

# Privatisation of the IT Sector in Sweden

Kent Springdal

Lund Studies in Economics and Management 59  
Institute of Economic Research  
Lund University

Lund Business Press

Lund Business Press  
Institute of Economic Research  
P O Box 7080  
SE-220 07 Lund  
Sweden

ISBN 91-973738-6-9  
© Kent Springdal

Printed in Sweden  
KFS i Lund AB  
Lund, 2001

Organisation <b>LUND UNIVERSITY</b> School of Economics and Management Department of Business Administration PO Box 7080, S-220 07 Lund, Sweden	Document name <b>DOCTORAL DISSERTATION</b>
	Date of issue <b>May 2001</b>
	CODEN: <b>ISRN LUSADG/SAEK-01/1064-SE</b>
Author(s) <b>Kent Springdal</b>	Sponsoring organisation
Title and subtitle <b>Privatisation of the IT Sector in Sweden</b>	
Abstract <p>The majority of research on privatisation has been driven by, <i>inter alia</i>, economics. Some economists have argued that private ownership introduces capital market pressures into inefficient state bureaucracies. Private property rights are expected to maximise the incentives for management to achieve a high level of production efficiency.</p> <p>The argument put forward in this research is that in so far as ownership and competition are important, they impact on performance through <i>an internal adjustment process</i>. In other words, they affect the performance of a privatised firm through a number of mediating factors. It is further argued that each of these factors is the outcome of a gradual process of development which is conditioned by the particular situation of the firm in question, i.e. its product market, its labour market, its managerial labour market and its credit market.</p> <p>This study further shows that an organisation which has functioned as a <i>de facto</i> or <i>de jure</i> government or municipal agency (even if financed by fees) for a long period of time has, as a rule, developed characteristics and behavioural patterns - that which we call the institutional identity of the organisation - which must undergo a fundamental change if the organisation is to function as a successful company. The mediating factors mentioned before, are the instruments for transforming the old institutional identity to a new one.</p> <p>A specific sector of the Swedish economy, information technology (IT) sector, was selected for the purpose of this research. A study of the two main conglomerates which used to provide services for the central government and local authorities in Sweden was conducted. Prior to their privatisation, the two companies had natural monopoly for that segment of the market they were serving.</p> <p>It is hoped that the results of this study would reveal certain characteristics about the transformation of organisations and the manner in which such transformation is implemented. The study has also implications for such theoretical issues as evolutionary vs. revolutionary transformation, strategic choice vs. strategic implementation, institutional identity and critical leadership. It is further hoped that the current study would bridge a gap between the social and economic versions of the institutional theory, and, thus, provide a platform for better understanding of the inner intricacies of organisations experiencing drastic changes in their ownership structure.</p>	
Key words <b>Privatisation, organisational change, transformation, property rights, public choice</b>	
Classification system and/or index terms (if any)	
Supplementary bibliographic information	Language <b>English</b>
ISSN and key title	ISBN <b>91-973738-6-9</b>
Recipient's notes	Number of pages    Price <b>261</b>
	Security classification

Distribution by (name and address)

Lund Business Press, Institute of Economic Press, P O Box 7080, SE-220 07 Lund, Sweden

I, the undersigned, being the copyright owner of the abstract of the above-mentioned dissertation, hereby grant all reference sources permission to publish and disseminate the abstract of the above-mentioned dissertation.

Signature ----- Date May 3, 2001

# Privatisation of the IT Sector in Sweden

## **AKADEMISK AVHANDLING**

som för avläggande av filosofie doktorsexamen vid  
samhällsvetenskapliga fakulteten, Lunds universitet  
offentligen försvaras i Ekonomacentrum, Crafoordsalen  
tisdagen den 29 maj 2001, kl 15

Kent Springdal

## Acknowledgements

The current work has benefited from the assistance and inspiration of a host of researchers. Foremost among those who helped me in this research, I should mention my supervisors Associate Professor Sven-Olof Collin, Associate Professor Karin Jonnergård and Professor Bengt Jacobsson. Associate Professor Jonnergård acted as my mentor and helped shape the initial blueprint of what finally came to be the current thesis. Associate Professor Collin's inputs and encouragements throughout the past four years have been valuable contributions to the development of this work, and his persistent and generous efforts in resolving problems, which at the time seemed insurmountable, were most timely and encouraging. I have also had the privilege of meeting and discussing my work with Professor Michael Lubatkin (The University of Connecticut) at different stages of my research. His comments were most inspiring and affected my research project significantly.

I would also like to express my gratitude to Professor Pushkala Prasad and Professor Magnus Lagnevik (both at the Department of Business Administration, Lund University) whose comments were most valuable and contributed considerably to the final version of dissertation. I owe special thanks to Anna Stafsudd who also commented critically on the final version of the thesis.

The current thesis could not have been completed without these helps. If there is any credit to be given, it has to be shared with them. The faults are, of course, totally my own.

