Faculty of Business and Administration

BUSO09

Master's Programme in International Strategic Management

Spring 2022

Old Habits Die Hard

A Case Study on the Implications of Privatization on Institutional Logics

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Word Count

20.152

Abstract

Title: Old Habits Die Hard - A Case Study on the Implications of Privatization on Institutional Logics

Seminar Date: 2022-06-02

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Course: BUSO09 - Degree Project in Strategic Management

Purpose: The purpose of this thesis is to understand how a privatization process affects a company's institutional logic in the presence of path dependence mechanisms, and to delineate the implications this has on the firm's value creation strategy.

Theoretical Perspectives: This thesis builds upon general ownership theories from the perspective of institutional logics. To these perspectives, path dependence and value creation theory are added in order to provide a nuanced understanding.

Methodology: A qualitative case study was carried out in order to fulfill the intended purpose, in combination with an abductive approach.

Findings: The findings of this study conclude that there is a salience of path dependence in legitimacy-seeking behavior within a privatized SOE, which seem to have some effect on the value creation motives of the company.

Conclusion: The conclusions drawn from the study is that the case company, even after the IPO, continues to pursue societal value in addition to shareholder value. This implies that the company has not completely changed from state logic to a profit maximizing market logic, but rather that it operates by a mix of these.

Key Words: Privatization, Institutional Logics, Value Creation, Path Dependence, Legitimacy

Acknowledgements

In general, we would like to thank everyone who has contributed to this thesis; be it rewarding lunch discussions with classmates that gave us new insights, much needed coffee breaks with friends at Ideon, or something as simple as a family member who asked us how everything was going, your input and encouragement kept us moving forward.

We would also like to extend our gratitude to the employees of the case company who acted as interviewees for this thesis. Furthemore, we would also like to thank Skånetrafiken and the connections in the academic world that they provided to us.

Finally, we want to thank our supervisor Thomas Kalling for your support throughout this project. A sit-down with you is always a great experience, regardless of the situation.

Over and out,

Fredrik Gunnarsson and Jacob Lindgren

1. Introduction

1.1 Background

Privatization of the public sector, meaning the sale of a state owned business to private actors, has for long been a heavily debated topic (Cordelli, 2020). Across the globe, privatization has since the 1980's been an increasingly utilized method meant to improve operations and performance in government-owned businesses through a change in corporate ownership and governance structures (Kim & Huang, 2019; Grossi, Papenfuß & Tremblay, 2015). In addition, the procedure is claimed to increase efficiency, profitability and even service quality (Kim & Huang, 2019). Nonetheless, privatization can also have detrimental effects on the public, and is claimed to increase societal inequality, favoring only the affluent (Torche, 2005). This is because businesses run by the government are mainly focused on serving public interest and are often heavily subsidized, whilst privately owned firms are committed to serving their shareholders and to maximize profits (Tricker, 2019). As a state owned enterprise (SOE) goes through a privatization process it is induced with for-profit motives (Kim & Huang, 2019), which is the reason why many have voiced concerns against privatization. Critics claim that basic societal services such as health care, education and public transport should not be subject to such market forces as they are imperative to have an acceptable living standard (Cordelli, 2020). Yet, there are examples of incidents where user fees have skyrocketed and service quality dropped significantly. For instance, the sale of British Rail to private actors in the 90's which caused higher fares and major disturbances in the railway traffic (Dixon & Joyner, 1999), the privatization of parking meters in Chicago in 2009 where prices increased by 700% in the residential zones causing people to move out of the city (IPTI, 2016), and the privatization of healthcare in Iowa in 2016 where monthly payments shot up by 400% (Pitt, 2021). Additionally, the covid-19 pandemic has testified for the need of a large public health sector, in order to provide proper healthcare for all citizens. As such, the topic of privatization is to this day a highly relevant and important matter to address, in order to expand the current literature on the concept to further understand its implications (Rádic, Ravasi & Munir, 2021)

In an attempt to gain a more in depth understanding of the connections between ownership structures and corporate behavior, Friedland and Alford (1991) therefore explains these linkages using the concept of *institutional logics*. The concept differentiates between the inherited mentality and perceived purpose of companies owned by the government and private actors. This is explained by the difference between the institutional systems of the government and the market. Each system has a separate set of rules to adhere to, and isomorphic forces impose those rules on actors within these institutional frames (Thornton, 2011). The logic of state owned enterprises therefore entails creating benefits for the society as this is what the government demands, whilst private company logic is focused on the generation of shareholder wealth, which is required on the open market (Thornton, Ocasio & Lounsbury, 2012).

Thornton, Ocasio and Lounsbury (2012) makes an additional contribution to this research by addressing the relationship in institutional logics and value creating strategies. *Value creation* is a commonly recurring topic within the field of strategic management, and despite some variation, definitions generally include the subjectively perceived benefit of a product or a service (Hallberg, 2017; Tricker, 2019; Chandler 2020). In relation to ownership and institutional logics there have been certain distinctions made regarding different types of value creation, and value creation focus (Voorn, van Genugten & van Thiel, 2017; Thornton, Ocasio & Lounsbury, 2012). Thornton, Ocasio and Lounsbury (2012) clarify that state logic is related to a focus on societal value creation, and a market logic is centered around shareholder value creation. As such, theory implies that state owned enterprises possess a state logic, which favors societal value creation. Furthermore, private owned firms maintain a market logic, which prioritizes shareholder value. There are, however, further theoretical aspects to be considered which complicates this discussion.

1.2 Problematization

In regards to institutional logics within the context of privatization, scholars such as Voorn, van Genugten & van Thiel, 2017 and Ferry, Andrews, Skelcher, and Wegorowski (2018) have discussed how shared ownership between the state and private actors can lead to conflicting institutional logics within a firm, as there are motives to serve both shareholders and the society. Further, Megginsson (2005) and Rádic, Ravasi, and Munir (2021) address the different effects of a privatization process on financial performance, and Liwen, Jin and Banister (2019) discuss privatization's effect on innovation. Yet, this field of research lacks proper scrutiny of both how the institutional logic within a company is affected a full privatization process (Ocasio & Radoynovska, 2016; Rádic, Ravasi & Munir, 2021), and its implications on the value creation focus of the company (York, O'Neill & Sarasvathy, 2016; De Clercq & Voronov, 2011; Stubbs, 2017). One explanation for this could be that the consequences of a privatization seems rather uncomplicated; privatization entails a change in a company's institutional logic (Scott, 2008), which leads to a shift in value creation focus (Thornton, Ocasio & Lounsbury, 2012). However, theories of path dependence contradict this causality, as scholars such as Clarke (2016) and Shen and Gentry (2012) argue that historical events and cultural factors have a major impact on the development of an organization. Beyer (2010) further argues that there in fact are several different mechanisms of path dependence that can create inertial effects and resistance to change within the organization, such as irreversible events, power structures, and legitimacy-seeking behavior, to name a few. As such, mechanisms of path dependencies nurturing a state logic could still be present within a recently privatized organization, which could have implications for the company's value creation focus as there are the diverging interests of societal value creation and shareholder wealth maximization (Thornton, Ocasio & Lounsbury, 2012; Ocasio & Radoynovska, 2016; Rádic, Ravasi & Munir, 2021).

Given the aforementioned absence of research of the possibly conflicting effects of path dependency mechanisms on the institutional logics within a recently privatized firm, this phenomena is subject to exploration. While well-read scholars might sympathize with Ockham when coming across this seemingly eclectic approach, it is applied in an attempt to shed new light on the consequences of privatization on institutional logics. As a separate type of value creation focus can be attributed to each type of institutional logic (Ocasio & Rodoynovska, 2016), value creation is to be utilized as an indicator of which logic is superior post privatization, and can thereby provide insights into the practical effects of path dependence within institutional logics after a change in ownership.

1.3 Purpose and Research Question

The purpose of this thesis is to understand how a privatization process affects a company's institutional logic in the presence of path dependence mechanisms, and to delineate the implications this has on the firm's value creation strategy. The context of this study will be a recently privatized corporation within the public transportation industry in Japan. Our ambition is thereby to make a contribution to the existing literature on privatization's effect on institutional logics. This will be done by adding the perspectives of path dependence theory and value creation motives in an attempt to broaden the scope on this subject. Derived from this, following research question will be answered:

- *How do mechanisms of path dependencies affect the institutional logic of a firm post privatization, and what implications does this have on the firm's value creating strategy?*

1.4 Study object

The case company in this study is a Japanese railway operator in the region of Kyushu. The company was created in 1987 after the deformation of the governmentally owned Japan National Railways (JNR) following years of financial inefficiency and heavy debt-burden (The Japan Times, 2015). JNR had enjoyed a monopoly on the Japanese railway market, something that was deregulated and the corporation was dismembered into six regionally divided independent companies. Each of these six were initially private limited companies, but were all owned and operated by the Japanese ministry for Railway, Construction, Transport, and Technology Agency, and company actions were regulated under the JR companies act (Osaka, 2016). While the three companies with the highest population density out of the six were privatized through initial public offerings (IPOs) in the early 90's, the other three remained under government control due to their financial struggles deriving from the population disparity in the regions (The Japan Times, 2016). The case company would however go on to thrive financially and pursued a full privatization with subsequent IPO in 2016, and has been operating without government support ever since (The Japan Times, 2015; JR Kyushu, 2019).

1.5 Disposition

This paper consists of six parts: Introduction, Literature Review, Methodology, Empirical Findings, Analysis, and Conclusion. In the first section, necessary background knowledge and a problematization with subsequent purpose and research question will be presented, as well as the study object. In the second part, the theoretical setting of several related areas will be presented and discussed as well as the preliminary framework that will be applied at a later stage in the thesis. The methodology section centers around the decisions regarding the research approach and data collection, as well as a discussion of the validity, reliability, and ethical considerations of the paper. In the fourth section, the empirical findings that emerged during the data analysis are presented. The findings are presented through parts of the initial framework that is presented in the literature review. Thereafter, the analysis positions the empirical findings among the existing literature that has been presented, and the framework is adapted to fit the findings of the paper. Finally, chapter six concludes the thesis and discusses the implications as well as limitations and suggestions for future research.

2. Literature Review

The literature review consists of five sections. The first four sections address the topics of ownership, institutional theory, value creation, and path dependence. In the fifth and final section, a preliminary framework illustrating the relationship between these four theoretical concepts is presented.

2.1 Ownership

The implications of ownership on corporate behavior is a constantly recurring topic within governance literature (Tricker, 2019). Shen and Gentry (2012), for instance, emphasize how the ownership structure of an organization affects its governance, which in turn impacts the strategic decision making processes within the company. Central to this discussion are theories of agency and transaction costs, describing how actors with power stemming from their ownership acts in self-interest, making organizations behave in certain ways (Eisenhardt, 1989; Williamson, 1989).

There are a multitude of ownership setups that all have the potential to drive the focus of the firm in different directions. Boyd and Solarino (2016), for example, mentions blockholder ownership and the implications of ownership concentration in publicly listed firms. Shen and Gentry (2012) further accounts for the difference between publicly listed and privately owned firms. For the purpose of this thesis however, what is more interesting is the focus of Voorn, van Genugten and van Thiel (2018) as well as Ferry, et al. (2018), who address the difference between state ownership and private ownership. Perhaps even more importantly, Shen and Gentry (2012) touches upon the topic of ownership structures in the context of privatization, a process of change from state to private ownership. In the two following sections, these two types of ownership will be defined, and the implications of the privatization process will be explained.

2.1.1 State versus Private Ownership

State ownership, also referred to as government ownership, can simply be defined as the ownership of a business by the state (Rádic, Ravasi & Munir, 2021). Meanwhile, private ownership in this context is a bit more difficult to define, as the concept generally only includes privately owned businesses and not publicly traded firms owned by private investors (Rádic, Ravasi & Munir, 2021). As a clarifying notion, Boubakri, Cosset and Guedhami (2009) and Rádic, Ravasi and Munir (2021) therefore describe the concept of private ownership in ways to include all forms of private, non-governmental ownership structures, meaning both private and publicly traded entities, as they in contrast to state owned enterprises operate under the same market conditions and share many organizational characteristics.

