

**Bandwagoning Municipal Enterprises:
Institutional Isomorphism and the Search of the Third Way**

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BACKGROUND AND THE PURPOSE OF THE PAPER

Located historically between the east and the west, the Nordic countries, including Finland, have adopted features – one might say the best – of both ideologies. The outcome has been called the ‘Third Way’ (see Giddens 1998). In his typology of modern developed models of capitalism, Esping-Andersen (1990) has categorized The Nordic countries as part of the Social Democratic regime. Compared to the other regimes, the Liberal, the Corporatist-Statist, and the Mediterranean regime, the Social Democratic regime, and Nordic welfare capitalism in particular, have several advantages. The system’s most obvious positive outcomes include a minor degree of corruption, high equality between men and women, as well as low inequality between different social classes, excellent results in elementary schools, and high-grade public healthcare.

In order to function, the Nordic model necessitates phenomena such as low disparity of income and high taxation; something the Liberal regime has not traditionally easily accepted. Moreover, the Nordic model has traditionally been heavily built on public organizations. Consequently, the social democratic system has traditionally institutionalized knowledge-intensive organizations, such as universities and hospitals, as part of the public sector. For instance, in Finland, all universities are publicly administrated by law, and only recently have people started to turn to private healthcare and purchase private health insurance. The education and healthcare systems have traditionally guaranteed high-quality education and free treatment for everyone. (Salminen 2003.) However, like any system, the Nordic model is not one without problems. Perhaps the most urgent challenge is created by the interaction of long life expectancy, low birth-rate, and skyrocketing costs of publicly funded healthcare. As the population ages and the birthrate remains low, pressure to finance the public sector and maintain the welfare state are vast.

It has been estimated that in Finland by the year 2025 there will be one retired or otherwise dependant person to every working citizen (Vuori 2005). This will place enormous challenges on the Finnish welfare state and on the success of the Nordic model in general, as the other Nordic countries are also experiencing similar development. The pressure to find ways to make the public sector more efficient has grown substantially during recent years. Thus, many recent studies have suggested that the Finnish welfare state can be saved only through fast, creative, and innovative solutions (Tapola

and Kallio 2007). Due to this pressure, many public organizations have started to imitate private-sector practices. This development is boosted by the New Public Management (NPM) doctrine that suggests increasing efficiency in public organizations through private sector practices (Salminen 2003). However, while highly popular, it is widely accepted that NPM reforms are not without problems in public administration (Rexed 2008).

One increasingly popular trend in Finland, clearly affected by the NPM discourse, is related to public enterprises. Public enterprises have long traditions in the advanced Western European economies, while their advantages and disadvantages are still heavily debated and poorly understood. What makes public enterprises difficult to come to grips with is that they mean somewhat different things not only in the US compared to Western Europe but also from country to country within Europe. (Lane 2005.) The focus of this paper is on a particularly influential sub-type of public enterprise, namely the municipal enterprise.

In Finland, the municipal enterprise form was already recognized in 1873 in the Decree of City Council Resolution (Myllyntaus 2002, 158). However, the municipal enterprise form and its actual definition remained blurry. During the 20th century, the financial statement of the municipality was used to indicate, as well as distinguish, municipal enterprise operations from the other so-called 'balanced sheet units'. Prior to the late 90s, the number of municipal enterprises had remained relatively small. However, the organizational form started to gain popularity at the end of 1990s. This seemed to initiate a reaction in the Finnish government, and a government resolution, 'Securing the Future of Health Care', was published on April 11, 2002; the government resolution presented municipal enterprises as 'one possible solution among others' for maintaining public laboratorial and radiological scanning services. However, it should be noted that a government resolution is no more than a recommendation for municipalities, not a binding act or decree. Curiously, even while such a resolution was given, municipal enterprise was not explicitly defined in the Finnish Local Government Act until 2007. This means that in practice there was no official definition of the municipal enterprise prior to 2007. Regardless of this, from 1997 to 2009, the number of municipal enterprises had increased by more than one hundred in Finland (see figure 1), thus creating a bandwagon effect (cf. Ban 2010).