Finally, I would like to thank Mats Hentzel, Thomas Fäldt and Vincet Blomberg who respectively provided me with the unique chance to gain access to an abundance of documents from the archives of SKDföretagen, Kommundata/Enator and the Swedish Association of Local Authorities. Without these documents the current work could not have been completed. I would also like to extend my gratitude to the board members, managers and staff of SKDföretagen and Kommundata who so

kindly and generously participated in my often-long interviews. I should also like to thank Kerold Klang of Journalistgruppen who provided me with some helpful remarks and insights on the historical background of some of the numerous subsidiaries of SKDföretagen.

The project was also partly financed by the Foundation for Economic Research. I should also like to thank the foundation for its generous and timely grant.

Lund, May 2001  
Kent Springdal

# Table of Contents

List of Tables	i
List of Figures	ii
1. Introduction	1
1.1 Aim of Study	7
1.2 The Outline of the Study	9
2. The Myth and Reality of Privatisation	13
2.1 The Single Event vs. Processual View of Privatisation	13
2.2 The Macro vs. Micro View of Privatisation	15
2.3 The Class vs. Organisational View of Privatisation	17
2.4 The Adaptational vs. Enacted View of Privatisation	18
2.5 The Efficiency Myth of Privatisation	20
2.6 Summing-up	26
3. Theoretical Antecedents	29
3.1 The Dominant Theories	30
3.2 Criticism of Public Choice and Property Rights Literature	36
3.2.1 Critique 1: Sharp Distinction Between Public and Private Sector Organisations May Be Misleading	37
3.2.2 Critique 2: Exaggerated Conflict between the Interests of State Employees and the Public Interest	38
3.2.3 Critique 3: Misguided Notions About the Ability of Capital Market to Constrain Managerial Behaviour	40
3.2.4 Critique 4: High Expectations About the Role of Incentives on the Management	46
3.2.5 Critique 5: The Bias in the Monitoring of Boards by Large Shareholders	48
3.3 The Cubic Model	51

3.4	The Use of Institutional Theory in Studying Privatisation Process	58
3.5	Summing-up	64
4.	Methodology	65
4.1	The Black Box Methodology	66
4.2	The Conceptual Premises of My Methodology	68
4.3	Case Study Design Strategy	71
4.4	Data Collection Methods	74
4.5	Data Analysis	78
5.	An Institutional Framework for Studying Privatisation	79
5.1	Seeing Privatisation as a Transformation Process	79
5.2	An Institutional View of Privatisation	82
5.3	Different Aspects of the Institutionalisation of Privatisation	87
5.3.1	Technology, Market and Legal Setting	87
5.3.2	The Role of Management	88
5.3.3	Re-configuration of the Political Structure	89
5.3.4	The Need for Consensus and Socialisation of New Norms	91
5.3.5	How the New Cognitive Framework is Maintained	94
5.4	A Schematic Model for the Process of Privatisation	99
5.5	Summing-up	104
6.	Case Study of SKDföretagen/Sema Group	107
6.1	Introduction	107
6.2	Statskonsult	108
6.3	DAFA	117
6.4	The Formation of SKDföretagen	127
6.5	The Privatisation of SKDföretagen	132



7.	Case Study of Kommundata/Dialog	141
7.1	Introduction	141
7.2	The Birth of Kommundata	142
7.3	“The Customer is at the Centre”	150
7.4	“All Should Take a Step Nearer to the Customer”	152
7.5	The Best IT-partner	160
7.6	Sale of Kommundata	167
8.	Comparative analysis of SKDföretagen and Kommundata	171
8.1	The Initiation Step	173
8.2	The Problem-Solving Step	183
8.3	The Consensus-Building Step	195
8.4	The Consolidation Step	206
8.5	Concluding Remarks	213
9.	Conclusions	217
9.1	Theoretical Contributions and Implications	220
9.1.1	Introducing a New Definition of Privatisation	220
9.1.2	Viewing Privatisation as a Gradual Transformatory Process	221
9.1.3	Arguing for Processual, Historical and Contextual Methodology	222
9.1.4	Building a Theoretical Framework to Study Privatisation	222
9.1.5	Emphasis on the Role of Human Agency	223
9.1.6	Dealing with the Issue of Ownership	225
9.2	Limitations of the Current Study	226
9.3	Policy Implications	228
	References	230

Appendix 1: List of companies earmarked for privatisation by Bildt's government	250
Appendix 2: List of persons interviewed about privatisation of SKDföretagen	253
Appendix 3: List of persons interviewed about privatisation of Kommundata	254
Appendix 4: A sample of interview guide	255
Appendix 5: Sequence of institutional processes at SKDföretagen	258
Appendix 6: Sequence of institutional processes at Kommundata	260
Appendix 7: List of abbreviations	261

## List of Figures

Fig. 2.1	The impact of ideological changes on the ownership structure	16
Fig 3.1	Flows of information between principals and agents in the public and private sectors	35
Fig 3.2	Effect of organisational change on performance	53
Fig 3.3	A schematic representation of cubic model	54
Fig 5.1	A schematic model for the process of privatisation	100
Fig 6.1	Statskonsult's different sources of revenue 1970 (1972)	111
Fig 6.2	SKDföretagen's revenues shown according to their sources	127
Fig 7.1	The organisational structure of early Kommun-Data	145
Fig 7.2	Ownership structure of Kommundata in early 1980s	147
Fig 7.3	The purchaser/supplier model	158
Fig 7.4	Dialog conglomerate in late 1993	164
Fig 7.5	Top management during Kaj Green's directorship	165