Voorn, van Genugten and van Thiel (2017) shed light on some of the other variances between private and state owned firms. The first main difference, Voorn, van Genugten and van Thiel (2017) argue can be seen in legal status and the laws under which the entities are governed. While private ownership entails a corporate body governed under corporate law, enterprises run by the state are under governmental regulation and control. Governance of the firm is also carried out differently: an appointed executive board runs the private company, whilst the state owned enterprise is governmentally operated (Voorn, van Genugten & van Thiel, 2017). This, Voorn, van Genugten and van Thiel (2017) emphasize, is directly related to the purpose of the entity. The purpose of private companies is to generate returns to shareholders, while the objective of state owned enterprises is to serve the interests of the public. Finally, another key difference is the means of funding, which is mainly taxes for state owned enterprises, and user fees for private companies. Private companies, however, do have more flexible options when it comes to debt financing (Voorn, van Genugten & van Thiel, 2017).

Furthermore, research has shown other deviances between the two ownership types in terms of efficiency, profitability and innovativeness. Private companies are generally superior in these areas in contrast to state owned enterprises (Abramov, Radygin, Entov, Chernova, 2017; Ferry et al., 2018; Zhou, Gao & Zhao, 2016). One explanation for this is suggested by Boubakri, Cosset and Guedhami (2009), who claim that there are usually political motives and bureaucratic structures within the state owned enterprise disturbing decision making and limiting initiatives, which negatively impacts their performance. This has led to a global trend where governments sell parts or all of their ownership rights of businesses to private actors, through the process of privatization (Boubakri, Cosset and Guedhami, 2009).

2.1.2 Privatization

Historically, the definition of the term privatization has varied depending on the institutional context and academic discipline. A broader definition is generally adopted by scholars within social sciences, sociology and public administration, where all reductions of governmental spending and regulations are seen as forms of privatization (Moe, 1987; Marwell, 2004). In management literature, however, a more narrow definition is provided, which is the partial or full sale of a state-owned enterprise to the private sector (Rádic, Ravasi & Munir, 2021).

Privatization has during the last three decades become a more frequently used method to hand over control to private investors in order to improve performance and efficiency of government-owned businesses through a change in corporate ownership, governance structures and corporate objectives (Kim & Huang, 2019; Grossi, Papenfuß & Tremblay, 2015). The overarching motive of the procedure has been to improve public sector management to provide better services to society by utilizing the advantages that come from a change in corporate legal status and higher cooperative flexibility (Voorn, van Genugten & van Thiel, 2017). The most common line of action is to sell shares of the state owned enterprise to private investors through an initial public offering process (Rádic, Ravasi & Munir, 2021). There are also occasions on which full ownership is sold to a single private party through an acquisition, however, these are rare (Bennett, Estrin, Maw & Urga, 2003).

As scholars have flocked to study the concept of privatization, research showing results of changes other than merely improved performance and efficiency have come to light. For example, Rodríguez, Espejo and Cabrera (2007) shows by using agency theory that a shift in ownership from state to private changes the incentive structures within the organization. Wu, Su and Lee (2008), in turn, found that privatization leads to an increase in entrepreneurial sense among employees, and higher overall organizational competence. Moreover, Johnson et al. (2007) found that privatization can cause significant changes in corporate culture, which in turn affects management and corporate governance positively. However, these findings are merely a small sample of the high volume of literature on privatization, and further areas of research have addressed the topics of organizational structure (Hammer, Hinterhuber, & Lorentz, 1989), the inherent changes in market competition from resulting from privatization (Bognetti & Obermann, 2008), and corporations in the institutional context (Thornton & Ocasio, 2008).

Despite this praise of privatization, there are also downsides to the procedure (Rádic, Ravasi & Munir, 2021). Take, for instance, the privatization of the British railway system in the early 1990's. This process might have worked out economically and politically, however, the negative consequences of the privatization were all shouldered by the public (Dixon & Joyner, 1999). Higher fare prices, overcrowded trains, delays and bad integration of transfer systems as well as a lack of information systems were all effects from under-investment by a private actor with cost-cutting, profit maximizing interest, which lowered the overall benefit for the public (Dixon & Joyner, 1999; Thornton & Ocasio, 2008). Mees (2005) mentions the privatizations of trams in Melbourne in 1999 as another example, where the overall service quality decreased.

A technique that has been utilized to reap the benefits of both state ownership and private ownership is partial privatization, which results in a shared ownership structure (Grossi, Papenfuß & Tremblay, 2015). These hybrid organizations are commonly also referred to as state owned enterprises, however, the main premise in such cases is that the state retains only partial ownership. Hybrid organizations are politically governed but operate in a business-like manner in contrast to fully state owned enterprises, as they are infused with pressures to produce profits rather than being fully subsidized (Grossi, Papenfuß & Tremblay, 2015). In this type of constellation, however, scholars mention a problem in particular, which is that of competing interests and troubles of serving multiple masters (Voorn, van Genugten & van Thiel, 2017; Dixon & Joyner, 1999; Rádic, Ravasi & Munir, 2021). Having powerful stakeholders with diverging interests, meaning both shareholders and the government, can cause internal conflicts creating inefficiencies due to agency issues and transaction costs (Thornton & Ocasio, 2008).

2.2 Institutional Theory

To understand the conflicting interests between state and private actors, and thus also the implications of privatization, the subject of ownership change is commonly discussed within the context of institutional theory (Rádic, Ravasi & Munir, 2021). Theories of institutions and the approach of understanding organizations from the institutional perspective dates back to the late

1940's and Selznick's (1948) paper on the foundations of organizational theory. In recent years however, scholars from different fields have diverged from the otherwise shared understanding of what stipulates an institution. A commonly used definition for institutions, as presented by Douglass North (1990), reads "*it's the rules of the game in a society, or more formally (...) the humanly devised constraints that shape human interaction*" (p. 41). The institutional perspective of which this definition is derived from is that of New Institutional Economics (NIE), a school of thought closely related to that of Transaction Cost Economics (TCE) (Shepsle, 2014).

NIE scholars regard institutions to form in large as a way to deal with the transaction costs that arise, and that an institution thereby is a shared set of beliefs and understandings of how to best cope with these costs that are also practically applied (North, 1990). This definition of institutions has however received criticism from different academic fields, with sociological scholars pointing out that institutions seldom are either (1) exogenous and (2) static, as regarded in conventional economic literature (Shepsle, 2014). Instead, parts of the sociological field perceive organizations as an institutional form in itself due to their emphasis on cultural aspects, in contrast to economic scholars (Scott, 2008). There are a plethora of different definitions on the institutions and varying assumptions regarding the matter, with the definition prescribed by North being the most commonly used (Scott, 2008). In this thesis, this definition will be used due to its wide applicability, as well as it working well in a wide range of scholarly approaches (Pierson, 2000).

2.2.1 Institutional Logics

As a way to differentiate between how various institutions function and how they change internally, the academic field of *Institutional Logics* emerged in the late 1980's (Thornton & Ocasio, 2008). Alford and Friedland (1985) coined the term institutional logic when trying to explain the contradictory beliefs and practices rooted in the institutions of modern western societies. Thornton and Ocasio (1999) specified the definition of the concept as "*the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality*" (p. 804). Friedland and Alford (1991) highlight five different types of core institutions in society, each with their separate logic and main strategic focus. These are: the capitalist market, the bureaucratic state, families, democracy and religion. Since Friedland and Alford's (1991) definition of these core institutions, scholars have discussed methods to dissect the categories further (Thornton, Ocasion & Lounsbury, 2012), as well as ways to comprise and reduce them (Liu, Zhang & Jing, 2016). However, Friedland and Alford's (1991) definition is to date a universally accepted approach, which is also utilized by Scott (2008) to bring structure to the concept of institutional logics. As Scott's (2008) research will be central to this thesis, and Friedland and Alford (1991) are well known for their work within the field of institutional theory, this will be the description of key institutions that will work as a foundation for this report.

According to theorists within the institutional field, there is a particular set of values and principles, or logics, connected to state owned enterprises and firms under private ownership respectively (Greve & Man Zhang, 2017). In the context of corporations in general and privatization processes in particular, the institutional logics of interest are those of the bureaucratic state and the capitalist market, henceforth referred to as *state logic* and *market logic*. As an SOE with its inherent state logic transitions to a privately owned corporation operating on the open market, there should also be a change in the logics which exist within the organization (Wang, Xi, Zhang, Peng, 2022). In the academic fields of governance and ownership structures, the institutional environment has implications for the way a company is run, as it directly affects the institutional logic of an actor (Grossi, Papenfuß, Tremblay, 2015; Tricker, 2019). The SOE's, operating under state logic, generally work to serve governmental interests, creating value to society through the fulfillment of political and societal objectives (Cheung, Aalto & Nevalainen, 2020). Privately owned companies, in contrast, operate to serve their shareholders through profit maximization, focusing on financial value creation in line with the market logic (Cheung, Aalto & Nevalainen, 2020). Through adhering to these institutional logics, actors can strive to achieve legitimacy which is crucial for the success of any company (Scott, 2008). Especially so for corporations, as the alignment of organizational goals with societal functions has proven to positively affect long-term performance (Scott, 2008).

Thornton, Ocasio and Lounsbury (2012) provides further perspective on the topic by mapping out the basis of strategy in the separate institutional forms, underpinning that state strategy is built upon the intention to increase community good, and that market strategy revolves around increasing profit and shareholder value. However, multiple objectives and opposing belief systems are not unusual in large and international organizations, which is why recent studies have been conducted on institutional change and methods of managing such conflicting logics (Reay & Hinings, 2009; Besharov & Smith, 2014). Voorn, van Genugten and van Thiel (2017) explains that this can lead to serious complications in the cases where the two logics are combined within an organization; conflicting logics provide sources of agency and incentivizes opportunism when both logics are prevalent, for example in the situation of shared ownership between state and private actors. Both Besharov and Smith (2014), and Reay and Hinings (2009), suggest that collaboration and alignment is key to mitigate the negative effects of competing logics in partly privatized firms, and to align the efforts of creating value from both a governmental and private business perspective. However, little research has been conducted from an institutional perspective on firms post privatization, where governmental ownership has been given up completely (Reay & Hinings, 2009; Rádic, Ravasi & Munir, 2021).

2.2.2 Isomorphism

A closely affiliated term to the area of institutional logics is that of *Isomorphism*. The concept is centered around the direct surroundings of which the company finds themselves in, as the external forces impose a pressure on organizations to develop certain characteristics (Thornton & Ocasio, 2011). Coined by Meyer and Rowan (1977) and later developed by DiMaggio and Powell (1983), isomorphism is said to imply that organizations are forged by the stakeholders and the general market. This means that companies that act on the same market and strive for the same efficiency needs will also develop similar organizational traits (DiMaggio & Powell, 1983). Conventionally, a distinction is however made between the competitive isomorphism and the institutional one, where the first looks at how competing organizations struggle for resources and customers, while the second instead focuses on legitimacy issues (Thornton & Ocasio, 2011). The institutional isomorphism occurs through mechanisms that are either coercive, normative, or mimetic, and can thereby be both directly and indirectly managed (Thornton & Ocasio, 2011). All of these three aspects are regulated by the political forces in an attempt to create legitimacy which is always imperative for organizations to operate by (Boxenbaum & Jonsson, 2017). This societal mandate is gained by conforming to societal expectations, meaning that in similarity to the competitive isomorphism the external pressures on the organization are very prevalent even though they are socially induced rather than based on the competitors (Boxenbaum & Jonsson, 2017).

2.2.3 Scott's Three Pillars of Institutions

A widely used model to describe, explain and understand various logics, behaviors and activities within institutions is Scott's Three Pillars of Institutions (Thronton, Ocasio & Lounsbury, 2012). The framework as presented by Scott (2008) consists of a *regulative,* a *normative* and a *cultural-cognitive* element, and is extensively utilized by scholars to understand the nature of institutions (Thornton, Ocasio & Lounsbury, 2012). Scott (2008) created this analytical model to provide a tangible description of institutional characteristics, and the framework as such is derived from the sociological field of institutional theory, where three distinct perspectives have been merged as components into one holistic structure (Scott, 2008). In institutional theory, all of the pillars jointly strive to explain how the company achieves meaning and legitimacy, which is imperative for long-term organizational performance (Scott, 2008).

The regulative pillar consists of the legal and quasi-legal circumstances which at its very core works to incentivize certain behaviors, and disincentivize others (Scott, 2008). It includes the rules and laws that coercively regulate and constrain actors within the institutional system through monitoring, rule-setting, and sanctioning activities (Scott, 2008). Scott (2008) further implies that compliance to rules and laws is often assumed, but that a more cynical perspective on these aspects is necessary to provide a more holistic image as actors might not always submit to such regulations. In this thesis, the element will be used to understand how the legal pressures and other coercive forces in the company's surroundings have changed as a result of privatization.