Considering their size and societal importance related to their field of operation, including such central services as water, energy, and healthcare, municipal enterprises have quickly become important players in the Finnish economy with more than 3 billion euros of total yearly turnover. Curiously, during the rapid increase of the number of municipal enterprises, it seems that there was little explicit understanding of what a municipal enterprise actually was and what it meant. As a matter of fact, the legislation that defined municipal enterprises was enacted only in 2007, while the old and clearly outdated legislation dates back to 1873.

According to the Finnish Local Act (519/2007), 'The council of the municipality or joint municipal board may set up municipal enterprise for the purposes of business or a task to be discharged according to commercial principles.' The Finnish municipal enterprise is defined as a component of municipal organization, and the legislation of local government applies to its activities. Accordingly, municipal enterprises are not independent legal persons even though they are independent municipal profit centres and accounting entities with their own funds statements and balance sheets (Vinnari and Näsi 2008, 103).

The purpose of this paper is to understand the reasoning related to the adoption of the municipal enterprise form. In other words, the paper seeks to understand why the municipal enterprise form is being adopted. The analysis is based on three empirical case analyses of university hospital laboratories. Lane (2005, 192) suggests that 'Both institutional change and the choice of new strategies drive the transformation of public enterprises' and that 'It is difficult to tell which is the most important change factor'. The analysis of this paper clearly suggests the former reason, although several informants from the case organizations themselves had difficulties realizing this. It is thus suggested that Finnish municipalities are mimicking each other in transforming their organizations into municipal enterprises, while the actual evidence of the advantages of this form is missing. It is further suggested that the mimicking is boosted by the NPM discourse and the political stalemate between ideologies of publicly run healthcare and privatizing. The transforming of municipal organizations, in this case, university hospital laboratories, into public enterprises, provides a suitable 'Third way' out of the political stalemate.

RESEARCH METHODS AND THE SELECTION OF THE CASE ORGANIZATIONS

The purpose on the empirical material collected was to answer the question: ‘why are the municipal organizations transforming into municipal enterprises?’ The essential reason for selecting qualitative case study approach, instead of a quantitative survey, was that during some earlier interviews and discussions with managerial-level personnel in municipal enterprises, the authors had recognized how difficult the topic was for the informants. It was thus felt that if a survey method would be applied, the collected data could potentially be biased, as the respondents might not understand the questions in the same way as the authors of the survey meant. On the other hand, qualitative interviews enable the interviewer to make follow-up questions to ensure that the interviewer and the interviewee are talking about the same issue.

The first case organization was chosen due to the fact that it had been recently transformed into a municipal enterprise. The managing director (CEO) of the case organization was contacted and interviewed. He was asked to name other key informants from the perspective of the organization’s transformation into municipal enterprise. The two persons that the CEO mentioned were next contacted and interviewed; in similar vein, they were asked to name more potential informants. The two mentioned persons were contacted and interview, and as the persons they mentioned as key informants had been already interviewed, no more interviews were executed. However, this decision was made only after an analysis of the data which showed that the last two interviews provided no new essential information. The method of the data collection, briefly explained above, exhibit the classic example of what is known as ‘the snowball sampling method’ (Berdard 2000, 179-180).

The snowball sampling method was further extended to include other case organizations. As already noted during the interviews, and further confirmed by the data analysis, all five informants of the first case organization mentioned two other laboratories that had recently been transformed as municipal enterprises. Consequently, these organizations were also selected as case organizations, and their respective CEOs were contacted for interviews. The snowball sampling method was, once again, applied, and the outcome was that five key informants from each three case organization were interviewed. Moreover, five expert interviews of municipal enterprises from the Finnish public administration, public sector consulting and academia were included. These interviews were

considered necessary in order to gain a general understanding and non-case-specific information concerning municipal enterprises.