## List of Tables

Table 2.1	Effect of ownership on the performance of a firm	23
Table 5.1	Different steps in the institutionalisation of privatisation	102
Table 6.1	DAFA's revenues 1980/1981 -- 1983/1984	120
Table 6.2	DAFA's economic progress 1987-92	126
Table 6.3	Acquisitions of Sema Group plc.	133
Table 6.4	SKDföretagen's financial indicators 1987-1990	136
Table 7.1	Kommundata's revenues 1971-1981	144
Table 7.2	Kommundata's line of products launched in 1988	154
Table 7.3	Number of local authorities using Kommundata's and its competitors' accounting software in 1991	159
Table 7.4	Kommundata's sources of revenue in 1994	162
Table 7.5	Number of managers at Dialog in 1993	166
Table 8.1	The role of legislation on DAFA	178
Table 8.2	Factors influencing the initiation step: SKDföretagen vs. Kommundata	182
Table 8.3	Factors influencing the problem-solving step: SKDföretagen vs. Kommundata	194
Table 8.4	Factors influencing the consensus-building step: SKDföretagen vs. Kommundata	205
Table 8.5	Factors influencing the consolidation step: SKDföretagen vs. Kommundata	212
Table 8.6	Factors influencing different steps in the institutionalisation of privatisation	214

# Chapter 1

## Introduction

Privatisation increases productive efficiency whether or not a monopoly is involved. Pressures from shareholders looking for return on their investment - considerably enhanced when these shareholders are also managers and employees - give a clear incentive to privatised firms to organise their internal affairs as efficiently as possible and seek the maximum competitive terms from their suppliers.

Moore, 1986: 95

The world of business is one filled with rules of thumb. In late 1970s and 1980s one more was added to the plethora of rules already in practice: To raise efficiency privatise (Veljanovski, 1987: 8)! Indeed some zealot supporters of privatisation prescribed it as a sovereign cure for virtually all ailments of public administration. To them, privatisation is a tonic for efficiency and economic growth, a brake on unbridled state expenditure, a vaccine against bureaucratic waste and a booster for individual choice and freedom. Quite the reverse, the opponents of privatisation claim. Once sold, the new management would initiate job cuts, demand greater job performance and make life for the remaining employees more stressful. Some even claim that schemes introduced by the management to increase personal contributions to the firm through differentiating bonuses and promotions have resulted in greater competition among the employees and have eroded their sense of solidarity and comradeship.

Historically, it could be argued that privatisation was a response to the “over-expansion” of the state sector of the economy and the public sector borrowing requirement associated with it in the post-war years. The growth of the public sector reflected a growing acceptance of the

Keynesian notion that “capitalism cannot be counted on to provide full employment or even socially adequate capital utilisation without state intervention” (Schott, 1983: 340); that government has a responsibility to bolster the private sector and to ensure the “success” of the economy, as defined by the twin criteria of full employment and growth (Goldthorpe, 1987: 364). Nationalisation or public finance measures gave government direct control over segments of the economy, and so provided one of the instruments through which Keynesian-demand-management economic policies could be implemented. For a time, it seemed that governments were able to manage this so-called “mixed economy” reasonably successfully. By the mid 1970s, however, country after country in Europe had faced slowing economic growth, and rising unemployment coupled with rising inflation. New Right political theorists attributed this economic crisis to the “excessive” state intervention associated with Keynesianism. It was argued that in pursuit of the “unnatural” goal of full employment, governments had borrowed, bureaucratized and taxed excessively, creating a “nanny state”, which stifled real wealth creation and economic growth and nurtured “the cancer of inflation” (MacInnes, 1987). Such people saw the nationalised industries as symbolic of the potential strength of organised labour in the post-war years and as epitomising the evils of state intervention. Insulated from the discipline of market forces, these industries were characterised by the New Right as bureaucratic, inflexible, inefficient and unresponsive to customer demands. Returning these industries to the private sector is, therefore, not only welcomed as heralding a brave new world of efficiency and customer responsiveness, but is also celebrated as standing alongside events in Eastern Europe as part of a world-wide rejection of socialist values and practice. The political rhetoric of privatisation celebrates the virtues of free market and claims that once freed from the claws of the state, the managers will be restored their potency as they gain the “freedom to manage”, while once moribund and sterile organisations will become efficient producers.