The normative pillar is focused on actual practices within the organization, and looks beyond the issue of legality, further emphasizing on a deeper level of legitimacy creating (Scott, 2008). Normative systems, Scott (2008) explains, comprises values, norms, goals, and objectives. "Values" are defined as *"conceptions of the preferred or the desirable together with the construction of standards to which existing structures or behaviors can be compared or* *assessed".* (Scott, 2008, p.64). Norms, in turn, specify how activities should be carried out, defining legitimate methods to pursue desired ends (Scott, 2008). Scott (2008) further adds that normative systems define the goals and objectives, and the designated means and methods to achieve them. Such practice is often decided at the internal level of the organization rather than externally. In contrast to the regulative pillar, the normative one is more based around a social obligation that exists throughout the company (Scott, 2008).

Finally, the cultural-cognitive pillar is derived from the common understanding and perception made up by the individual actors of the company, and is accumulated over time rather than in the short term (Scott, 2008). In comparison to the normative pillar, the cultural-cognitive aspect consists of a shared yet implicit understanding of any given thing, and is subject to institutional isomorphism (Scott, 2008).

2.3 Value Creation

As an addition to the discussion of ownership, institutional logics, and the separate priorities of state owned enterprises and firms under private ownership, the aspect of value creation could be further scrutinized. Drawing from the literature presented above, it becomes evident that the focus of value creation differs between the two corporate entities (Voorn, van Genugten & van Thiel, 2017; Thornton, Ocasio & Lounsbury, 2012). As such, the topic becomes an integral part in understanding the implications of privatization.

Throughout the years, multiple different aspects on what value and value creation is have been discussed. Hallberg (2017) describes value as the subjectively perceived utility or benefit of a product or service by an individual customer relative to cost. While this description frames value creation from the firms offering to consumers, governance literature provides an extended, and perhaps more nuanced, description of the concept. Tricker (2019), for instance, emphasizes that financial value creation is key to firm survival, and adds that the most efficient way to generate such value is to prioritize and serve the needs of key stakeholders. As such, value can be interpreted not only as the subjectively perceived value by the customers, but also as the financial gain of the firm, and the subjectively perceived value or financial gain for other stakeholders to the firm. Chandler (2020), who defines value as "*The generation of a perceived* *benefit for an individual or group, as defined by that individual or group*" (p. 29), agrees with this stakeholder perspective and argues that there are three separate groups of stakeholders. The first one is *organizational stakeholders*, also referred to as internal stakeholders, which are managers, employees and directors. The other two are *economic stakeholders*, such as shareholders, consumers and competitors, and *societal stakeholders*, meaning local communities, the media, government agencies and regulators (Chandler, 2020).

In the context of institutional logics and governance, stakeholder theory could add structure to the discussion of how the state and the private firm governs their respective value creating activities. Drawing from Thornton, Ocasio and Lounsbury's (2012) description of value creation focus of state and the private firm, governmentally owned firms prioritizes societal stakeholders, while the private firm mainly favors organizational and economic stakeholders. However, when explaining the concept of *Shared Value*, Porter and Kramer (2011) make a point of private firms also striving to generate societal value while pursuing profits. The two scholars suggest that companies should start viewing different societal issues as opportunities to create competitive advantages through differentiation in order to make profits in the long term (Porter & Kramer, 2011). Chandler (2020) partly agrees with Porter and Kramer's (2011) logic of creating societal value in itself, yet the author argues for a maintained stakeholder perspective where prioritization becomes an integral part. Chandler (2020) describes this as *strategic corporate social responsibility* (Strategic CSR): a version of market capitalism based on a stakeholder perspective where proper stakeholder prioritization and sensitivity towards their needs leads to long-term profit optimization for multiple stakeholders rather than short-term profit maximization.

The main difference between the two concepts, Chandler (2020) proclaims, is that Strategic CSR is still centered around the profit seeking motive, while shared value entails engaging in more charitable activities and thus reducing the profit focus of the firm. For Strategic CSR to function, however, stakeholders must be ready to hold firms accountable if they act in a dissatisfactory manner, as the firm is merely a product of stakeholder influence (Chandler, 2020). Another scholar that has shed light on how value creation processes of companies are moving towards becoming more socially responsible is Moss Kanter (2011), who argues that what separates successful companies from others is that they position themselves as an institution within society.

Regardless which school of thought is preferred, it is clear that the value creation processes of companies have gone beyond mere profit maximization at any cost (Kanter, 2011). In an attempt to position this perspective in traditional economic theory, Kanter (2011) writes that those companies internalize what economists otherwise have regarded to be externalities, and thereby have a more holistic view when making decisions. This results in a more socially responsible company that balances shareholder returns with public interest.

2.4 Path Dependence Theory

In the context of organizational change in connection with institutional theory, another approach that has become regularly used to explain development over time is the concept of path dependence (Guinnane, Sundström & Whatley, 2003). This phenomena can potentially complicate a privatization process, as it can cause organizational inertia (Beyer, 2010). David (1994) conveys the picture that all organizations are subject to this phenomenon through the fact that what has happened historically still affects the operations going forward, as the author calls the effect for a "carrier of history" (p. 205). Especially those organizations that can be regarded to be of institutional character, since such generally larger and more complex organizations also have a set of shared values and norms among the employees that can counteract and overpower certain top-down movement changes (David, 1994). Path dependence can thereby heavily affect the evolution of organizations without being particularly visible, and do so for a long period of time (David, 1994). To foster an environment in which the organization is able to overcome path dependence, Morgan and Kubo (2005) emphasizes the need for continuous discussions on the topic to gain a comprehensive understanding of its potential effects on the firm. However, this is generally accurate in cases of partial privatization, which is why research on complete privatizations remains ambiguous on how the path dependence effect could affect operations (Rádic, Ravasi & Munir, 2021).

Douglas North (1990) begins to discuss the relationship between path dependence and institutional change, specifically addressing the aspect of economic performance and transaction costs. Pierson (2000) builds on the ideas of North, as he argues that even though the path dependence theory has its origin in economic literature, the findings can have implications in a wide variety of scholarly fields due to its coherent approach. North's research later became a basis for an all-encompassing review of the mechanisms of path dependence by Beyer (2010), who claims there are a total of seven mechanisms in firms that have the capability to generate path dependent continuity: *Increasing returns, Sequences, Functionality, Complementarity, Power, Legitimacy,* and *Conformity.* These mechanisms will be explained in more detail in following paragraphs, along with potential destabilization options suggested by Beyer (2010) that can be used to break these continuities.

Increasing Returns

Increasing returns, Beyer (2010) explains, is one of the fundamental mechanisms of path dependence, which according to Arthur (1994) builds on the condition that increasing the frequency or volume of an activity also leads to an increased benefit, making the relationship between the activity and the benefit self-reinforcing. Economies of scale, organizational learning effects, or situations where future performance depends on current distribution and investments, are all instances in which the effect of increasing returns can take place (Arthur, 1994). A similar concept called *network externalities* is presented by Katz and Shapiro (1986), however Beyer (2010) argues that the increasing returns concept covers a broader set of lock-in mechanisms rather than merely "the economies of scale originating from the demand side" (p. 6). The fundamental problem of such an effect becomes the certainty of constant returns, which causes risk aversion and neglection of new, potentially profitable business opportunities. To destabilize path dependence from increasing returns, awareness of the mechanisms in itself in combination with capacity and courage to put up with sunk costs becomes crucial, in order to reap benefits in the longer term (Arthur, 1994; Beyer, 2010).

Sequences

Sequences, or sequencing of events, is a mechanism that can potentially cause path dependence in situations where the consequences of activities or events that occurred in a particular chronological order are hard to reverse (Beyer, 2010). Sometimes, Beyer (2010) proclaims, one can reverse the effects of the events, yet such situations are rare as one can not undo the events themselves. In other terms, sequences create a cumulative inertial effect through natural chains of events, which can be viewed as *irreversible* or *quasi-irreversible* (Beyer, 2010). Apple, and the development of the Iphone could, for instance, be an example of this phenomena. The natural evolution of the product stems from a chain of past, irreversible events, creating a path dependence in developing the product. Furthermore, sequencing can occasionally extend to loops of events that occur time and time again in the same chronological order (Beyer, 2010). Sequences are, however, not inherently self-reinforcing, and can easily be prevented through awareness and by questioning the status quo (Beyer, 2010).

Functionality

Functionality is the mechanism which accounts for the reproduction of the particular institution as it serves a purpose in a greater system (Mahoney, 2000). In other words, function-based path dependence is when an activity works as a gear in a larger machinery, upon which the larger machinery is reliant on. The issue in function-based path dependence is that the activity in question could be inefficient, yet crucial for the system it is at the present time (Beyer, 2010). For instance, the accounting department within an organization could be doing a bad job, still they are needed for the organization to run. Mahoney (2000) states that to break such reliance, changes and shocks from the external environment are necessary, to transform the functional requirements of the system.

Complementarity

Complementarity is when elements within a system are mutually beneficial to each other (Beyer, 2010). Similarly to the concept of synergy, the elements increase the total amount of benefit or reduce the total amount of costs through interaction with one another (Beyer, 2010). This naturally causes path dependence as the parties become reliant on each other to produce extra output. As such, toxicity in such a relationship can end up having harmful effects, or inhibit other business activities. Complementarity can at first glance seem rather similar to the mechanism of increasing returns or network effects, however, complementarity is more focused on synergistic relationship between parties, rather than the effects of scale where benefit increases exponentially as a consequence of growth. To break such path dependence, Beyer (2010) suggests that the organization should focus their resources on changing one element of the relationship in particular, which in turn could cause a more comprehensive change and independence.

Power

Power as a mechanism of path dependence is related to power structures within the institution (Beyer, 2010), and explains how reproductive behavior and continuity come as a result of authoritative individuals or elite groups within the institutions supporting certain practices or beliefs (Mahoney, 2000). This becomes problematic when there is a refusal to change, or when strong opinions drive the organization in the wrong direction. To mitigate such path dependence, Beyer (2010) suggests the induction of counteractive power, or implementing other regulative forces as supplements to the already existing power structure.

Legitimacy

Legitimacy, or the pursuit of legitimacy, creates path dependence as actors within institutions feel a moral obligation to proceed with certain activities in order to be perceived as legitimate (Beyer, 2010). Such activities can come as an answer to pressures or expectations from stakeholders or other actors in the surrounding environment (Beyer, 2010). Such path dependence can become harmful to the organization if legitimacy is pursued at a great cost of other organizational goals, such as profit maximization, or if the constituents of what creates legitimacy are ill defined, which could cause the organization to chase the wrong objectives. In such cases, Beyer (2010) states, legitimacy can be systematically brought into question by actors, to discuss any contradictions and revise the approach.

Conformity

Finally, conformity is related to mimetic isomorphism, and is a consequence of the simplicity to comply with key conceptions within the institution, adapting to surrounding norms (Beyer, 2010). For example, if all actors within a particular industry behave in a certain way, one can be inclined to mimic this behavior to fit in. Yet, the norm is not always appropriate nor prosperous to submit to. In those instances Beyer (2010) suggests that actors can actively strive to enforce new, better key conceptions in efforts to change the existing norms.

Mechanism	Negative Effect	Example	Action for Destabilization
Increasing returns	- Comfortability and risk aversion	- Continuous benefits of scale causing risk aversion	- Awareness, capacity and courage to act and to cope with sunk costs
Sequences	- Cumulative inertial effects	- Events occuring in a particular chronological order creating cumulative inertial effects	- Questioning the status quo, and take action to change
Functionality	- Inefficiency	- Reliance on a functional part within a system which can be inefficient, yet crucial for survival	- External shocks to transform the system's functional requirements
Complementarity	- Toxicity and inhibition of new opportunities	- Synergetic relationships with other actors, could potentially inhibit other business opportunities	- Focus initial resources on partial change to stimulate a more comprehensive change
Power	- Internal inertia and refusal to change	- Elite groups or individuals protecting certain practices or beliefs	- Introduce counteractive power or supplemental regulative forces
Legitimacy	- Higher costs and lower efficiency	- Flawed image of what creates legitimacy causing inaccurate focus and low return on investments	- Bring definition of sources of legitimacy into question and revise approach
Conformity	- Blindness to originality	- Submitting to surrounding norms inhibiting novelty in innovation endeavors	- Strive to impose new key conceptions to convert existing norms

Table 1: Summarizing how the mechanisms of path dependence work.