The empirical data was collected between August and October in 2007. The overall amount of interviews in the study was 20, while their positions and backgrounds were heterogeneous including a mayor, a chief executive of a hospital district, CEOs, local politicians, mid-level managers, board members, and elected trustees of the case organizations, as well as a professor, a lawyer, a head of development, a head of social care and a leading consultant as general experts on municipal enterprise. These thematic interviews lasted, on average, one and half hours (from 40 minutes to four hours). The interviews were carried out in Finnish, audio-recorded, and notes were taken during the interviews. All the interviews and notes were transcribed, producing more than 500 pages of text. With regard to the selected quotes, the Finnish text was translated into English. The primary data collected by interviews were supported by secondary data that consisted of yearbooks, financial statements, strategy papers, minutes of the executive board meetings, and an evaluation report. The secondary data was used to provide facts concerning, e.g., important dates, discussions, and people that were involved in decisions; it also provided support for the interpretations made based on the primary data,

The empirical data of each of the case organizations were analyzed and cross-analyzed in five phases. First, the audio recordings of the interviews were transcribed for further thematic grouping to gain a general understanding. In the second phase, the secondary data was triangulated with the primary data. Next, based on the previous data analysis and triangulation, several important topics were identified and explicated. During the fourth phase, as a result of iterative analysis, the themes and topics of importance were synthetically merged into several general categories. In the fifth phase, the data of the individual case organizations were cross-analyzed.

In spring 2011, during the writing of this article, the previously unpublished, above-described data was supplemented by four additional expert interviews in order to update the latest knowledge concerning municipal enterprises. One of the informants was a lawyer interviewed for the first time in 2007. His interview provided the latest development on juridical aspects of municipal enterprises. The three other informants were scholars studying Finnish public administration and management. Based on a review of the extant literature and the conducted expert interviews, there seem to be no previous

studies on the adoption of the municipal enterprise form in the Finnish context. Consequently, as there was no previous theoretical understanding concerning the topic, the theoretical analysis of this paper followed an abductive logic (Shank 2002, 130). In topics of particular importance, different theoretical models were considered as possible avenues in explaining the phenomena. As later suggested, the neo-institutional theory clearly explained the empirical findings best.

THE THREE CASE ORGANIZATIONS

The basic function of a clinical laboratory is to obtain information about the health of a patient relating to diagnosis, treatment, and prevention of diseases. Laboratory operations include clinical microbiology, clinical chemistry, haematology, genetics and reproduction biology. The clinical laboratory provision is usually run and operated by healthcare professionals. It is evident that their work requires high ethical standards and trust. Equally, their work has high demand for prediction of a patient's state of health as well as risk evaluation. Misinterpretation of a patient's state of health might, in the worst case, cause the death of the patient. In Finland, provision of specialized medical care is the responsibility of the municipalities. For the organization of specialized medical care, Finland is divided into 20 hospital districts, of which five are university hospital districts. The three case organizations of this study are components of four different university hospital districts.

When looking at Finnish healthcare organizations' movements towards reforms, the hospital clinical laboratories have often been among the first units to adopt NPM practices. The aim has been cost and operational efficiency as well as streamlining organizational functions in decision-making. Clinical laboratory services and processes in hospital settings can typically be easily defined, processed and priced. Therefore, the clinical laboratory provision can be quite rapidly transformed into 'industrialized fast-food' processes, as put out by an informant. While all the three case organizations are different in size, they produce similar types of laboratory investigations, academic research and education, as well as service provisions to open markets. Moreover, as all three case organizations had been similarly under pressure to streamline their operations for efficiency gains, it was interesting to investigate and compare their decision-making and reasoning in their respective transformation into municipal enterprise form.

The case UlabA

At the time of the data collection, UlabA had 335 employees and €29,4m turnover. UlabA was transformed into a municipal enterprise in 2004. It was the smallest of the three case organizations in size and in basic economic measures. Five informants were interviewed in UlabA. Four of them had participated in the discussions and decision-making concerning the transformation of the organizational form. Moreover, the current CEO of UlabA, hired when the organization was transformed into a municipal enterprise, was interviewed. At the time of the interviews, in 2007, the case organization had been operating as a municipal enterprise for three years.

When the informants were asked about the main reasons for adopting the municipal enterprise form, the improvements in economic transparency of activities and in the costs of laboratory and administrative operations were stated by all of the informants. The increased transparency was considered important as previously there was a clear lack of cost awareness of both laboratory and administrative operations. The new pricing system showed the actual costs of the operations, in comparison to the previous system, based on fixed charges, which, for instance, undermined the administrative costs.

