set-up of SJ and the dismantling of the sectorial role reduced the hybridity over time, but the hybridity persists informally as societal expectations in interpretations of SJ's role in negotiations with politicians about commercial activities and in SJ's corporate strategy and voluntary position as a leader in sector coordination.

The paper's specific contribution to the literature on hybridity in public organizations (Denis et al., 2015) is to demonstrate how 100 percent SOEs are about managing hybridity and not about hybridity in ownership (Bruton et al., 2015). This is especially relevant in the marketization of public services where SOEs used to have monopoly. Hybridity does not evolve just because of external pressures where organizations adapt to gain legitimacy, as suggested by other institutional branches (Denis et al., 2015), or because of changes in the governance set-up by the principals as in agency theory (Kankaanpää et al., 2014) where agents implement. The paper clearly shows that *interpretations* of the governance set-up by the rule makers *and* rule takers

stand out as a key driver of change in the hybridity between governance and organizational level. The rule takers – the SOEs – influence how hybridity evolves via interpretations of, for example, corporate strategies and assigned tasks to develop their own performance criteria that feed back into the development of the governance level.

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## Appendix

### Appendix 1 Interview persons, Sweden

Table 7 Explorative interviews, not transcribed, Stockholm

Interview	Level	Organization	Date	Duration
Interview A1	Manager	Samtrafiken	23.02.2015	N/A
Interview B1	Employee	Ministry of Enterprise and Innovation	19.02.2015	N/A
Interview C1	Consultant	Sector consultancy	19.02.2015	N/A
Interview D1	Manager	SJ AB	18.02.2015	N/A
Interview D1	Consultant	Sector consultancy	18.02.2015	N/A
Interview E1	Manager	SL * (Regional Transport Authority, Stockholm)	20.02.2015	88
Interview F1	Manager	SJ AB*	23.02.2015	50
Interview K1	Manager	Ministry of Enterprise and Innovation*	25.02.2015	36

\* Transcribed.

Table 8 Semi-structured elite interviews, Stockholm area

Interview	Level	Organization	Date	Duration
Interview G1	Manager and employee (2)	SEKO (Swedish Rail Union)	01.06.2015	47
Interview H1	Manager	MTR AB	25.05.2015	50
Interview I1	Manager	Swedish Competition Authority	28.05.2015	54
Interview J1	Manager	Ministry of Enterprise and Innovation	02.06.2015	47
Interview K1	Manager	Ministry of Enterprise and Innovation	22.05.2015	62
Interview L1	Manager	Ministry of Enterprise and Innovation	02.06.2015	49
Interview M1	Consultant	Sector consultancy	25.05.2015	46
Interview N1	Manager	Swedish Rail Operators Association	27.05.2015	54
Interview O1	Manager	Swedish Station Administrator	29.05.2015	52
Interview P1	Manager	Swedish Traffic Authority	27.05.2015	59
Interview Q1	Manager	SJ AB	29.05.2015	43
Interview R1	Manager	SJ AB	11.08.2015	53
Interview S1	Manager	Öresundståg AB** (Regional Transport Authority, Southern Sweden)	24.08.2015	72
Interview T1	Manager	SL(Regional Transport Authority, Stockholm)	11.08.2015	79

<b>Interview</b>	<b>Level</b>	<b>Organization</b>	<b>Date</b>	<b>Duration</b>
<b>Not transcribed</b>				
Interview U1	Consultant	Sector consultancy*	11.05.2015	90
Interview V1	Manager	Arriva AB	02.06.2015	38
Interview W1	Manager	Swedish Travellers Association	28.05.2015	39
Interview X1	Manager	Association for Swedish Regional Authorities	04.06.2015	46

\* Took place in Nässjö, Sweden.

\*\* Took place in Malmö, Sweden.

**Table 9 Historical elite interviews, Stockholm area**

<b>Name</b>	<b>Title</b>	<b>Period</b>	<b>Date</b>	<b>Duration</b>
Crister Fritzson	CEO, SJ AB	2012–	29.05.2015	31
Jan Forsberg	CEO, SJ AB	2002–2012	26.05.2015	76
Kjell Nilsson	CEO, SJ AB	2001	02.06.2015	55
Daniel Johannesson	General Director Chairman of the Board, SJ AB	1998–2000 2001	11.07.2015*	50
Stig Larsson	General Director	1988–1998	10.08.2015	70
Jan Sundling	Chairman of the Board, SJ AB	2011–	01.06.2015	43
Ulf Adelsohn	Chairman of the Board, SJ AB	2002–2011	22.05.2015	44

\* Took place in Nice, France.