2.5 Preliminary Framework

With the presented literature on ownership, institutional theory, value creation and path dependence as a foundation, the following framework was created to illustrate how a change in ownership structure from a privatization predicts a change in the firm's institutional logic, which in turn affects the basis of the firm's value creation strategy. It further exhibits how mechanisms of path dependence could potentially be causing inertial effects within the company's institutional logic, making the privatized firm with a market logic instead operate by their previous state logic.

For structural purposes, the framework below is divided into three sections: *context*, *variable*, and *effect*. The context describes the ownership structure which a company finds themselves in, with the explicit transition from state to private ownership being mapped out as privatization. The ownership type is according to theory believed to have implications for the institutional logic within a firm, as pointed out by the arrows towards state and market logic respectively, and is primarily included in the model for contextual purposes. The variable section comprises the institutional logics, which according to institutional theory are subject to change as a result of privatization. Path dependence theory challenging this statement is also displayed in this section, showing that a market logic could be affected by its state logic inheritance. It is the interaction between these variables that will be the main area of analysis. Finally, the effect section describes the value created by the company as a result of the institutional logic operating within the organization. The relationship between these is once again portrayed by the arrows towards societal and shareholder value respectively. The purpose of this section is to understand the practical effects on value creation as a consequence of the potential changes within the variable section.

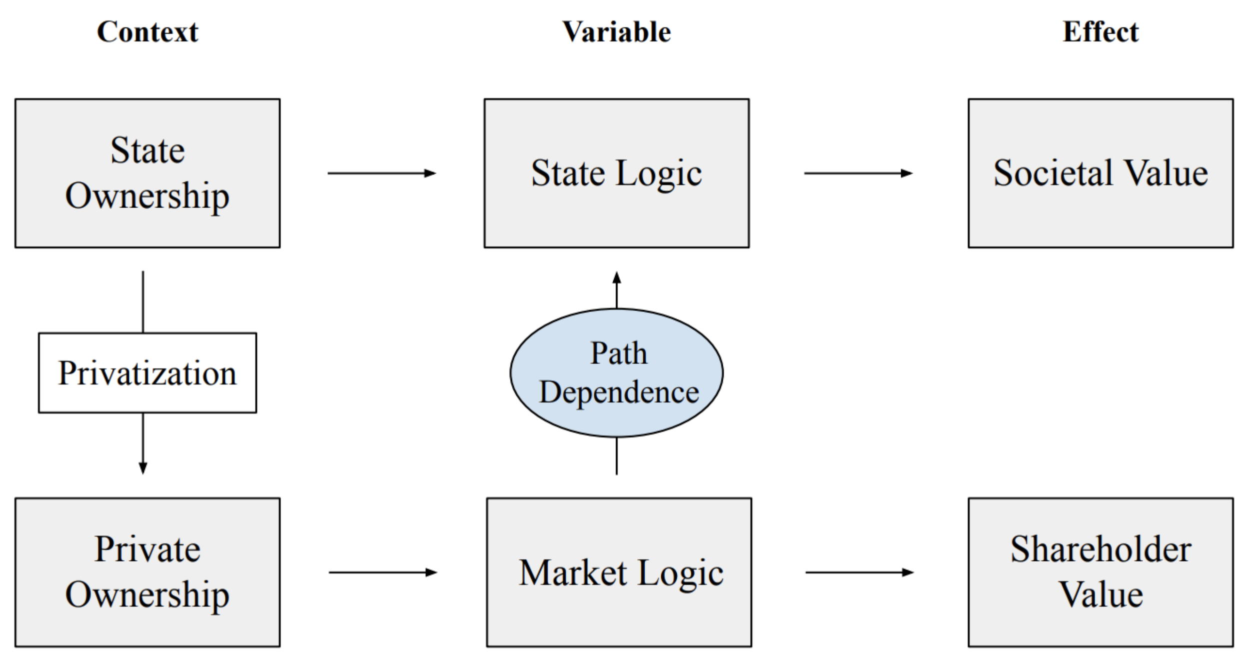

Figure 1: The preliminary framework for this thesis. This framework is derived from the literature review, and the findings of this thesis will be tested against this model in the analysis stage.

3. Methodology

The following chapter provides explanations and arguments for the methodological approach and design used to achieve the purpose of this study. Further, it provides reasoning behind the sequential steps of data collection and analysis. Finally the section concludes in a discussion of limitations and ethical considerations.

3.1 Research Approach & Design

In order to explore the identified blank spot in the existing literature, a qualitative single-case study was carried out in order to investigate the factors that are affecting the institutional logic of a company that has gone from being an SOE to a privately owned one. According to Bryman and Bell (2019), a case study is an appropriate approach when conducting an intensive and detailed analysis of a single organization or event. Based upon the complex nature of the case, the choice of a qualitative research method for data collection and analysis was therefore made. According to Bryman and Bell (2019) a qualitative research method is efficient when seeking to analyze and interpret words and text, rather than being limited to scrutinizing numerical data. With the ambition to achieve an in-depth understanding of how the mechanisms of institutional logics affects the company through theoretical analysis of semi-structured interviews and corporate documents, a qualitative method was therefore decided upon. In addition, since the study aims to portray a thorough understanding of the company in question rather than an absolute truth about companies in general, a quantitative study would have been insufficient in reaching the necessary depth (Bryman & Bell, 2019). As such, this particular research design was deemed adequate for the purpose of this report.

Furthermore, the study has followed an abductive process. The abductive method served the purpose of the report as it originates from the intention to bring a possible explanation to a seemingly incomplete array of observations, rather than theory testing as deduction entails, or generating theory as in induction (Bryman & Bell, 2019). The abductive method also allows for iterative shifts between theory and empirics throughout the data collection to achieve a deeper and more nuanced analysis and conclusion (Bryman & Bell, 2019). Conventionally, qualitative studies have been more connected to inductive approaches, as theory aims to be generated from the conducted study (Bryman & Bell, 2019). In more recent research the lines between these different choices of methodology have been blurred out, as more scholars opt for the abductive approach in order to reap benefits from both perspectives (Bryman & Bell, 2019). The approach begins with an empirical discovery and subsequent tentative conclusion, before looking into the existing literature in order to position the finding (Bryman & Bell, 2019). Thereafter, the literature review is conducted, and if needed more research is conducted in order to provide the best possible theoretical contribution. This enables the researchers to adapt the theoretical scope, as well as identifying an appropriate research gap which the empirical research then can aim to deepen the existing knowledge within (Bryman & Bell, 2019). Thereby, the abductive approach seeks to contribute through modifications of existing theories, or by generating new ones (Bryman & Bell, 2019). In the setting of this study, this abductive approach has enabled the theoretical frameworks to be chosen more fittingly to the case at hand in an attempt to maximize the theoretical contribution of the paper.

Since the aim of this paper is to provide an in-depth analysis of the case company at hand, a case study design was chosen. This design is suitable for when answering questions such as "how" or "why", as well as for when the context of the company, in this case being in the industry of public transport, is of importance (Creswell & Creswell, 2018; Yin, 2003). Moreover, the case study design enables a use of a wider range of data material, as both primary and secondary as well as qualitative and quantitative sources can be utilized and provide a more holistic perspective (Bryman & Bell, 2011). Other options that include both experimental and survey designs were deemed inappropriate, as they instead aim at finding a correlation between variables that then can be understood on a general level (Bryman & Bell, 2011), which stands in contrast to the aim of this paper. Another alternative design would have been to conduct a comparative case study, in which two or more separate cases are compared in order to understand the differences and provide more generalizable results (Yin, 2003; Creswell & Creswell, 2018), which however is not the point of this study.

3.2 Case Selection

The company selected to fulfill the purpose of this thesis is Japan Railways Kyushu (referred to as "*the company*" throughout this thesis). A brief introduction to the company has previously been presented in section *1.4*, with a more methodological reasoning to follow in this section. To understand the shift in institutional logics from a change of ownership, Rádic, Ravasi and Munir (2021) claims that there is a need to look at recently privatized firms. As highlighted in the introduction, the case company fully privatized and listed on the stock exchange in 2016, which is why it was found suitable for the purpose of this study. As such, both the previous ownership structure as well as being an actor within the public sector, the pursuit for societal value has been an integral part in the company's history (JR Kyushu, 2017). This assumed heritage can be perceived to have shaped the organization in one way or another, emphasizing the implications that the shift to private ownership might prove to have. In literature within the area of institutional theory, these full shifts of ownership are a coveted phenomenon that seldom appears and are available for research, which is one of the reasons why the company was found to be appropriate for the case study. Nevertheless, there were certain obstacles with the case company, something that will be discussed in the following sections.

3.3 Data Collection and Interview Objects

Qualitative data collection is often reliant on the access to study objects, many of which are situated in the companies in the given industry. Thus, research is dependent on the acceptance from the gatekeepers in the form of companies, to let their employees conduct such interviews and provide the necessary insight to the otherwise closed setting of an organization (Bryman & Bell, 2019; Creswell & Creswell, 2018). These issues were experienced first-hand, as we reached out to several Japanese companies in the sector of public transport, but struggled to get the positive answers that were necessary. Besides the obvious language and alphabetical barrier, we learnt that Japanese companies rarely answer emails from western-speaking countries as they often are believed to contain spam. Instead, calling is preferred, but that also requires knowledge in the language that we did not possess. By utilizing our connections to Swedish scholars, we did however get in touch with both employees of the case company and expert scholars who were able to provide us with the sufficient data in the form of both interviews of varying sorts, and insightful documents. The case company did however communicate that they do not participate officially in live interviews, but rather that they can provide primary data if we send our questions in text form. The interview that was conducted with the company on an official level can thereby be understood to have been of qualitative nature in text form and done in a structured manner (Bryman & Bell, 2019). This puts some constraints on the depth of some of the answers, where a semi-structured interview could have been preferred. However, an interview in text form can also increase the depth in the answers as they generally are more thought through and well-formulated (Bryman & Bell, 2019). Drawing from this, the written interview provided us with good information about factual matters as it was derived from a top management position. However, it lacked personal reflection making the viability of the answers on more informal matters questionable. As such, the answers from the written interview regarding the cultural-cognitive domain were not used in the empirical analysis.

The interview with the industry expert as well as the employees of the company was conducted over Zoom and Microsoft Teams, and were done in a semi-structured manner where there was a questionnaire to follow, but allowed us to act upon any notable information that called for more in-depth understanding (Bryman & Bell, 2019). This questionnaire can be found in the appendix below (see Appendix A). Since the company doesn't participate in interviews officially, we approached individual employees via LinkedIn in order to get an interview. The first interviewee did then provide us with three additional English-speaking employees through a Snowball sampling (Creswell & Creswell, 2018). The questions were deliberately open-ended in order to enable the respondent to answer from their own perspective and more vividly (Bryman & Bell, 2019). This does however entail the risk of the respondent interpreting the question differently than intended (Bryman & Bell, 2019), which in this case can be understood to enhance the depth of answers. We did conduct one expert interview and three employee interviews in addition to the written interview, as well as using secondary sources in the shape of official company documents.

	Position	Organization	Time
Interview A	Expert of the Japanese railway industry and assistant Professor	The Faculty of Engineering at Lund University	52:43
Interview B	Community Manager in the Real Estate Development and Operations department	JR Kyushu	27:13
Interview C	Project and Account Manager in the Real Estate Development and Operations department	JR Kyushu	53:41
Interview D	Project Manager for Railway Development	JR Kyushu	28:45
Interview E (Written)	Member of the Team for Strategic Operations and Development	JR Kyushu	N/A

Table 1: Table of Primary Data Sources - Interviews

Type of Source	Document Name	Details	# Pages
Annual Report 2017	"Not Just A Railway Company"	Comprehensive information of corporate activities for the fiscal year of 2016-2017	62
Annual Report 2018	"Moving Straight Ahead"	Comprehensive information of corporate activities for the fiscal year of 2017-2018	63
Integrated Report 2019	"Advancing Further Into the Future"	Comprehensive information of corporate activities and sustainability endeavors for the fiscal year of 2018-2019	73
Integrated Report 2020	"JR Kyushu Group Integrated Report"	Comprehensive information of corporate activities and sustainability endeavors for the fiscal year of 2019-2020	73
Integrated Report 2021	"JR Kyushu Group Integrated Report"	Comprehensive information of corporate activities and sustainability endeavors for the fiscal year of 2020-2021	76

Table 2: Table of Secondary Data Sources - Corporate Documents

Due to availability reasons of the interviewees, the time of the interviews varied slightly. The first two interviews amounted to 52 and 53 minutes respectively, while the third and fourth took a bit less than half an hour. This can be understood to have an effect on the consistency of the interviews, as it meant that some people had longer time to provide fuller answers as well as answering more questions. However, since these interviews were conducted in a semi–structured manner, we needed to adapt the questionnaire in each interview regardless of time in order to understand subjects that caught our interest (Bryman & Bell, 2019). This meant that our best judgment was put to practice, in an attempt to mitigate the effect of the decreased consistency. Furthermore, both students behind this paper were present at all interviews in order to increase the confidence of the findings and increase the joint understanding of the situation (Bryman & Bell, 2019). It also enabled one of us to solely focus on the interview and the answers, while the other took notes and could touch upon matters that the interviewer might have missed. As will be discussed in the following section, the advantage of having two separate perspectives has been an important part in analyzing the empirical material.