The intention to make the organization more flexible, while enabling increasingly independent decision-making and financing, was also suggested by most informants as an essential goal: 'The idea was that maybe with better organization of laboratory operations and management, we could have efficiency gains and more flexibility in decision-making' (CEO, UlabA). Moreover, cost-based pricing and improved profitability of operations were mentioned as reasons for adopting the municipal enterprise form. The possibility to enter the out-of-house markets was also seen as a possible opportunity. As for more practical reasons, issues such as flexibility in the purchasing mechanism for laboratory equipment were mentioned. However, the Finnish Government resolution, published in 2002, was mentioned in only one interview.

Consequently, the UlabA informants saw the rational-, cost and operational efficiency, and transparency-related reasons as the essential drivers for adopting the municipal enterprise form. Importantly, when it was asked if there was evidence to back these expectations at the time of

organization transformation, the informants were unable to point to any study, review, audit or document that would suggest that the efficiency-related reasons would, in fact, be true. Accordingly, it appeared in each interview that, in fact, there was no evidence that would speak for the rational reasons for adopting of the municipal enterprise form. At this point, all the informants spontaneously started to speak about the two other university laboratories that had been transformed into municipal enterprise. They suggested that the positive experiences of the mentioned two laboratories (UlabB and UlabC) had a major effect on the decision to transform the case organization as municipal enterprise. However, in a similar way, no actual evidence was available on the positive experiences of the two other laboratories either. Nonetheless, this seemed not to be a major defect, as the will to mimic the other laboratories was clearly evident as becomes obvious, for instance, from the following quote of the chief executive medical doctor of the hospital district of UlabA:

There wasn't any investigation done on the suitability of different organization forms for the laboratory unit, since the lab in city C [UlabC] had already been transformed and also the lab in city B [UlabB] was strongly on its way to be transformed into a municipal enterprise. [...] It seemed that the municipal enterprise form was very fashionable. (The actual names of the cities are replaced by 'city B' and 'city C')

To sum up, it seems that the case organization had high expectations for the new organizational form while, paradoxically, at the time the organizational transformation took place, there was no evidence that would speak for the realism of these expectations. Moreover, it became obvious that mimicking of the two other laboratories (UlabB and UlabC) had been a major reason for the case organization to adopt the municipal enterprise form.

The case UlabB

Just like the UlabA, the case organization UlabB was transformed into a municipal enterprise in 2004. However, the transformation process began earlier compared to UlabA. The essential reasons for this come back to UlabB's size and ownership. Accordingly, at the time of data collection, UlabB had nearly 1600 employees with over €123m turnover, being clearly the largest university laboratory in Finland. Moreover, unlike UlabA and UlabC, UlabB is a component of two different hospital districts.

These facts resulted in somewhat slower ability of UlabB to transform its organizational form. Just as UlabA, UlabB operates with in-house clinical laboratory services and offers laboratory services to private healthcare organizations and to international markets.

The five informants of UlabB had all been involved and participated in the discussions and decision-making concerning the transformation of the organization form. At the time of the interviews, in 2007, the case organization had been operating as a municipal enterprise for three years.

When it was asked about the reasons for adopting the municipal enterprise form, the cost and operational effectiveness were stated in all interviews as the main reasons for the transformation. Enhancement of operational and economic transparency was also mentioned. Moreover, compared to UlabA, the increased flexibility and faster decision-making regarding investments in laboratory high-technology equipment had even stronger emphasis in UlabB. Flexibility in investments was seen as important, as bureaucracy was considered to hinder effectiveness. The CEO of UlabB explained that the whole university hospital, with regionally integrated healthcare service provision, had grown to be too challenging to handle; this fact could lead to inefficiency. He thus saw it as a natural continuum to divide the organization into smaller units; thus the transformation of the laboratory into a municipal enterprise was only logical. Among the informants, it was widely believed that the market-based tools and operations could lead to better profit and success. There was an assumption that municipal enterprise form would lead to efficiency gains and cost savings.