## Appendix 2 Interview persons, Denmark

Table 10 Explorative interviews, not transcribed, Copenhagen area

Interview	Level	Organization	Date	Duration
Interview A	Manager	Ministry of Transport	11.03.2013	N/A
Interview B	Employee	Ministry of Transport	20.03.2013	N/A
Interview C	Manager	Ministry of Transport	20.04.2013	N/A
Interview D	Consultant	Think Tank	24.04.2013	N/A
Interview E	Employee	Ministry of Transport	26.06.2013	N/A
Interview F	Employee	Ministry of Transport	26.06.2013	N/A
Interview G	Manager	Movia (Regional Transport Authority, Copenhagen)	09.08.2013	N/A
Interview H	Employee	DSB SOV	21.03.2013	N/A

Table 11 Semi-structured elite interviews, Denmark, Copenhagen area

Interview	Level	Organization	Date	Duration
Interview I	Manager	Ministry of Transport	12.08.2015	75
Interview J	Manager	Ministry of Transport	18.08.2015	23(60)*
Interview K	Manager	Ministry of Transport	21.08.2015	67
Interview L	Manager	Competition Authority	21.08.2015	55
Interview M	Manager	Dansk Tog (Danish Rail Association)	06.08.2015	83
Interview N	Manager	Movia (Regional Transport Authority, Copenhagen)	18.08.2015	67
Interview O	Manager and employee (2)	Arriva A/S	06.08.2015	92
Interview P	Manager and employee (2)	Dansk Jernbaneforbund (Danish Rail Union)	01.09.2015	67
Interview Q	Manager	DSB SOV	07.04.2016	48
Interview R	Manager	DSB SOV	07.03.2016	60
Interview S	Manager	Arriva Tog A/S	17.03.2016	43
<b>Not transcribed</b>				
Interview T	Manager	SJ AB	13.08.2015	103
Interview U	Manager	DSB SOV	24.07.2015	45
Interview V	Sector Expert	Consultancy	14.08.2015	45
Interview W	Sector Expert	European Investment Bank	20.08.2015	60
Interview X	Employee	Ministry of Transport	03.02.2016	60

\* The recording was cut off 23 minutes into the interview.

**Table 12 Historical elite interviews, Denmark, Copenhagen area**

<b>Name</b>	<b>Title</b>	<b>Period</b>	<b>Date</b>	<b>Duration</b>
Flemming Jensen	CEO, DSB SOV	2015–	15.12.2015	62
Jesper Lok	CEO, DSB SOV	2012–2014	22.01.2016	59
Christian Roslev	CEO, DSB SOV*	2011	12.01.2016	52
Søren Eriksen	CEO, DSB SOV EVP, DSB SOV	2007–2011 2002–2006	12.02.2016	68
Peter Schütze	Chairman of the Board, DSB SOV	2011–	02.11.2015	68
Mogens Granborg	Chairman of the Board, DSB SOV	2002–2011	22.02.2016	57

\* Interview conducted by phone.

### **Appendix 3 Examples of interview guides**

The interview guides were originally in Danish and Danish with adapted phrases in Swedish, but in this context they are translated into English. In the following, I have chosen an example from each country in each category. For the semi-structured interviews I have chosen examples where the interview guide supports the fact that they are personally anonymous and therefore examples where there are more interviews from the same organization. The historical interviews are not anonymized and therefore I have chosen the two examples randomly. As mentioned, the interview guides for the semi-structured interviews were written in a notebook where I then added additional questions and themes during the interviews. They are not included here.

#### **SEMI-STRUCTURED ELITE INTERVIEWS**

##### **Interview guide for manager in DSB (Denmark)**

1. Your background and job in DSB
2. What characterizes DSB as an organization?
  - Special legal, cultural or historical conditions
  - The railway as sector
    - o Examples and changes over time
3. What does it mean to be an SOE in your area on a strategic level and in the daily operation?
  - Contract versus commercial
    - o Examples and changes over time
4. What role does state ownership play in the daily operation in your area?
  - Political leadership
  - Limits for commercial activities
  - Contact in the daily operation
    - o Examples and changes over time?
5. What was important for your area in the recent contract negotiations with the state?
  - How does that differ from previous contracts?