The issue of privatisation was first publicly discussed in the mid 1970s in the United States amid a growing trend by municipal governments to purchase service from private firms under contract. The Reagan

administration began to promote the policy of privatisation. Likewise in the late 1970s in Britain a wave of local service contracting-out began. The privatisation concepts influenced the newly elected Margaret Thatcher, which then unleashed an unbridled wave of extensive privatisation in Britain engulfing nearly every aspect of the public sector. It was the British Telecom (BT) privatisation in November 1984 that drew attention worldwide. The colossal share issue, by far the largest equity offering in history to that time, was met by a strong demand by investors both at home and abroad. The £3.9 billion issue created 2.25 million shareholders in the UK and attracted buyers in New York and Tokyo stock markets thus demonstrating the existence of a global market for privatisation share issues. After BT, many different governments adopted privatisation programs. The next major country to adopt a large-scale privatisation program was France. The conservative Chirac government sold 22 major companies worth \$12 billion in a 15-month period. In addition to France, Austria, Belgium, Holland, Jamaica, Japan, Spain, Sweden, and the United States all executed significant privatisation programs through late 1986 and 1987 (Megginson *et al.*, 1994).

After the initial surge of privatisation in mid 1980s, the phenomenon spread rapidly around the world, particularly to the developing countries where the endorsement of privatisation policy as an important collateral for lending money by the US Agency for International Development, the World Bank, IMF and the various international development banks gave greater credence to it. In a World Bank study by Kikeri *et al.* (1992), we are informed that “more than 80 countries have launched ambitious efforts to privatise their state-owned enterprises. Since 1980, more than 2000 state-owned enterprises have been privatised in developing countries, 6,800 world-wide.” The OECD has estimated that global equity offerings associated with privatisation will total \$200 billion between 1995 and 2000 (Keswick, 1997).

Putting aside the partial flotation of Procordia and Swedish Steel (SSAB) in October 1987 and June 1989 respectively, the major policy of privatisation in Sweden began in earnest after the instatement of the Bildt Conservative government in 1991. In a bill to the Parliament, the

government listed 35 public owned enterprises for sale<sup>1</sup>. Since the legislation of that bill some have already been privatised, the more important ones include Celsius Industries (1993), AssiDomän (1994) and Pharmacia (1994) and more recently the Swedish Railways<sup>2</sup>.

That a phenomenon like privatisation has become universal in the span of two decades or so, and according to estimates well over 6000 companies and enterprises have so far been privatised throughout the world (Keswick, 1997), is itself a testimony to the fact that we are dealing with a factor worth studying. Not only out of curiosity, but also because no institution as powerful as privatisation seems to have attracted so much attention in the world of business, and has become so much practised, in the past two decades. Yet, the myths surrounding its “effectiveness” largely remain an empirical question and not a proven fact.

Going beyond political propaganda and ideological claims, one should recognise the fact that privatisation is above all a phenomenon which changes the fate of firms and enterprises. It is a major factor which influences and shapes the changes, which a firm undergoes. As such, we are dealing with a process of change and an agent of change. The question could be rightly asked what is the nature of this change and how best could we describe it? Is it an incremental change, something whose impact is to increase a certain level of production, profitability, turnover, sales, or is it a fundamental organisational and structural change? Is it applicable to all industries and enterprises, or is it case-specific?

The majority of research on privatisation has been driven by, *inter alia*, economics<sup>3</sup>. Some economists have argued that private ownership introduces capital market pressures into inefficient state bureaucracies. Private property rights are expected to maximise the incentives for management to achieve a high level of production efficiency. But earlier empirical works suggest that the capital market may not act as an efficient

---

<sup>1</sup> Proposed bill on the privatisation of state-owned companies 1991/92. For the list of those companies earmarked for privatisation see Appendix 1.

<sup>2</sup> Other noteworthy privatisation include SEMKO AB, Företagskapital, SAKAB, OK, Cements AB, Ncb AB, Svalöf Weibull AB and Rödkallen AB.

<sup>3</sup> See Section 5 in Chapter 2 for further discussion and references.



disciplinarian and/or there is greater complexity to the relationship between ownership and performance than is implied in much of the economic literature on the subject, including public choice theory.

However, what is missing in the bulk of such research is lack of focus on how the organisation of an enterprise changes as it becomes privatised. The black-box of the firm is hardly opened in much of the existing research and, hence, one fails to understand why is it that some privatisation succeed and some fail, and, indeed, what are the factors, which decide the overall course of privatisation. That a change in ownership occurs is a given fact. But what effects have such a change in ownership on the course of organisational developments is a matter for investigation and controversy. Furthermore, how prior developments in a firm affect the ultimate change of ownership and whether privatisation is a single event or the cumulative effect of events or processes occurring prior to the final transfer of ownership to private hands. Such are the ambiguities, which the current research faces.

Moreover, there are certain areas of the privatisation topic, which have been slightly touched by previous studies or almost ignored. For instance the social costs of privatisation<sup>4</sup>, the question of externalities, the organisational aspects of privatisation and the changing pattern of labour relations at privatised firms, the cultural and ideological changes in a firm after it has been privatised, and so forth.

So, I hope the reader agrees with me that the issue of privatisation is far more complex than the simple notion that the ownership of firms is changed from the state to private hands. Indeed, the view promoted in this research is that privatisation is a process whose ultimate result is a total transfer of ownership from state to private hands, and that during this process, a firm or enterprise also undergoes structural and organisational changes which set the conditions for the ultimate transfer of ownership.

---

<sup>4</sup> One serious study of the case was made on behalf of the World Bank by Galal *et al.* (1992).