The first two interviews have been recorded and subsequently also transcribed, and can be presented if desired. As for interview C and D, the interviewees were clear about the fact that no recording would be allowed during the interview. While this could be understood to negatively impact the reliability of the interviews, it should be noted that we were both present, and one of the interviewers was allowed to take notes. These notes were done as extensively as possible and are presentable if desired. One of the possible positive outcomes of this is that the interviewees can be understood to speak more freely when they know that their anonymity is secured and that there is no recording (Bryman & Bell, 2019). The reason behind not recording can be attributed to Japanese culture, and that the strict hierarchy can make people uncomfortable when possibly criticizing certain practices of their employer.

3.4 Data Analysis

3.4.1 General approach to analysis

Aligned with the choice of qualitative data gathering, and that the thesis is constructed in an abductive approach, the data was divided into patterns or categories as they appear (Bryman & Bell, 2019). Furthermore, the abductive approach entailed a flexible relationship between theory and analysis of the empirical material, which was conducted in order to be able to adapt the theoretical framework to essential insights that might emerge during the data collection (Bryman

& Bell, 2019). This analytical process would follow the pattern of (1) *Sorting*, (2) *Reducing*, and (3) *Arguing* as prescribed by Rennstam and Wästerfors (2011), in a semi-structured approach of triangulation. As Creswell and Creswell (2018), as well as Bryman and Bell (2019) emphasize, a proper approach to data analysis is imperative to interpret empirical findings in a fruitful manner. By this process, we aim to have overcome the otherwise apparent chaos problem when faced with a wide range of data material, and prohibit many biases that might otherwise affect the coding process (Creswell & Creswell, 2018; Rennstam & Wästerfors, 2011). However, it should be noted that qualitative data will never be grouped and analyzed entirely free from biases or some ambiguous elements (Rennstam & Wästerfors, 2011).

In the first step of this approach, we conducted an analysis of the data material at hand and tried to find common themes or information that was of any significance. This step was mainly done individually in order to utilize both perspectives and not overlook anything, as well as to mitigate the risk of any biases (Rennstam & Wästerfors, 2011). Especially so, this can be an obstacle when drawing from both primary data in the shape of interviews, and secondary data stemming from qualitative documents. This called for an iterative approach where the transcriptions and interview notes were re-read in order to widen perspectives in search for contradictions or especially interesting findings (Rennstam & Wästerfors, 2011). By leveraging the benefits of using the semi-structured interview approach, we could identify certain patterns that were of interest. While this step was conducted individually in large, we also had joint discussions in order to not overlook anything. The second stage is the reduction phase, in which we compared our individual findings and found common ground in certain themes (Rennstam & Wästerfors, 2011). Perhaps more fruitful however, we discussed where we differed in order to understand themes that might have been overlooked or misinterpreted, before we eventually scaled off the data material which neither of us found to be of interest (Rennstam & Wästerfors, 2011). This procedure is however a delicate one, as scaling off too much might mean that the remaining data can appear fragmented (Rennstam & Wästerfors, 2011). The final step in this model for data analysis was to align our arguments for the findings that are deemed most relevant, and emphasize their importance in the analysis of the empirical data. Once again drawing from the abductive approach, this meant that we looked at the theoretical setting in order to identify how to argue for the empirical findings in a way that would enable and improve the theoretical contribution by nuancing or adding perspectives (Rennstam & Wästerfors, 2011). In the setting of this paper, this has meant to combine theories from varying academic fields in an attempt to shed light on an occurrence from different perspectives.

3.4.2 Operationalization of Framework

The preliminary framework, as presented in section 2.6, was operationalized in a questionnaire which can be found in Appendix A. Operationalization can be explained as the process of taking something abstract, often theoretical, and turning it into something measurable (Bryman & Bell, 2019). In this thesis, the framework which was operationalized for the sake of the interviews was Scott's Three Pillars of Institutions (Scott, 2008), as the institutional change of the case company was analyzed in the empirical analysis. Therefore, we looked closer into the three core institutional domains of our crafted preliminary framework, to ask questions regarding continuities and changes, in order to discern the salience of path dependence mechanisms in the institutional context. One notable aspect when operationalizing something that is of more abstract character, is to make sure that there still is a clear connection between the underlying theory and the factor which is measured (Bryman & Bell, 2019). Deriving from the abovementioned framework, subfactors and indicators as provided by Scott (2008) were scrutinized into interview questions which were aimed at providing a holistic picture of the institutional frame for each of the pillars. In the questionnaire, the connection between each question and the respective pillar is made explicit, as well as the open questions that are not connected to any one pillar.

3.5 Limitations

3.5.1 Validity & Reliability

Generally, the subject of validity can be described as if the findings and outcome of the study are accurate when looking at the chosen approach (Creswell & Creswell, 2018). In qualitative research, the validity criterion consists of one internal and one external aspect: credibility and transferability (Bryman & Bell, 2019). Credibility is centered around the trustworthiness of the explanation that the study conveys of the setting which it aims to describe (Bryman & Bell, 2019). Therefore, it is important to emphasize that the study aims to provide "a truth" rather than “the truth”, due to the fact that the study is reliant on the subjective perceptions of the interviewed people. Furthermore, the credibility aspect can be understood to be increased by the abductive approach, as it allows for the iterative shift between data and literature, meaning that the empirical material has played an important role in deciding the theoretical field the contribution is focused on (Creswell & Creswell, 2018). Furthermore, the data was analyzed through a semi-structured approach of triangulation, which is an attempt to increase the validity of the thesis (Bryman & Bell, 2019).

The transferability, or generalizability as it also is referred to, is often criticized when it comes to qualitative research (Bryman & Bell, 2019). Especially so for case studies, as while they often portray an explanation of a scenario in a given context, the findings might be difficult to apply or compare in a different, generalized context (Bryman & Bell, 2019). This limitation can also be understood to have had an effect on this paper, as the study is contingent on the perspectives of a limited number of interview participants. An additional number of interviews would have been preferred, but due to the time constraint of this project it was unfortunately not possible. Besides, the transferability may also have been impacted by the fact that Japanese culture, specifically corporate culture, may differ from other regions where a similar study could be conducted.

Reliability in qualitative research is generally about the decisions surrounding the research being conducted through this study, and whether they are consistent and stable (Creswell & Creswell, 2018). Factors that can be understood to have an impact on this matter are errors and biases among the participants and the observers respectively (Bryman & Bell, 2019). While it is difficult for the observers to account for the errors or biases of the participants that are not obvious, we have tried to utilize having two separate perspectives and always compare our findings, as mentioned in section 3.4 (Bryman & Bell, 2019). Furthermore, other approaches to ensure reliability is to be transparent and explain the decision process which we have used in order to conduct this research. This goes for both the decisions we took, but also for the external aspects which were out of our control, such as the difficulty of getting a direct interview with the case company.

3.5.2 Ethical considerations

Ethical issues have been addressed and handled through maintaining an honest and transparent communication with the interviewees, in order to assure them of issues regarding the handling of data. Specifically, their questions regarding anonymity and confidentiality have been discussed in order to comply with the expectations of the interviewees (Creswell & Creswell, 2018). All four of the interviewees were given the promise that their identities would be kept anonymous, however two of them disagreed with the interviews being recorded for means of transcription. This was explained to be derived from the risk of their personal opinions being presented to the employer, and that having a negative impact on their worklife. While we guaranteed that such an occurrence would not happen, they were still not agreeing and in order to nurture a good interview climate, we did not persuade them to alter their stance on the matter. The recordings of the other interviews are stored safely and without possibility for external parties to access (Creswell & Creswell, 2018). All interviewees have opted to receive a copy of the final paper out of interest, but also further emphasizing our commitment to treating the data in a way that will not render any problems from the participants.

4. Empirical findings

In the following sections, empirical findings collected through the semi-structured interviews are presented. In addition to the oral interviews, written correspondence and official documents from the company is also accounted for. The findings regard the changes and continuities within the regulative, normative and cultural cognitive institutional domains of the case company following its IPO process. Due to the volume of activities within each of the three categories, the data was further synthesized into subcategories within each field to represent the overarching themes.

4.1 The Regulative Domain

4.1.1 Legal Environment

One of the most tangible differences between being an SOE and a privatized company is the legality surrounding the organization (Interview B). This was also perhaps the most impactful reason for JR Kyushu to become a private company, in order to remove their legal obligation to get the approval from the ministry of transport in their business activities (Interview C; JR Kyushu, 2017). Following a question regarding perceived changes following the IPO, one respondent answered:

"The reason for the IPO was that we were state [owned]. So we were not free to make any decisions, but had to get approval from the government. This restricted our business activities. - Interview C

These regulatory changes gave the company opportunities to freely choose which business fields other than railway services to engage in, such as housing, hotels and other means of transportation (Interview E). Furthermore, budget filing procedures, borrowing, and issuance of bonds did no longer need to be approved by the ministry, which allowed the organization to operate more efficiently. Previously, the act for public transportation companies heavily regulated everything from investments and business planning to the train routes that were to be operated. While the appointment of executive management was still done during general shareholder meetings, the appointment of auditors and representative directors were now to be chosen without state influence (Interview C). However, there was no difference in the decision making process regarding transportation fares, as they were still to be approved by the ministry of transport (Interview D).

There are also specific rules connected to becoming publicly listed, including those of accountability to shareholders, which by law increases the need for transparency in business practices (Interview C). For the case company, the transparency following the IPO was considered positive, as the firm was now able to better communicate with the public. For instance, as the railway business in Kyushu was unprofitable, the company disclosed the financial records to the public to gain sympathy in order to reduce train frequency and the number of manned train stations in locations with low passenger concentration (Interview C). As the ownership change made JR Kyushu legally obliged to focus on shareholder value creation, the ability to decrease costs such as these were perceived as very positive (Interview C). Nonetheless, whilst there are no longer any legal restraints for the company to divest these unprofitable routes, there does seem to be a widespread understanding that the moral implications makes it infeasible to pursue such a decision in all cases. One employee of the company states that:

"There are no legal regulations in place that hinders us from canceling these routes, however there are the moral obligations that we as a company must obey to. If we would be to stop [these routes], the reaction would be very negative" - Interview C

Thereby, there seems to be other external forces that affect the company's business besides the direct regulatory one. In this case, the public's opinion seems to be a contributing factor in the decisions that the company undertakes.

4.1.2 Market Forces

Operating under corporate law did therefore not entail complete freedom in decision making. Reporting and answering to shareholders and other stakeholders can be recognized as a similar concept as reporting to the state, although they do not have the same veto right (Interview D). These market forces were stated to work similarly to the previous laws, as it was simply not an option to disregard pressures from different stakeholders (Interview D).

"Instead, we needed to report to shareholders and get the trust from the public, not because of any law but because you need to in Japan" - Interview B

The demand-side of the market in Japan exerts a great deal of pressure and influence over the business that corporations conduct, and perhaps even more specifically on the public transport sector (Interview B). The aspect of reputation is an element of Japanese culture that affects both individuals and corporations alike, which is why this market pressure acts in what can be understood as a coercive way. Another customarily prevalent market force is that of competition, but there it seems as if the company has managed to avoid those obstacles (Interview B). The reason being that while the monopoly was abandoned in 1987, the new regional companies were given the existing infrastructure in each region, including rails on which they have exclusive right to operate (Interview A). This means that even though the company has high fixed costs (Interview D), any possible competitor would have to make immense investments in order to be able to exert any notable pressure on the company. This was mainly applicable on the rail service, as the company does experience more competition in their other lines of business (Interview A).