##### **Interview guide for manager in SL (Sweden)**

1. Your background and job in SL
2. Elaborate on the relationship with SJ AB?
  - Background
  - Over time



- Reasons for changes
- 3. SL motivation for reorganization of contracts
  - EU, market development, cooperation
- 4. Limits for the regional authorities in relation to commercial traffic
  - Regional legislation versus national legislation
    - o Examples and changes over time
- 5. Cooperation with other public authorities
  - Other regional transport authorities
  - National ministries
    - o Examples and changes over time
- 6. The role of the SOE in the sector
  - Versus the role of the regional authorities?
  - National planning now and in the future?
    - o Examples and changes over time

## **HISTORICAL ELITE INTERVIEWS**

### **Interview guide for CEO in SJ AB Crister Fritzson, 29.05.2015 (Sweden)**

Interview guide Crister Fritzson, SJ November 2012–(now May 2015) 2 years 5 months

Focus on SJ from quasi-monopolist to market actor: what does it mean to be state-owned in a completely de-regulated market?

#### **1. Beginning and mandate: what is a state-owned company?**

- a. Challenges for SJ? Which directive did you get from the owners (chairman of the board) when you were hired?
- b. Political expectations of the role of the SOE
  - i. Quoted for: ‘marginal difference when state owned’?
  - ii. What function does SJ have in a completely de-regulated market?
  - iii. How do you work with the owners in the daily operation?
- c. The expectations from the surroundings?
  - i. ‘The people’s SJ’?
- d. Strategies to handle these expectations
  - i. What is special about the railway?
  - ii. The case about the limits of the regional transport authorities

#### **2. New vision from 2014: An SJ AB that people can trust and that wants real competition from 2015?**

- a. Challenges for SJ
  - i. Competition on the line Göteborg–Stockholm
  - ii. Regional transport authorities want to tender out the TiM traffic

- b. Political expectations of the role of the SOE
- c. The expectations from the surroundings
  - i. Closing of night traffic
- d. Strategies for handling these expectations
  - iii. What is the limit for your strategic action?

### 3. The future?

- a. Challenges for SJ AB
  - i. High speed rail infrastructure
  - ii. Stronger regional authorities
- b. Expectations of the role of the SOE
  - i. Privatization or special purpose regulation?

### **Interview guide, former CEO Jesper Lok, 22.01.2016 (Denmark)**

Interview guide Jesper Lok, DSB April 2012–December 2014, 2 years 8 months

Focus on SOE in trouble: from DSB in huge crisis to ‘Movia on tracks’.

### **Beginning and mandate (2011): Why DSB and what was/is special about DSB?**

- a. Challenges for DSB – what is the directive you get from the owners and chairman of the board?
  - i. What is your personal motivation?
  - ii. What is special about DSB in comparison with former jobs?
- b. Political expectations of the role of the SOE
  - i. What is the role/function/tasks of the CEO and the chairman of the board in DSB?
  - ii. What are the expectations of DSB in the middle of the crisis (your perspective/the owner’s perspective)?
- c. The expectations from the surroundings?
  - i. Media, parliament
- d. Strategies for handling these expectations
  - i. How do you handle DSB in crisis?

### **The cost-cutting programme (2012–2013): ‘A healthy DSB/the big relation/context’ => cooperation with MoT**

- a. Challenges for DSB: ‘to run DSB like a company’

- i. What is special about DSB and the railway in this situation? Financial situation because of international activities and costs in the Danish operation
  - ii. IC4, Watergate
- b. Political expectations of the role of the SOE
  - i. What is special about DSB in a cost-cutting exercise? E.g. labour unions
  - ii. How do you work with the owners in the daily operation? What is the impact of changing ministers?
- c. The expectations from the surroundings?
 

Omdømme fald => 'the people's DSB...'
- d. Strategies for handling these expectations
  - i. Transparency?
  - ii. **'The big relation'/context** in the annual report 2012, 2013

**Strategy (2014–): New strategy: 'Create trust in DSB' and a new contract 'Movia on tracks': Change of strategy – what are the limits and content of the role of the SOE?**

- a. Challenges for DSB
  - i. The contract expired before a new one was sealed
  - ii. Competition: To be competitive but not participate in tenders? 'on fair conditions for all'
- b. Political expectations of the role of the SOE**
  - i. What were the expectations for you and how did they influence the strategy development?
  - ii. Competition/privatization versus agency/Movia on tracks (§1??)?
  - iii. New ownership policy from the Ministry of Finance
- b. The expectations from the surroundings?
- c. Strategies for handling these expectations?



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