When asked, in a similar vein as the UlabA case, whether informants had any evidence to support their assumptions during the time of organizational transformation, as in the case of UlabA, the informants were unable to point to anything. Moreover, the CEO of UlabB, who was an anxious spokesman of municipal enterprise form, admitted that in public administration, the tendencies to integrate and disintegrate rotated, and that it now happened to be the time for disintegration. The adoption of the municipal enterprise form was thus a suitable solution. As the informants were unable to point out any rational evidence for their assumptions concerning the benefits of the municipal enterprise form, the informants typically started spontaneously to refer to the positive experiences of a laboratory in another city (UlabC). However, just as in the case of the UlabA informants, the informants of UlabB admitted that there was no evidence available on the positive experiences of

UlabC either. Instead of the rational arguments used at the beginning of the interviews, the informants thus ended up reasoning the adoption of the public enterprise form with arguments that hint for institutional isomorphism (see e.g. DiMaggio & Powell 1983):

[A]s I just said, the main reason is economical. So, so in other words, it was based on an assumption that the municipal enterprise form could gain efficiency and cost savings. [...] Yes, I said an assumption, and it was a real assumption even though it was unreasonable to assume we could possibly make such a profit [...] well, since there was not any proof of it. (Chief trustee, UlabB)

There are all kinds of different organizational forms and why not use them if they help to develop the organization? Municipalities have had municipal enterprises for a long time, but surely the transformation of the lab in city C [UlabC] gave push to our laboratory's adoption of the same organization form. (Professor of public administration and a member of the board of UlabB; the actual name of the city is replaced by 'city C')

Well, these are some kind of political trends, and the core push to transform our laboratory was the transformation of the university laboratory in city C [UlabC] into a municipal enterprise. (Administrative manager of the hospital district; the actual name of the city is replaced by 'city C')

The analysis of the empirical data, as illustrated by the extracts above, clearly indicates the will of UlabB to mimic UlabC in its decision to adopt the municipal enterprise form. As both the interviewees of UlabA and UlabB referred to UlabC, it was considered necessary to include the UlabC as the third case organization.

The case UlabC

The case organization UlabC was transformed from a university laboratory unit into a municipal enterprise already in 1999, in order to provide clinical laboratory services for a hospital district as well as for private healthcare organizations. At the time of data collection, the number of UlabC employees was 517, and it had a turnover of €77,96m. UlabC operates in a region known for its open-minded and proactive piloting of new administrative solutions. Four of the five informants of UlabC had been involved in the discussions and decision-making concerning the transformation of the organization form. The fifth informant was transferred from another organization of the hospital district when the case organization was transformed into a municipal enterprise; she was interviewed due to her key role as the chief trustee of UlabC. At the time of the data collection, the case organization had been operating as a municipal enterprise for eight years.

According to the informants, there had been clear pressure to maintain the forefront position of the region. The adoption of the municipal enterprise form for the laboratory thus boosted the region's position as the 'trendsetter' in public sphere administration, as suggested by the mayor of city C:

Our city and region has always been among the first to adopt new innovations, and we were the first to transform our laboratory into a municipal enterprise. [...] We even went to Denmark to see how an efficient laboratory building is architecturally built.

When the informants were asked about the reasons for adopting the municipal enterprise form, unlike in the cases of UlabA and UlabB, the first answers of the informants typically were that municipal enterprise form was a political compromise. Accordingly, they suggested that the organizational form of the public limited company was out of the question due to the pressure of labour unions and centre to left parties' political influence. Regardless of the fact that it was perceived as an outcome of a political compromise, the informants were proud of their primetime role as being the first to transform their laboratory unit into a municipal enterprise form. Their pride was, moreover, boosted at receiving a laboratory audit certification as the first university laboratory in Finland. The mentioned benefits of the municipal enterprise form were, as in the case of UlabA and UlabB, the economic transparency of activities and increasingly independent decision-making, as well as the cost and operational efficiency.

There was a wide consensus among the informants concerning the positive outcomes of the organizational form regarding economic efficiency, operational transparency and independent decision-making. However, there was no evidence that the same outcomes could not have been gained by any other organizational form. Consequently, regardless of its longer history as a municipal enterprise, just like the interviewees in the other two case organizations, the informants of UlabC were unable to show any evidence of the superiority of the municipal enterprise form. As a matter of fact, some interviewees themselves explicitly mentioned this issue.