Still, privatization did induce the company risk (Interview E). The added threat of bankruptcy serves as an incentive to deliver a high quality service despite the relatively low competition (Interview B). In contrast to being heavily subsidized by the government, the company is now completely without a parachute if the business would turn unprofitable. Risk induction was an intentional strategic move from the board to improve the overall profitability (Interview E).

"There was however the big stabilizing fund that we could use to run the business, meaning that we never had any risk of going bankrupt. It was around three billion [US] dollars annually without any responsibility for us. The IPO is totally driven by our board members. They said that they want our company to be normalized." - Interview C

By pursuing an IPO, and thereby also losing the possibility to use the stabilization fund, there was an increased amount of risk and pressure on performance. While there has been a prevalent quest to increase profitability by cutting costs (Interview C), the train fares have remained unchanged (Interview D). While any increase would have needed to get the approval from the government even after the IPO (Interview A), the main reason was seemingly the pursuit of wanting to stay available and relevant to all types of customers (Interview D). This was especially important now, as the company is experiencing a declining demand in their services as a result of inhabitants of the region migrating from Kyushu to Tokyo and Osaka, and from a declining birthrate and an aging population (Interview C).

4.1.2 Corporate Governance

The regulative environment had changed also from a corporate governance perspective as the business was restructured. Overall, the company considered their corporate governance system to have become strengthened by the shift in ownership (Interview E). The transition had entailed a long wanted shift to become a company with an audit and supervisory committee, as well as the introduction of an executive officer system (Interview E). The number of executive directors had also been reduced from 19 to seven (Interview E), and as of 2021 the total number of directors on the board are 15, of which eight are outside, independent directors (JR Kyushu, 2021). The CEO and the other executive directors have all been with the company since around the time of its creation, which was in 1987, these initiatives would give fresh eyes to the organizational operations (Interview D). More specifically, the same person has been CEO of the company since 2005, and has since been the face outwards for the company (JR Kyushu, 2021). Furthermore, the strategic aspect of governance and stakeholders is covered in the next section.

4.2 The Normative Domain

4.2.1 Stakeholders

One of the more prominent changes within the company is the awareness of the stakeholders, and the influence that these exert over the strategic approach (Interview E). The shareholders are of course a central stakeholder, deriving from both the legal implications but also by the power they handle during the annual general meeting when appointing the board and during votations (JR Kyushu, 2021; Interview B). The major stakeholder has however remained the same, as the company emphasizes that the customer has been their primary focus both pre and post IPO

(Interview B; Interview D). This also aligns well with the explicit strategy of the company being an actor that aims to improve their value proposition towards the entire region of Kyushu and not just the railway users (JR Kyushu, 2021). Furthermore, it also connects well with the values of the company, which will be described in the next section. The main stakeholder can therefore be interpreted as not only the end-customer of the products, but as every inhabitant in Kyushu (Interview E). While the role of the government might have changed fundamentally, the state still affects the business conducted in several ways (Interview A). One of the most prominent of these is in a collaborative way, where the company is taking an active role in the city planning of several different parts of Kyushu together with the government (Interview D; JR Kyushu, 2018).

4.2.2 Values and Strategy

The three guiding principles which permeate the operations of the company are said to be those of *Safety*, *Energy*, and *Honesty* (Interview B; JR Kyushu, 2018). These distinct areas are all imperatives to the business at hand, as the company historically has had a strong connection to the regional community (JR Kyushu, 2020). While the issue of safety might be more of a factor which simply is needed when being in the sector of public transportation, both of the other principles have local anchoring and aim to affect the community on different levels. Honesty can be understood as always being connected to the customers which the company serves, and direct communication has been a part of Kyushu's operations for a long time. Among other things, the company disclosed the financial numbers and ridership on certain train routes in 2017, following the IPO, in order to gain understanding from the public for the decision to decrease the frequency of some of the lines (Interview C). In contrast to this external input, the last principle of Energy centers around what the company strives to create in terms of value for the community it serves. By bringing energy to the region, the aim is both to increase the value of its own infrastructure as well as reaping the benefits of synergy effects from increasing the transportation possibilities between the venues which the company also controls in the area. This can be understood as the company utilizing and driving its local connection, while simultaneously adopting a more nation-wide and even global approach for ventures outside of the railway-based ones. These explicit principles can be perceived as a strategy to remain closely interlinked with the direct environment of Kyushu, and to mitigate any possible loss of trust in the public's eyes. Specifically, the company has created so-called "dreamstate trains", which are luxury train cars that aim at utilizing Japanese heritage in order to create an experience which in itself is something people come to visit Kyushu for, rather than a mere way of getting around the region (Interview C).

Furthermore, the company is taking action and responsibility for the development of several different areas within Kyushu (JR Kyushu, 2017; Interview C). While a cynical perspective could be applied by stating that this is merely done in order to maximize the returns on all assets that the company controls, it could also be understood to be a means of connecting and giving back to the region which it serves. A quote from the 2017 annual report reads:

> *"We want to be a part in not just building infrastructure, but in city-planning and all the areas connected to it.(...) to work to revitalize communities, create innovative ways to enliven them, and raise the value of the towns that is involved with while invigorating them"* - JR Kyushu, 2017, p. 13

In contrast to these statements, however, company representatives stated that the sole reason for the IPO was to be able to pursue a profit maximizing strategy, and get involved in activities that would benefit the shareholders in the longer term (Interview B; Interview C; Interview E). By engaging in city-planning and building infrastructure, one could argue that the company attempts to maximize profit and simultaneously creates value for society as a whole. However, the company is still focused on maintaining its close relationship to the public, so that the company can retain its local connections with customers which has been prevalent throughout its history (Interview C). Another strategic direction the company has taken to grow this relationship to the public is by using parts of their housing as innovation hubs. The company is collaborating with and helping small companies and startups in the Kyushu region to grow and learn from them (Interview B). The company claims that this too will benefit them in the long term, as it fosters innovation which they could potentially use in the future (Interview C). In other words, the societal value towards the public can be understood to have been enhanced, as the company now can invest and pursue objectives that do not need acceptance from the government. However, it should be clarified that the interviewees felt that there is also an increased desire to cut costs stemming from top management's need for improved financial results (Interview B; Interview

D). While this was to be expected, it is still clear that while profit maximization is pursued, so is the creation of benefits for society.

4.2.3 Diversification

Following the IPO in October 2016, the company accentuated their already existing diversification ventures by improving the width of the offering towards the customer (JR Kyushu, 2017). While this strategy had been initiated earlier in an attempt to recoup the losses from the not always financially sustainable train routes, the privatization enabled the company to be able to spend money outside of the region of Kyushu (Interview D). Instead of merely investing in projects in Kyushu, the company also constructed and owned properties in urban areas such as Tokyo and Osaka, and is looking at investing in Bangkok (Interview A; JR Kyushu, 2021). Diversification has been an integral part of the company's operations ever since its inauguration in 1987, but none of the other regional JR companies have had the same growth in these business areas (JR Kyushu, 2017). One of the main reasons for this strategy is that due to the low population density, the railway business has never been profitable in the region of Kyushu (JR Kyushu, 2017; Interview A). In contrast to the Honshu-companies operating in the biggest cities in the country, railway operations in Kyushu have previously been heavily subsidized by the governmentally managed stabilization fund in order to ensure that this service is provided to the public (Interview A; Interview C). Since the company decided to become listed on the stock exchange however, the company had to forfeit their right to use the fund and had to find other ways to internally subsidize this business department (Interview A; Interview E). Thereby, the diversification strategy has been a necessary step in the direction of (1) making the company financially viable to undergo an IPO (Interview C), and (2) maintain operations in these poorly crowded lines (Interview A).

One of the main enabling factors behind the successful diversification strategy is the decision made by the Japanese government in 1987 to make the railway, and the surrounding area of the railways, property of each of the individual companies when JNR was split up (Interview C). While conventional construction companies have to bear costs for both purchasing the land and then subsequently the building of the properties, the company was given the land and thus only had to pay for the construction of these buildings (Interview C). Through this, it is safe to say that the company gained a competitive advantage over the competitors in the construction business, through which the company has been able to reap the benefits and utilize these advantages in a way that the unprofitable railway section might be mitigated.

4.3 The Cultural-Cognitive Environment

4.3.1 Incentive structures

Although incentive structures could be interpreted as a regulative mechanism, they are in this thesis addressed within the cultural-cognitive domain, as they have seemed to influence the shared logics of action within the company. Looking at the internal organization beyond the strategic decisions which have been made since the IPO, some cultural implications have been of notable importance. In comparison to the previous payment structure for the board of directors and top management team, compensation is now tied to the stock performance (Interview C). While this is common in listed companies, it was a new element for the company, and could be understood to increase the motive within the workforce to generate short-term returns. However, the CEO of the company made the following statement in their integrated report of 2021:

> *"The JR Kyushu Group aims to be a corporate group that will invigorate Kyushu and transmit Kyushu vitality to the rest of Japan and Asia. This means that creating sustainable corporate and social value that brings us closer to what we aim to be is corporate ESG (Environmental, Social and Governance), and is a contribution to the accomplishment of the SDGs (Sustainable Development Goals)."* - JR Kyushu, 2021 p.16

One could perhaps interpret this statement as green washing. However, it is explained that, despite incentives to drive revenues in the short term, longer term objectives are more important (JR Kyushu, 2021). Still, the new incentive structures were not understood to have had any effect on the lower parts of the organization, even if they were aware of this change (Interview B; Interview C). These employees had however experienced an increased usage of key performance indicators (KPI's), which could be seen as a way of increasing performance and efficiency among the employees which otherwise were not directly affected by having their salary reliant on the stock (interview C). In the IPO, there was also the urge from top management for lower level employees to purchase stocks in the company to incentivize productivity, which is something that is also generally preferred (Interview B).

4.3.2 Generational shift

One of the things that stands out within the organization is the fact that even though the ownership structure and general governance of the company has changed significantly, several central actors within the company have remained the same (JR Kyushu 2017; JR Kyushu, 2021). Among the employees, this is described as the "old generation", and appears to work as a force which holds the company back when it comes to adopting newer approaches of business (Interview C). This older generation are prone to the heritage of Japanese corporate culture, where hierarchy and rules are very central to the operations (Interview B). One employee says:

"In the older generation, it has always been the boss who decides what you do and that is all you do. In order to get a promotion or just be good, you have to be a 'yes-man' towards your boss and don't come up with another ideas" - Interview C

It becomes clear that total obedience is in many cases the way for an employee to be a successful one, something that is also found within other cultural aspects outside of the corporate sphere (Interview D). While this occurrence appears to still be prevalent in the organization, there are also signs of a newer generation that is starting to get managerial positions and thereby can influence the culture more effectively (Interview C). These individuals are people who rather than being mere "yes-men" think for themselves and strive to come up with innovative solutions to old problems (Interview C). Previously, the approach to simply lay out your ideas to higher management as a lower level employee has proven to be unfruitful as they usually have been turned down or disregarded. However, in the years following the IPO a new generation has gotten more room to act and affect the business in an increasingly horizontal way than before (Interview C). As a step in this direction, the company recently announced that in an attempt to mitigate the hierarchical structures, actions will be taken to flatten out the organization in the coming years (Interview C).

5. Analysis

The analysis is divided into three sections. The first section addresses the salience of path dependence mechanisms in the regulative, normative and cultural-cognitive domains within the case company. The second section concerns the implications of these path dependence mechanisms on the company's value creation focus. In the third and final section, a revision of the preliminary framework presented in chapter two is conducted presenting an alternative institutional logic.

5.1 Institutional Path Dependence

5.1.1 The Regulative Pillar

Sequences

In regards to sequential path dependence, Beyer (2010) describes how irreversible chains of events cause inertial forces and reliance. One such case that can be seen in the regulative domain is related to the market force of declining demand. The decline in demand is an effect of a long series of chronological events which have caused a shrinking population in Japan, which is something that has not changed in the last couple of years, and which frankly could not have been changed by the IPO as it is an exogenous force. However, Beyer (2010) also proclaims that even though the events themselves might be irreversible, the effects of the events might not be. As the case company is not able to change the fact that the population is shrinking, there instead seems to be efforts to increase demand through invigoration of society. In other words, the company is trying to find ways to both counteract and circumvent this external effect of path dependence to be able to survive in the long term.