One should bear in mind that a firm is not just any other organisation. Its survival depends on achieving economic gains and efficiency whatever these terms may be implied or construed. Thus, its relations to its environments are based on economic rationality, i.e., that of economising, and not necessarily maximising. The view, which we shall put forward in this thesis, is that privatisation implies transforming these relations in tune with market. Hence, we view privatisation as a process of institutionalisation, in other words as the development over time of regulative, normative and cognitive systems capable, to varying degrees, of providing meaning and stability to social behaviour befitting the change in the ownership of the firm (Scott, 1995: 33).

Such a perspective on privatisation has a number of implications for the current research. Firstly, an institutional conceptual model of privatisation and not one based on economics should be pursued. The aim is to open the black-box of the firm. Defining a number of input and output variables and measuring or comparing their variations, as is the case with the majority of studies on the effects of ownership change, are of little use to an institutional approach. The firm itself, and not the input or output variables related to it, should become our focus of attention. Secondly, a snapshot view of the firm, its situation at a particular time, is insufficient to give us a rich understanding of how it has evolved as an organisation. Thus, a processual approach to the issue of privatisation should be opted for, and in this attempt the firm should be studied as an organisation evolving with a history of its own. Thirdly, the firm should be considered not just as an ensemble of production and sales modules but the product of a number of concurrent or sequential processes whose developments have been aided for by each other, and have in tandem brought fore the process of privatisation. Once, we begin to absorb these implications, we shall find out how the bulk of existing research on privatisation, has little to contribute to what we have set ourselves to accomplish here. Such implications are bound to face with a stiff paradigmatic challenge. Since, a certain dominant conceptual paradigm has shaped most of the studies on privatisation. It has been within the framework of this paradigm where the issue of privatisation has initially gained significance and the border between relevant and irrelevant questions on this topic has been raised

and debated. Thus, the fourth and final implication of the current research is to wage a critique of the methodological bases, which constitute the foundation of most of the existing work on privatisation. Such implications are challenging and for me they have been the driving force behind much of the industry required to complete this work, which at times seemed insurmountable and tiresome.

## 1.1 Aims of Study

Against this background, *the aim of this research is 1) to develop an institutional conceptual model for understanding the process of privatisation and 2) to apply this model to the study of a number of comparable case studies as a way of ascertaining the validity of this deductively arrived model.* In this endeavour, the thesis will critically examine not only the theoretical premises but also the methodological approaches which prior research on privatisation have used. In this sense, the current work is a critical study of widely-established theories and findings on privatisation rather than an extension of these research.

In examining the validity of the model, which we have developed in this thesis, it was imperative to carry out a study of a number of comparable cases. Of course, to increase the reliability of this study it was necessary that differences between these cases are kept to a minimum. Thus, firms, which belonged to different industrial branches or had different historical legacies, could have well obscured a comparison.

As far as concrete studies of privatisation in Sweden goes, there is only few mentionable studies<sup>5</sup> and the bulk of recent privatisation in industry

---

<sup>5</sup> Among others one could mention: Norrving (1996) on Scania local authorities; Thordarson (1994) on municipal services; Daun (1993) on schools; Nilsson (1993) on City Auctions and County Computers in Stockholm; Olsson (1993) on care for the elderly; Thunved (1993) on social services; Montin (1992) on the privatisation process in local authorities; Ryming and Boman (1992) on landstings' services; Krietz (1990) on health care and Lane (1990) on the Swedish privatisation debate. A more comprehensive review is provided by Fölster *et al.* (1993).

have hardly been touched.<sup>6</sup> Thus, a specific sector of the Swedish economy, information technology (IT) sector, was selected for the purpose of this study. In this sector, both the central government and local and county authorities (landstingen) used to have an enormous stake. SKDföretagen, a union of DAFA, an off-shoot of Swedish Central Bureau of Statistics, and Statskonsult, an outgrowth of the Swedish Agency for Administrative Development (Statskontoret) used to be a major player for governmental agencies and departments. The former used to be an extension of the Ministry of Public Administration with tight budgetary constraints whilst the latter was built as a state-owned stock company. The former's customers were mainly from the public sector whilst the latter gradually acquired a line of customers from the private sector. It was only in 1985 that DAFA became a state-owned stock company. By the time the two merged, what they really shared was a common goal of becoming bigger, more competitive and being owned by the state. Otherwise the two remained in many respects different.

Kommundata was to a large extent a mirror image of DAFA for municipalities and to a lesser extent for county councils. It provided computer facilities for well over two hundred municipalities and county councils. It, too, had a long history going back to 1968, and it, too, had experienced a mania of customer orientation rather than service provision throughout 1980s. As well as both having a long history, both SKDföretagen and Kommundata used to have monopoly over their customers. Although, the whole IT-market in Sweden was never free of competition. Both underwent drastic changes from mid 1980s onwards, expanded immensely through acquisitions, faced new and aggressive competitors, and forced to change their narrowly-defined area of activities. In this sense, the two are comparable and together encompassed the non-private sector of IT branch in Sweden.