These cost and operational efficiency gains, which were sought after, could also have been achieved by the other balance sheet units; nevertheless, municipal enterprise was chosen. (Head of corporate governance, city C)

Municipal enterprise is no panacea; it has no major difference compared to other balance sheet units. Any other organizational form could have had the same outcomes. But there was strong political pressure to transform the laboratory unit into a municipal enterprise [...] although there is no evidence that any other organizational form couldn't have suited as well. [...] It was a political reality since the public limited company form would have provoked a fierce resistance among the employees. (CEO, UlabC)

While there seems to be a clear positive atmosphere surrounding the experiences that the informants of UlabC had with the municipal enterprise form, the evidence of its superiority compared to other alternative organizational forms was missing. Accordingly, as explicitly suggested by some informants, it was reasonable to assume that other organizational forms could have led to similar outcomes. Moreover, the actual transaction costs of the organizational form transformation had never been calculated, as noted by several informants. The actual cost effects of adoption of a municipal enterprise form thus remained unclear. The fact that the adoption of the municipal enterprise form was expressed to be a consequence of a political compromise hints towards coercive isomorphism.

DISCUSSION AND IMPLICATIONS

When looking at the empirical data of this study as a whole, the most common reasoning for establishing municipal enterprises fits the prevailing NPM mantra that suggests efficiency, cost-effectiveness, more flexible management and decision-making, as well as streamlined market-oriented organizational processes and enhanced internal and external transparency within the public sector (see Lane 1997; Thynne and Wettenhall 2004; Dunleavy, Margetts, Bastow and Tinkler 2005). The fact that the informants typically began their reasoning concerning the adoption of the public enterprise form by these rational NPM theses fits perfectly with the essential idea of NPM reforms in Finland. Accordingly, as suggested by Salminen: 'As many Finnish researchers emphasize, the essential reason for adopting NPM-type reform policy in Finland has been the need to be detached from the heavy, bureaucratic tradition of earlier years in order to improve efficiency, and to find a more flexible way to provide public services' (Salminen 2003, 55). It thus seems that the NPM mantra underlining the rational reasons for public sector reforms had affected the informants of the case organizations.

However, as suggested by the results of the expert interviews, document analysis and literature review, there is very little if any evidence that would confirm the expected (rational) gains of the

public enterprise form. Actually, the amount of evidence for the rational reasoning was so thin that, in most cases, the informants of the first two case organizations (UlabA and UlabB) themselves spontaneously changed their ‘reasoning strategy’ once the interviewer asked whether they knew any study, review, document, or audit that would support the mentioned gains of the municipal enterprise form, or whether there had been any investigation into the suitability of different organization forms. At this point, the interviewees started to refer to the positive experiences of the other laboratories with the municipal enterprise form, even though there was no evidence to support this either. The reasoning of the informants of UlabA and UlabB for adopting the municipal enterprise form eventually, after the repetition of the mentioned NMP mantra, turned into something which exhibits the classic case of mimetic isomorphism (see DiMaggio and Powell 1983), as illustrated, for instance, by the following extract:

Yet, a balanced sheet unit or any other organization form could have been chosen to enhance efficiency in our laboratory unit. But these different organization forms have the tendency to become fashionable. [...] So, the municipal enterprise form was thought to be a good idea. The reality is that the earlier adoption of municipal enterprise form in city C [UlabC] was still so fresh that there wasn't really any proven evidence to look at. (Administrative manager of a hospital district; the actual name of the city is replaced by ‘city C’)

It is widely accepted that in a state of uncertainty, as described at the beginning of this paper regarding the Finnish public sector reform, organizations tend to apply modelling as a response to uncertainty (DiMaggio and Powell 1983; Scott 1995). Consequently, as the pressures to finance the public sector in Finland have grown almost exponentially, the public sector organizations have faced increasing pressure to prove that they are efficient. It seems that by adopting the municipal enterprise form, the municipal organizations can signal their increased efficiency and thus show that ‘the sleepy nonprofit station was becoming more business-minded’ (DiMaggio and Powell 1983, 152). On the other hand, as DiMaggio and Powell (1983) suggested, organizations tend to become increasingly similar – adopting municipal enterprise form in this case – without necessarily becoming more efficient (cf. Sezen 2011).