Power

Following the IPO, there were old power structures still prevalent within the regulative domain. From a governance perspective, there are still multiple directors within the organization who have worked there since its foundation, placing an elite group of individuals with potentially diverging interests compared to the new members of the board (Beyer, 2010). It is difficult to say whether the fact that the company's CEO has been in that same position since 2005 causes any agency issues in terms of governance and strategic decision making. Yet, there could potentially be a risk for such issues to arise as the CEO has been operating under state influence during the larger part of his tenure, perhaps causing bias towards state logic. Still, there does seem to be some efforts to break these old path dependence mechanisms as there are supplemental sources of power in the additional eight independent outside directors which could be used to influence the old management team with the market logic (Beyer, 2010; Thornton, Ocasio & Lounsbury, 2012). The power dynamics between individuals will be further explored in the cultural-cognitive section.

Legitimacy & Functionality

There is a clear salience of legitimacy-seeking habits both before and after the IPO, as the company claims to be keeping their railway operations, despite the fact that it is unprofitable, for mere moral reasons (Beyer, 2010). The question is if it is necessary for the company to keep the railway operations running for their survival, as it seems to be a common understanding by all interviewees that the company simply must keep some unprofitable stations in order to be in the good graces of the public. In such a case, it could be interpreted as their railway operations, although inefficient, is a vital function within a system (Beyer, 2010). However, the reliance on this particular function is based on its capacity to manage the opinion of the public rather than its operational contribution to the system itself. Further, there are no signs of any attempts to redefine the sources of legitimacy, or create any other external shocks than the IPO for that matter. Instead, the company has created an alternate way to recoup the losses from their railway business through differentiation, as well as mitigating the costs through finding new ways of utilizing their unprofitable stations.

Conformity

Conforming to rules and norms is at times legally required within the regulative domain (Scott, 2008; Beyer, 2010). As such, compliance with the regulations associated with a privatization can hardly be interpreted as a mechanism of path dependence at this stage. However, an IPO could be seen as a major external shock to transform the functional requirements of a system. Thus, as the IPO was clearly an effort to decrease the influence of the government over business decisions, it could be seen as a way to break conformity through the conversion of existing norms within that system. In other words, the company had themselves spotted a mechanism of path dependence that had a negative impact on the company, which they managed to break though the privatization process.

5.1.2 The Normative Pillar

Increasing Returns, Sequences & Complementarity

The diversification approach began long before the IPO, and has since the privatization evolved to become an integral part of the company's strategy. One could argue that this growing focus on diversification is a result of the path dependence mechanism of increasing returns, as profitability increases as the other businesses are developed (Beyer, 2010). However, it does not seem like the increasing returns causes risk aversion in any sense (Beyer, 2010), as there is still an ambition to develop the railroads, as well as to engage in new ventures through the initiation of innovation hubs. As such, it seems like the company has found a way to harness the positive effects of this path dependence mechanism. One interesting aspect that could potentially explain part of this phenomena is the fortunate series of irreversible events, or sequences, that has led up to the company's current position (Beyer, 2010). As the company was given large plots of land by the government after the division of the Japan National Railways began when the privatization process started in 1987, utilizing these areas surrounding the railways to develop housing and hotels came as a rather logical consequence. As such, one mechanism of path dependence led to another; sequential events have led to increasing returns, ending up having positive effects on the company, especially after becoming independent from the state.

Adding on to this, the workings of a third path dependence mechanism comes to light: complementarity. The synergetic effects between industries within the company makes the total output greater than if they would have been stand-alone units (Beyer, 2010). This causes a self-reinforcing continuity, however, as all businesses are controlled by the same company, JR Kyushu can to a greater extent lower the risk of potential toxicity in these relationships. Thus, this mechanism of path dependence appears to be manageable if it exists within the frames of a certain system, which in this instance is the case company. As such, mechanisms of path dependence appear to have complex interconnections with one another.

Legitimacy & Conformity

Similar to the regulative pillar, however from a more strategic perspective, the pursuit for legitimacy and acceptance from the public is evident within the normative domain. Not only does the company themselves have certain moral standards (Beyer, 2010), but they also want to live up to the moral standards of the public. The company does this by always prioritizing its main stakeholders, which they define as both customers and everyone that is affected by their businesses in any way. All this despite having profit-seeking motives. The reason for this could perhaps be conformity to the norms and values existing within the company before the IPO (Beyer, 2010). This would indicate that the pursuit for legitimacy in itself has become a norm, further exemplifying how the path dependence mechanisms are not only self-reinforcing but also reinforcing one another.

5.1.3 The Cultural-Cognitive Pillar

Sequences, Power, Legitimacy & Conformity

Sequential path dependence can potentially be seen in all cultures, as relationships and power structures develop over time in a particular order (Beyer, 2010). Recognizing the presence of an elite group of individuals prone towards legitimacy-seeking behavior due to sequential development of certain beliefs over a long period of time, one can begin to fathom the magnitude of influence these actors have on the norms within the organization. Especially in the context of Japanese culture where strong hierarchies are common and where you have to be a "yes-man", these actors do have the capacity to exert power over employees to serve their interests.

Yet, the employees have not experienced any particular change after the privatization, apart from the introduction of new KPI's and cost cutting. This goes to show that the elite actors could be using their power to drive their legitimacy-seeking agenda by creating norms and exploiting employees' cultural preferences toward compliance, to induce the whole company with the same idea. Further, there are also many workers on the lower levels of the company who were employed before the IPO, which could further reinforce these norms. However, it should be remembered that this elite group is a minority in relation to the independent outside directors. This could potentially hamper this effect.

Despite the current conformity to certain norms, however, employees proclaim that they are experiencing a generational shift within the company. This could be interpreted as another sort of external shock (Beyer, 2010), although it is at this time progressing slowly. The generational shift is breaking down the old hierarchies and guides the company towards a flatter organizational structure, which could perhaps decrease the influence of elite groups within the firm and destabilize negative effects of the path dependence mechanisms (Beyer, 2010). It should be noted that this generational shift does not have any particular relation to the IPO, but is a more natural development of Japanese society. Nonetheless, the environmental focus of the organization would probably be reinforced by a younger generation, given the global sustainability trend. As such, this external shock would likely support the current creation of societal value, yet help break other forms of organizational inertia naturally.

5.1.4 Concluding Remarks on Path Dependence

In summary, there does seem to be some salience of path dependence mechanisms affecting the different institutional domains of the company, although the mechanisms related to sequential development such as declining population and the generational shift are out of company control. Further, there appears to be one path dependence mechanism of particular importance in this case as it is prominent within all institutional domains after the IPO, which is the continuous pursuit of legitimacy and acceptance from the public. The company is willing to run unprofitable operations in order to fill a function in society, sees the public as their main stakeholder, and strives to invigorate the Kyushu region, meaning that there is a clear connection to state logic despite the new ownership structure.

Moreover, mechanisms of path dependence do not only reinforce themselves, but also seem to reinforce one another. Power structures, conformity and increasing returns all play a role in the continuous development and enhancement of the legitimacy-seeking habits, as praise from the public when conforming to their expectations leads to better business, creating incentives to follow that same concept. As such, the pursuit for legitimacy grows stronger also culturally, which implies that this path dependence mechanism might not easily be broken as it is embedded within the organization (Arthur, 1989). The implications of legitimacy-seeking behavior on the company's pursuit for value creation will therefore be further discussed in the next section of this chapter.

Finally, another significant observation is the workings of external shocks. Beyer (2010) mentions external shocks as a method of breaking function-based path dependence. In this case it appears that the IPO as an external shock had the power to break multiple path dependencies, which also seems to have been the point from the beginning as the company expressed that they wanted to break free from the state. If one would consider the aging population and the generational shift as other types of external shocks as these are factors that also influence the company's operations. With these processes in mind also affecting the development of business, it becomes a bit more ambiguous whether the direction of the company is completely based on their path dependence in legitimacy-seeking behavior, or if the way of conducting business is changing towards a model in which more stakeholders are included to generate profits in the longer term.

Pillar	Mechanisms	Conclusion
Regulative	*Sequences*	- Continuously declining demand forcing the company to apply measures to both counteract and circumvent of the issue
	Power	- Elite groups within the management team remain even after the IPO - Supplemental sources of power in independent outside directors which could potentially hamper the influence of the elite group.
	Legitimacy & Functionality	- Legitimacy-seeking habits by keeping the railway operations for moral and functional purposes rather than for legal or financial reasons
	Conformity	- Breaking conformity to state law and ownership through the creation of an external shock (IPO)
Normative	*Increasing Returns, Sequences & Complementarity*	- Current path dependency from increasing returns is built upon the mechanisms of irreversible sequential events and the complementarity of the company's different lines of business.
	Legitimacy & Conformity	- Seeking legitimacy from stakeholders, which the company defines as the inhabitants in the general. - Conforming to the norms and expectations of society
Cultural - Cognitive	*Sequences, Power, Legitimacy & Conformity*	- Sequential path dependence developing power structures over time - Elite groups with power seeks legitimacy from the public, and creates norms within the company resulting in employees conforming to these norms due to hierarchical structures

Table 3: Summary of the Effects of Path Dependence on Institutional Logics

5.2 Implications for Value Creation

5.2.1 Changes in Value Creation Strategy

In order to understand the impact of the firm's pursuit for legitimacy on their value creation, changes and continuities in the company's value creation strategy following the IPO must first be mapped out and discussed. After the privatization process, one of the major differences was that the company needed to account for their own financial viability, whereas they previously had been able to utilize the stabilization fund to balance their books. Deriving from both shifts in regulations and market pressure, this meant that the company's emphasis on financial results went from something merely preferred to an absolute imperative, as can be expected from a full privatization (Grossi, Papenfuß & Tremblay, 2015). The increased accentuation on these financial demands was recorded to have been experienced within several different parts of the organization, creating incentives towards high performance. Still, when acknowledging the emphasis that the company has put on maintaining the railway business despite the financially demanding operations, it becomes evident that while financial value is needed, the company is not solely taking decisions based upon profit maximization. Moral obligations and a noticeable desire to cooperate with the public in order to create value for all stakeholder types, meaning societal, financial and organizational stakeholders (Chandler, 2020), shows another sentiment.

In line with the definition of value as stated by Chandler (2020), the concept appears to transcend merely serving the shareholders, prioritizing the stakeholders perceived to be most important to the company, namely inhabitants in the surrounding society. One of the findings concluded that both employees and official reports recorded an increased explicit emphasis on creating societal value for the region and the inhabitants of Kyushu, which facilitates this argument. With a more cynical line of reasoning, one could perhaps claim that this push for societal value creation is a marketing stunt and window-dressing attempt. However, given that the company in question is a public service organization, it could be assumed that there should be some sincerity in the firm's pursuit for societal value as the business revolves around filling a major societal function (Besharov & Smith, 2014). Another factor that further speaks against a sole devotion to market logic is the regulations in Japan on fare prices for the railway system which makes profit maximization in the sector non-ideal, as they make it impossible to increase prices without authorization from the state. These governmental regulations could be understood as incentives towards finding alternative value-seeking approaches besides mere shareholder returns.

Thus, both financial returns and societal value seem central to the company's operational success. It can thereby be perceived as if the company has two separate value-seeking strategies that operate simultaneously within the organization, which raises the question of the relationship between them. A significant emphasis is put on societal value creation, yet, this does not seem to conflict with the clear financial motives of the organization. Rather, the two strategies seem to work in tandem. The pursuit for societal value is strong, but the focus on profit maximization in the communication from company representatives makes it questionable whether it actually is Porter and Kramer's (2011) more philanthropic, shared value approach that the company is taking. Instead, responding to stakeholder demands in the sense that the case company is doing rather appears to function in a more similar way to Tricker's (2019) stakeholder prioritization and Chandler's (2020) concept of strategic CSR. There are also several similarities with the institutional value creation perspective as prescribed by Moss Kanter (2011), where the company strives to make itself an institution in society in an attempt to enable long-term profitability, something that Chandler (2020) would refer to as profit optimization. As such, there seems to be a mixed strategy approach rather than market based, shareholder centered value creation after the privatization.

5.2.2 Legitimacy and Value Creation

When observing this goal duality within the company where there is a strong focus on both societal value and financial value, one could perhaps argue that it is a result from path dependence in legitimacy-seeking behavior stemming from the company's SOE heritage. Maintaining legitimacy is seemingly fundamental to the firm's strategic approach, which is done through serving key stakeholders in society (Scott, 2008; Tricker, 2019). However, the societal value that the company provided as an SOE was mainly connected with the public service the company was providing in the form of public transportation. Now, this has shifted towards working with the community as a whole to create value in a more holistic manner across several separate business sectors, implying that the company is not only trying to gain legitimacy, but also grow demand and subsequently increase profitability (Chandler, 2020). In other words: the way the company creates societal value today differs from how it did it as an SOE. This means that the desire for societal value creation cannot be fully attributed to path dependence in legitimacy-seeking habits, as there has in fact been a major shift in the company's strategic approach since before the IPO.