It should be noted from the start that in studying the gradual development of these organisations, we have left aside the discrete organisational forms and their corresponding management styles and settings from the current

---

<sup>6</sup> One serious beginning in this area is the master dissertation by Hult and Nilsson (1994) on SSAB, Celcius and AssiDomän.

research. In all likelihood, a solid state-owned firm has distinctive differences with a semi-autonomous public agency as the latter may in turn differ from a wholly autonomous private stock company. Whilst there are discernable differences between these distinctly different organisational forms, among others in how their management function or steer the organisation, there are also traits which lay the grounds for the gradual transformation of a wholly state-owned organisation to an entirely private enterprise. Here, we are not concerned with contrasting different organisational forms of comparable organisations with each other as they develop along the path to become privatised. This is indeed a research worthy endeavour and has been pursued by other researchers (see for instance, Lagnevik, 1989). However, here we are concerned with how two comparable organisations have evolved through a 30-year period to become fully privatised. We shall compare the whole process of development of each organisation with the other bearing in mind that their initial organisational forms were different and each had passed through different organisational path in order to become privatised. By focusing on the whole process of development we have no doubt omitted a more specific attention to organisational forms which these organisations had experienced in their move to privatisation, but at the same time, have made it possible to concentrate on the totality of a long process which has been pursued differently by these organisations and yet is conceived by us to have certain similar milestones.

## 1.2 The Outline of the Study

The study is organised into a theoretical part, encompassing *Chapters 2, 3, and 5*, a methodological part, *Chapter 4*, where the methodological basis of the current research is explained, and an empirical part, encompassing *Chapters 6 through 8*, where the empirical material is presented and analysed in line with the conceptual model developed in *Chapter 5*. *Chapter 9* summaries the main conclusions of the study.

*Chapter 2* examines the issue of privatisation from different perspectives in order to position the current research. Section 5 scrutinises the myth of efficiency as associated with privatisation in order to ascertain why there ought to be a shift in emphasis from the issue of ownership to understanding the inner workings of the black-box of the firm.

*Chapter 3* provides a review of the public choice theory and property rights theory which have been the dominant theoretical trends shaping the academic debates on privatisation since 1970s, and levels a number of criticisms against these theories. Section 3 deals with a conceptual model, the so-called cubic model, which has been put forward as a combination of these established theories. The premises of this model are also examined and scrutinised. Section 4 lays emphasis on the need to study privatisation as a process and the institutional theory is evoked to find common grounds for studying this process.

*Chapter 4* makes a critique of the functionalist methodology employed in most of the existing research on privatisation in order to direct attention to other non-economic aspects of this process. Section 2 argues for the premises of the methodology employed to study the process of privatisation and the last sequels in this chapter explain how an idealised scheme may be used to help pattern out relevant processes from a myriad of information assembled with the help of a multitude of resources.

*Chapter 5* elaborates an institutional framework for studying privatisation. In line with the argument put forward earlier that privatisation should be viewed as a transformation process, a review of theories dealing with the issue of transformation of organisations are then dealt with. This review provides a springboard for introducing the institutionalisation concept of privatisation. In Section 3 different aspects of the institutionalisation of privatisation are presented and examined. In particular, the importance of active agency in shaping the process of privatisation, the need for the reconfiguration of power structure at the organisation and the role played by regulatory, normative and cognitive processes in shaping and bringing to completion the process of privatisation are emphasised. In pinpointing factors, which underlie the

process of privatisation, a number of established theories, including neo-institutional theory, are used. Such theoretical eclecticism was necessary, since in my view none of these theories provided a comprehensive framework for studying the process of privatisation. The ultimate result of this quest is provided in Section 4 where a schematic model is put forward to account for the process of privatisation.

*Chapter 6* is the first chapter that deals with the empirical material. A history of SKDföretagen is explained through the parallel development of the twin organisations whose merger in late 1980s brought about this conglomerate. Finally, the gradual course of privatisation of SKDföretagen is explained.

*Chapter 7* presents, in turn, a historical description of Kommundata by way of considering certain landmarks in its course of development. The formation of Kommundata as a *de facto* subsidiary of Swedish local authorities is traced to its later enlargement and finally its full-blown commercialisation, which subsequently led to its acquisition, by a newly-privatised conglomerate.

*Chapter 8* applies the schematic model described in *Chapter 4* to the two cases already described in *Chapters 7 & 8*. Different stages in the process of privatisation for these cases are studied in turn and compared to each other. The influence of factors relevant to each step is also discussed.

*Chapter 9* discusses the contributions and implications for further organisational research on privatisation. Certain policy implications are also elaborated upon.

## Chapter 2

# The Myth and Reality of Privatisation

*The issue of privatisation is considered from different perspectives, the single-event vs. processual view, the micro vs. macro view, the political vs. class view and the adaptational vs. enacted view of privatisation are discussed in order to position the current research. The myth of efficiency as associated with privatisation is scrutinised in order to ascertain why there ought to be a shift in emphasis from the issue of ownership to understanding the inner workings of the black-box of the firm.*

Like all taken-for-granted social myths, privatisation is shrouded in more mystery than it embodies clarity. Although, talking about privatisation is a common recurrence both in the academic world and the popular press, there is yet no unanimity on what is really meant by privatisation<sup>1</sup>.