Regarding both UlabA and UlabB, it was obvious that the essential target of modelling was UlabC; while in the case of UlabA, the already-initiated transformation process of UlabB gave an

extra boost. Unlike in the case of UlabA and UlabB, the analysis shows no explicit signs of mimetic isomorphism involved in the transformation of UlabC. Instead, UlabC can be seen as an ‘early mover’ that had adopted the organizational form as a consequence of political pressures. The coercive institutional pressure (DiMaggio and Powell 1983; Scott and Meyer 1983; Scott 1995) can thus be seen as an essential reason for the transformation of UlabC. However, this does not explain why the municipal enterprise form became a target for mimicking instead of another organization form.

It is often suggested that the neo-institutional theory is limited in its ability to explain agency (see e.g. Clegg 2010). Without going deeper into the discourse on agency and the institutional theory, it seems clear that also in the case of this study, the strength of the institutional theory and the particular forms of institutional pressures are in explaining the spread of the municipal enterprise form – less so in explaining why the particular organizational form was accepted by ‘early mover’ organizations instead of another organizational form (cf. Meyer and Rowan 1977; Baum and Oliver 1991; Arnaboldi, Azzone and Palermo 2010; Currie and Finnegan 2011). It seems that the essential ‘agency’ behind the early mover organizations comes back to local politicians and the political usefulness of municipal enterprise form. Accordingly, as suggested in the background section, like in many other Western developed economies, the centre to left parties are typically in favour of traditional public healthcare while the centre to right parties typically prefer privately run solutions. In the collision of these ideologies, political compromises are often useful ways out of stalemates. The municipal enterprise form seems to be a ‘way out’ solution. In fact, the very concept of municipal enterprise in Finnish terminologically refers at the same time to both business-like and public organizations.

The political usefulness of the municipal enterprise form can be detected from several interviews as, for instance, from the following extract from UlabC’s CEO:

The politicians [...] of the region wouldn’t have accepted a public limited company. So, we had to find a middle way to answer the new demands. (CEO, UlabC)

The middle way, as stated by the CEO of UlabC, or the ‘Third Way’ as it is often called (see e.g. Giddens 1998), is a solution distinctive to the social democratic system. The Third Way politics

typically seek advantages by reconciling the right-wing economic policies and left-wing social policies. In the case organizations, the informants saw the municipal enterprise form as having two particular advantages compared to the public limited company form. Firstly, the adoption of the municipal enterprise form felt like ‘a warmer bath in the quasi-markets’ compared to a public limited company form that ‘swam in the cold waters of real markets’, as one informant stated. Accordingly, unlike the public limited company form, the municipal enterprise form is protected, for instance, from bankruptcy. Secondly, in all three case organizations, it had been anticipated that the municipal enterprise form would provoke much less employee resistance compared to the public limited company form. This assumption was based on the fact that in municipal enterprise, the employees were still covered by the secured public organization employment agreements.

While statistical generalizations are not possible due to the case study approach, in the case of the recent mushrooming of municipal enterprises in Finland, this study suggests that institutional isomorphism might play an essential role. Moreover, the analyses suggest that as a consequence of their search for a third way, some local politicians – especially some of the early mover organizations, such as UlabC – might have triggered the development which has further led to the bandwagon effect. Due to this bandwagon effect, the number of municipal enterprises in Finland has nearly tripled in a decade. However, based on this study, it is not possible to evaluate the ‘level of rationality’ of the actions of local politicians. Accordingly, it is not possible to say whether it was, in fact, rational strategic decision-making or the simple will to follow the NPM doctrine that led the local politicians to transform their public organizations into public enterprises (cf. Aidemark and Lindqvist 2004; Lane 2009).

As suggested in this paper, there have been considerable expectations from the gains of the municipal enterprise form. While it is not the actual purpose of this particular paper, it is reasonable to note on the reported outcomes as well. According to the informants, the cost efficiency gains, measured by the growing numbers of turnovers, had been achieved in all three case organizations. Moreover, it seems that the expected economic transparency of activities had also been achieved with certain limitations. On the other hand, contrary to these positive developments, the municipal enterprise form had also provided several disappointments.