This shift is however in line with the academic field of how companies create societal value from scholars such as Kanter (2011) and Chandler (2020): in an attempt to facilitate long term profitability. Whilst it is difficult to differentiate between the specific relationship between societal and financial value, two things have become evident: (1) both exist in the new, privatized context, and (2) financial value is not consistently superior to societal value in all parts of the organization. The second statement is derived from the fact that the railway operations are still maintained, even though they are not profitable, nor is there an estimate for when they will be. This implies that the societal value, or "moral obligation" as one interviewee put it, superseeds financial incentives in some instances. As such, path dependence in the pursuit for legitimacy should not be disregarded in its entirety, yet, it cannot alone explain development and continuities within the company after the IPO. The findings also displayed other factors that could presumably be weighed in to understand the company's change in value creation approach. For instance, the company's imperative to adapt to developments in its surroundings, such as the declining demand as a consequence of a shrinking population, generational shifts, national cultural aspects, and the globally growing concerns for the environment. These could be interpreted as institutional isomorphic forces (Thornton & Ocasio, 2011) which are exerted on the company, making them adhere to the shifting societal demands. Since the phenomena of institutional isomorphism is contingent on the public's perception of the company, it could be understood that there is a lagging effect remaining from the time the company operated as an SOE (Thornton & Ocasio, 2012). As such, these forces push the company to act in line with its previous behavior in an effect similar to that of path dependence, but instead of it deriving from the internal heritage it is derived from the external environment. Without being completely influenced by a state logic and still being able to pursue a strategy in which both societal and financial value is created, it should be further discussed what conclusions could potentially be drawn about the constituents of the company's institutional logic.

5.2.3 New Market Logic

Drawing back upon institutional theory by Thornton, Ocasio and Lounsbury (2012) and its linkages to state and private ownership (Rádic, Ravasi & Munir, 2021), it appears as the privatized company in this case is not completely driven by a market logic. Nor does the ambition to create societal value seem to cause internal inefficiencies like Vroon et al. (2018) and Besharov and Smith (2014) would suggest, as it is done because of moral obligations and as a response to stakeholder demands. On both the higher organizational levels in the explicit strategy statements, and among the employees of various roles, there is a shared conviction that societal value plays a central role in the operations of the company. This can be understood to provide the company with necessary legitimacy that is essential for company performance (Scott, 2008; Kanter, 2011; Boxenbaum & Jonsson, 2017), as it plays a part in long-term profit optimization of companies (Chandler, 2020). The division between market and state logics, as described by Thornton, Ocasio and Lounsbury (2012), does not take such strategies into account as the market logic is specifically stated to merely adhere to direct profit maximization motives. While Besharov and Smith (2014) implies that there is the possibility of having competing logics within an organization, such a conflict is seemingly absent; the profit maximization strategy relies upon the creation of stakeholder value, meaning that the relationship between the two logics is instead symbiotic. Furthermore, this paper stresses that limiting societal value creation to only state logic is non-compliant with how this company operates, nor is it compliant with more recent theories of value creation explaining that creation of societal value can be beneficial for private actors in a wide variety of ways (Chandler, 2020; Porter & Kramer, 2011; Kanter, 2011). Instead of this outdated division of a market logic and a state logic, we would therefore like to suggest that the company in question possesses a *New Market Logic*, which is more in line with how certain companies act in this day and age. The New Market Logic combines motives from both market and state logic, and acknowledges societal value creation as a means to produce value in the long term, both for shareholders and for other stakeholders.

5.3 Revision of Theoretical Framework

To visualize this New Market Logic, there is a need to return to and revise the preliminary framework (*Figure 1*) in section 2.7. In *figure 2* below, we have added that after a privatization process, the organization adopted the New Market Logic. The New Market Logic is prone to a certain path dependence effect that pushes the logic towards the state logic, but this force will need more research in order to be fully comprehended. We have also shown that the external shock of a privatization process might mitigate some of the effect of the path dependence mechanisms in the case of this company. The main difference between the market logic and the New Market Logic is however that the New Market Logic actively pursues societal value, in addition to the previous sole shareholder value. This creation of societal value is then, in line with the theories of scholars such as Kanter (2011) and Chandler (2020), supposed to generate shareholder value in the long term from the company making themselves an integral part of society.

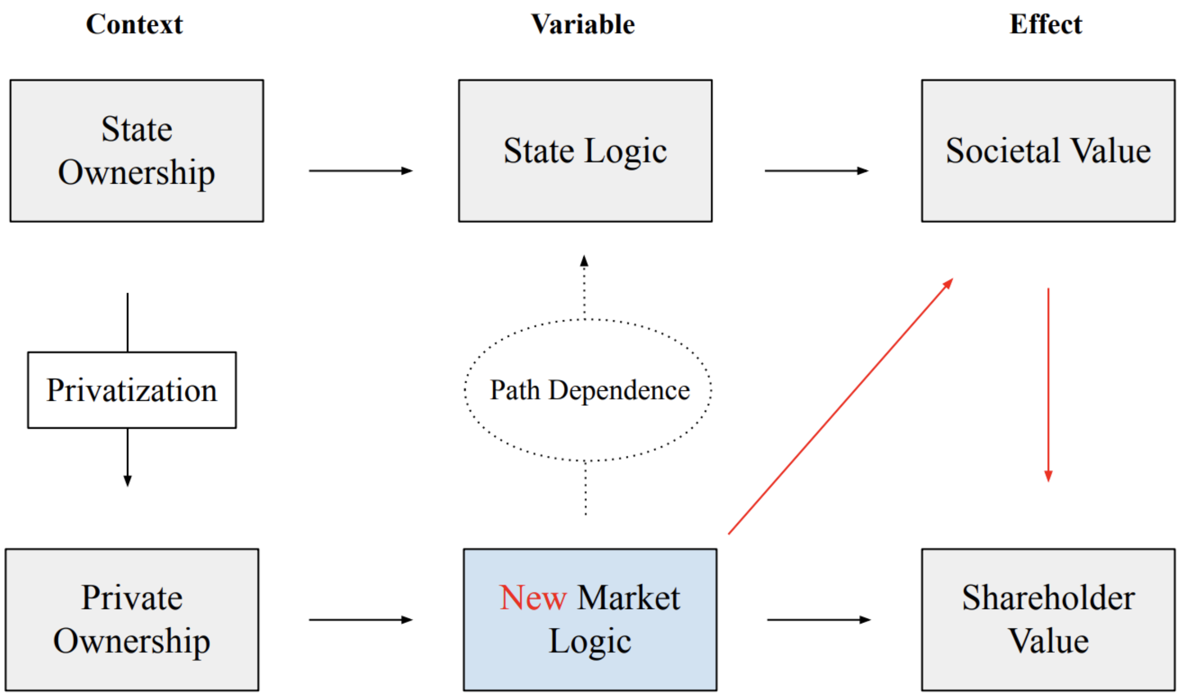

Figure 2: The New Market Logic is presented, and the altered forces are depicted by the red arrows. This shows that by this logic, companies can pursue societal value in an attempt to enhance the shareholder value.

6. Conclusion

The purpose of this thesis was to understand how a privatization process affects a company's institutional logic in the presence of path dependence mechanisms, and to delineate the implications this has on the firm's value creation strategy. This was done by looking at a recently privatized corporation within the public transportation industry in Japan. All this in an effort to answer the research question:

- *How do mechanisms of path dependencies affect the institutional logic of a firm post privatization, and what implications does this have on the firm's value creating strategy?*

It can now be concluded that there has in fact been a salience of path dependency mechanisms within the company's institutional logic, more specifically, the habit of seeking legitimacy from the public has remained within the organization as it transitioned from state to private ownership. This has to some extent created a high focus on societal value creation, however, this behavior can only be partially explained by path dependence. Institutional isomorphic forces, and novel ways of conducting business where all stakeholders are taken into consideration to be able to optimize profits in the long term, also account for this development. As such, path dependence can cause inertial effects within a firm's institutional logic after a privatization process, inducing the focus of societal value creation rather than merely submitting to shareholder value creation. As this relationship between state logic and market logic within the company was concluded to be symbiotic rather than conflicting, institutional logics theory lacked a concept that explained this phenomenon. Thus, the concept of New Market Logic was introduced.

6.1 Theoretical Implications

Our findings entail diverse theoretical implications that contribute primarily in two different ways. The first theoretical contribution of this thesis is aimed at improving the understanding of the effect a privatization process has on the institutional logic of a firm from the lens of path dependence theory as desired by Beyer (2010). In this area, it has been acknowledged that the mechanism of legitimacy remains prevalent in the firm post privatization, while other mechanisms have not appeared to have been as tangible. This can partially be explained by the external shock of undergoing an IPO, which can be understood to have limited the effect.

A second theoretical implication entails that the existing division between market and state logic within institutional theory (Thornton, Ocasio & Lounsbury, 2012; Ocasio & Radoynoskava, 2016), is to be considered obsolete and incongruent with more recent theories of how firms create value according to scholars such as Chandler (2020) and Kanter (2011). This contribution thereby concludes that the traditional market logic no longer represents the sentiments of corporations, as firms nowadays perceive societal value as imperative to generating shareholder value. The New Market Logic is thereby introduced as a concept to explain how firms strive to create both societal value and shareholder value simultaneously.

6.2 Practical Implications

Our research has shown that the full privatization of a public service company does not necessarily have a negative impact on public interest when there is a presence of internal forces still nurturing societal value creation. In contrast to other examples, societal benefit has even improved as user fees have stayed on a constant level, and the total service quality has increased as the company in question focuses on invigorating society as a whole. As such, the company's pursuit for societal value remains prevalent even after becoming private. From a societal perspective, these insights could be valuable when determining whether to privatize other forms of SOEs, as it could add perspective of which factors cause a positive outcome.

6.3 Limitations and Future Research

For the sake of relevance and transparency, it is important to note that this study does contain limitations that could affect the understanding and implications of our findings. Perhaps the most salient one is derived from the methodological choice of using a qualitative approach, meaning that no statistical analysis has been conducted on the findings. Instead, the empirical findings are attributed to a total of five interviews which all are subject to the personal experiences of these individuals. In order to make the findings of this study improve the reliability of this study, more interviews would have been preferred. Furthermore, since one of the three significant parts of the operationalized framework is centered around cultural aspects, these are commonly difficult to get a grasp of over interviews, and are generally more suited for an ethnographic method. Finally, it should also be noted that the Japanese culture, in which the company finds themselves, might have affected the findings of this thesis in a way that it would be more difficult to recreate these findings in a western context.

When it comes to future research, the findings of this thesis show that literature could very well continue to improve the understanding of institutional theory by drawing from economic and management scholars, in an attempt to elucidate certain aspects of institutional theory that have not been sufficiently developed. Specifically, value-creation motives within for-profit organizations that also have a prevalent societal logic is an area that could be further investigated. The interlinkage between logics within such an organization would provide important knowledge about factors affecting privatization, and could have implications that could generate a more holistic perspective on privatization. By looking at an organization that has not undergone a privatization or other major shift that may entail a path dependence effect as in the case of this study, it would improve the understanding of the relationship between the logics, as well as the effect of isomorphic forces.

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Appendix A

Questionnaire:
Introductory questions:

- Would you like to describe your role in the company, and state a bit of your background within the company?

Open and general questions:

- How have you perceived overall changes of the company since the IPO?
- How have you been affected by the changes personally?
- What would you state are the biggest differences between the company before and after the IPO?

Regulative level:

- Has your work been affected by any changes in legal or regulatory areas if you compare before and after the IPO?
- How have these changes been communicated to you from the company?
- Have you seen any internal regulatory changes since the company became fully privatized?

Normative level:

- How would you describe the purpose of JR Kyushu?
- How is that description different from before the IPO?
- Who do you believe to be your most important stakeholders?
- How has the more operational work carried out by you and your colleagues changed during this time period?
- How can you see the values of the company in the everyday business carried out?
- Has any of these aspects been altered since the IPO?
- Have you noticed any changes from top management in their demands on your work? For example in a changed use of performance measures or KPIs?

Cultural-cognitive level:

- What is it like working at JR Kyushu?
- How has your perception of the company changed since the IPO?
- How do you feel about going to your work everyday?
- What would you say characterizes the interactions between you and your colleagues?