### 2.1 The Single Event vs. Processual View of Privatisation

Privatisation could be viewed either as a single act or as a process of change culminating into a transfer of ownership to the private hands. In

---

<sup>1</sup>The words “privatise” and “privatisation” appeared for the first time in the 1983 edition of the *Webster’s Ninth New Collegiate Dictionary*, where their earliest recorded use is given as being in 1948. However, S.H. Hanke claims responsibility for popularising these words while serving on the U.S. President’s Council for Economic Advisors in 1981 and 1982 (Hemming and Mansoor, 1988: 31).



the former case, privatisation is often taken as tantamount to any of the following events:

- Deregulation - the opening of state activities to private sector companies<sup>2</sup>.
- Incorporation - transfer of public enterprises into public limited companies.
- Tendering out - the contracting-out of public provisions to private firms.

Thiemeyer (Thiemeyer, 1986: 7-10) enumerates fifteen concepts of “privatisation”. The legalistic definition of privatisation as an act, which transfers at least 51% of the ownership rights of a formerly state-owned enterprise to private individuals or institutions, may be too narrow to fit the reality. Governments for a variety of reasons float part of the total shares of a public enterprise on the stock market. Sometimes, the total value of subscription is so huge that the market could only buy out the shares in sequence. Likewise, it is not all too uncommon that the ownership of an enterprise remains unchanged whilst, the firm itself in every other respect undergoes changes which in no less details resemble those undergone in a fully privatised or private firm. Nor is it uncommon that public utilities contract-out some of their activities to privately-owned or privately-run enterprises. Such changes, however partially may transform the ownership structure of the enterprise, but indeed result in immense changes in the overall practice of the firm. In this sense, full privatisation has become a rare phenomenon whereas quasi- or semi-privatisation is all too abundant. One could even claim that many state-owned enterprises are in all, but name, already privatised.

So, it is seldom that the whole change of ownership occurs at a single instance. It is more likely that privatisation is not a single act but a series of processes whose ultimate outcome may be a change in ownership. Indeed, there are many changes taking place in an organisation before it becomes ready for the final hand-over to private investors. So, whilst from a legalistic or financial prospect, privatisation may be considered as

---

<sup>2</sup> For instance, Ramamurti (1989) points out that privatisation is not so much about ownership as it is about competition and regulation.

a single event, it is more appropriate from an organisational viewpoint to consider it is a process of change. This is the view, which we share in this research.

## 2.2 The Macro vs. Micro View of Privatisation

Privatisation could well be considered at a macro level. Considering the events that have taken place on or about the issue of privatisation, one could aptly regard it as a social-economic phenomenon, which is preceded by certain ideological shifts in the overall political ambient of the firm. No country has experienced privatisation without prior ideological shifts. The idea that state intervention should give way to free market and regulated economy should be liberalised are all parts and parcels of the ideological campaign that precedes the actual sale of state-owned properties. One could argue that the whole idea of privatisation could only be genuinely understood if it is placed within the societal fields, which have shaped and legitimated the idea of change in the ownership for state enterprises. Often the legal forms of such enterprises evolve in tandem with changes that have occurred at societal level. Figure 2.1, for example, represents the impact of ideological changes on the ownership structure of state-owned agencies<sup>3</sup>.

It could, furthermore, be claimed that despite all its ideological trappings, privatisation is predominantly an economic issue, something which aims to raise the financial profitability of state-owned firms and enterprises through a change of ownership. After all, the privatisation mania took place in the context of an economic slow-down in the early 1980s when capital was neither willing nor able to support public sector spending on

---

<sup>3</sup>The schematic change of forms of ownership shown in here is only a brief version of the sequence of events that usually accompany privatisation of state-owned firms. Pirie (1988), the president of The Adam Smith Institute, a think-tank body that has promoted the idea of privatisation both inside Britain and abroad vigorously for the past decade, lists at least 21 ways for the gradual transformation of the ownership and the activities of a public enterprise.

the same scale as before. Privatisation was, thus, driven by economic exigencies, and was not *merely* an expression of political dogma. If that is the core of the matter, then all the ideological or institutional changes and shifts that have come about, is nothing more than justifications for it. To view it otherwise, one may claim, is missing the point and would amount to a failure to look for the real reasons and effects of this phenomenon. Thus, it might aptly be claimed that the whole process of privatisation is a new way for the capitalist economies of post-1970s to accommodate the labour process and the working of the industries to situations where dwindling level of profits, harder competition, liberalisation of the credit and stock markets and internationalisation of commerce and industry leave no room for Keynesian-type national economies with a welfare state and a growing public sector to provide the demands.