Most informants had not experienced the streamlining of the internal decision-making, hierarchy or the bureaucracy of the case organizations. Moreover, the classic public healthcare sector challenges and problems were still affecting the case organizations in the forms of, e.g., heavy workload and poor salary. In a similar vein, the flexibility in high-technology investments had not been fully gained since the public procurement law still affected and delayed the purchasing. In addition, some informants claimed that the growing amount of part-time jobs were among the negative outcomes of the municipal enterprise form. Interestingly, one major disturbance in one of the case organizations was that the bonus salaries, promised before the organizational transformation, had not materialized. Finally, several informants were found dissatisfied because although the economic efficiency had improved, they were still unable to use the profits and surpluses in developing their organizations and operations. In other words, it became evident that the profit of the municipal enterprise might not return back to the original profit maker; the municipality may distribute the profits of the municipal enterprises to cover losses in other municipal organizations.

To summarize, while the informants reported some first-hand positive experiences and developments, issues such as organizational autonomy, flexible management and decision-making among others were still called for, since the bureaucracy had not diminished after all. Actually, in some cases, it was reported that the bureaucracy had, in fact, grown to be even more difficult than before.

CONCLUSIONS

This study has analyzed the reasoning and decision-making of three case organizations in the adoption of the municipal enterprise form. Especially in two of the three case organizations (UlabA and UlabB), there is very little, if any, indication that strategies or other rational reasons would explain the adoption of municipal enterprise form. Instead, the paper suggests that institutional isomorphism, and the mimetic and coercive pressures in particular, help to understand the adoption of the municipal enterprise form. (cf. Lane 2005). While the research method applied allows no generalizations, it is logical to assume that similar institutional pressures detected in this study are more widely involved in the bandwagon effect, due to which the amount of municipal enterprises in Finland have almost tripled

in a decade. This is in line with the quantitative analysis of Frumkin and Galaskiewicz (2004) as they found that public organizations are particularly susceptible to institutional pressures.

There are good reasons to presume that had the research data collected by survey or by any other means that allows no clarifications and follow-up questions, the results of this study might have been strikingly different. Nearly all of the informants spent a lot of time repeating something that they had themselves been obviously exposed to repeatedly, and what might be best described as the 'NPM mantra' (cf. Hood 1991; Osborne and Gaebler 1993; Pollit-Bouckaert 2000; Sahlin-Andersson 2001; Bilodeau, Laurin and Vining 2006). Of course, had the informants had facts to support the assumptions concerning efficiency, cost-effectiveness, enhanced internal and external transparency, more flexible management and decision-making as well as streamlined market orientation, the situation would have been different, and this study would have ended up reporting these issues as rational and logical reasons for adopting the municipal enterprise form (cf. Lane 2005).

However, neither the informants of the three case organizations nor the interviewed experts of the Finnish public administration and the literature review conducted for this study were able to provide clear evidence that would support the superiority of the municipal enterprise organizational form compared to other organizational forms. The phenomenon under scrutiny may thus be best perceived as an interesting bandwagon effect due to which a certain type of organizational form has become increasingly common in a certain organizational field (Zucker 1991; Greenwood and Hinings 1996; Meyer and Rowan 1997; Scott, Ruef, Mendel and Caronna 2000; Aidemark and Lindqvist 2004). However, it may very well be that the fashionability of the municipal enterprise form remains ephemeral. During the last few years, the general trend in Finland has gravitated gradually towards privatization, as the centre to right parties have steadily gained more power at the expense of the centre to left parties. As part of this development, Vinnari and Näsi (2008, 98) perceive the public enterprise form in Finland as a temporary solution: 'The transformation of public enterprises can be considered an intermediate phase on the way towards the probable ultimate outcome of NPM: the privatization of most publicly owned utilities'.

Besides the popularity of NPM doctrine among Finnish politicians, a recent EC decision is redirecting the Finnish municipal enterprises towards privatization. The EC decision, according to

which the Finnish public (governmental) enterprises are not in line with the EU competition law, has also affected the Finnish municipal enterprises. Consequently, due to this coercive pressure, all three case organizations of this study are currently on their way to a new organizational transformation; they will be transformed into public limited companies by the year 2013 at the latest.

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Figure 1: The number of Finnish municipal enterprises 1997–2009.