So, whether one considers the social and ideological aspects of

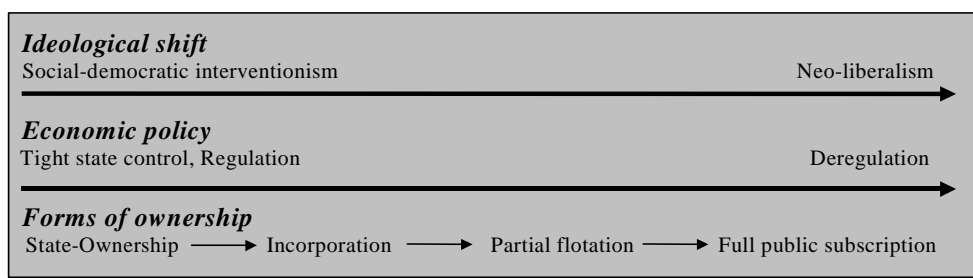


Figure 2.1 The impact of ideological changes on the ownership structure

privatisation or the economic exigencies, which have brought it about, there is ample reason to study the process of privatisation at a societal level. Indeed, there is a growing volume of literature dealing with this issue<sup>4</sup>. We do not contest such a viewpoint. However, we are content with a more modest view of privatisation i.e. the process of change at organisation level. Thus, we shall investigate the process of privatisation at a micro rather than a macro level for the current study.

<sup>4</sup> See for instance, Kutner (1999), Handler (1996), Ranson and Stewart (1994), Smith and Lipsky (1992), Gormley (1991) and Donahue (1989).

## 2.3 The Class vs. Organisational View of Privatisation

For some researchers, privatisation may also be understood solely as a *political act* and for good reasons. Privatisation has its roots in the political attempts by the conservative currents to undermine the foundations of the welfare state and to deprive the trade-union movement of its effective control over the workforce in the public sector (Veljanovski, 1987; Arbomeit, 1986). As Bishop and Kay (1988) put it, privatisation was “a policy devised in opposition by a section of the Conservative party ... primarily as a means of reducing the power of public sector trade unions” (p. 1).<sup>5</sup> In Sweden, one of the main proponents of privatisation has always been the Confederation of Swedish Employers (SAF) which since mid 1980s has waged a stepped-up campaign for a detailed timetable for privatisation of all state authorities, except the court, police and defence, in less than ten years (Interview with Ulf Laurin, Chairman of SAF, Svenska Dagbladet, 1990/11/05). It was the view of SAF that Sweden should be completely “privatised” by the year 2000, a view sharply expressed by its chairman (SAF-tidningen, 1990/11/06). Whether in the UK or in Sweden, the general view and the common experience is that in general the lot of employees in privatised firms has been undermined either through loss of their leverage on their own employers, or through early retirement, and redundancy, or introduction of flexible working hours, or through greater demands from the management for job performance, etc. (Casale, 1992; Haskel and Szymanski, 1992; Parker and Hartley, 1991; Ogden, 1990). In some cases, especially in England, transfer of ownership has meant annulment of earlier job contracts and re-employment of part of the existing workforce. By asking the new employees to sign contracts where collective bargaining is abandoned and the right to strike is restricted, the employers have in effect undermined union solidarity and organisation at the workplace. Such events may lead one to believe that privatisation is above all a political scheme and hence remain oblivious of the more fundamental economic factors which have influenced the shaping and introduction of the whole concept of privatisation in the first place.

---

<sup>5</sup> This issue has been directly linked to the privatisation debate on electricity supply and mining industry in England (see Milne, 1994, cf. pp 5-11).

Of course, such a viewpoint has its own merits. It would be a relevant starting point for anyone who wishes to study privatisation in the context of industrial or class relations. It may be more relevant to Anglo-Saxon countries where there are sharper conflicts between labour and capital than Scandinavian countries where corporativism is still a dominant groundwork in the industrial relations. However, such an understanding mars the wider meaning of politics in a corporation or a firm. Organisations can be considered as coalitions of groups and individuals who come together to perform certain agreed tasks (Robbins, 1986 and 1987; March and Simon, 1957). As such they are political systems and coalitions of interests. Neither the employees nor the management are a unified whole. At a micro level, the conflict of interests, which exists between these various groups, shapes the concrete evolution of organisational changes. In this study, we take the significance of politics at a micro level in order to appreciate the process of change, which is associated with privatisation.

## 2.4 The Adaptational vs. Enacted View of Privatisation

The above view stresses the behaviour of consciously-motivated actors who through privatisation wish to pursue certain political aims. But to the other extreme one could be faced with an *institutional* perception, namely that, privatisation is the inevitable consequence of the evolutionary emergence of new structural or ideological frameworks (Forssell, 1992) such as the prevalence of the belief in the superiority of free market, deregulation, globalisation, liberalisation of the economy, absolution of the State from responsibility towards the individual, the greater acceptance of flexibility in working hours, or preference for personal rather than collective wage-bargaining. Such a perception has its strength. It does not conceive the privatised enterprise as a mechanical or biological entity, or a rigid social system or construction. Nor does it focus attention on the internal choices, intentions, plans, political processes of an organisation or on the process of material exchange between an organisation and its surroundings in order to understand or

explain the changes which an organisation has undergone or will experience as a result of privatisation. It has a grand vision of the whole process. It takes it for granted the habits, routines and above all socially-acceptable ideas as the central explanatory factors for changes in an organisation. In other words, it views privatisation as a set of constraints or opportunities, which the society through its institutions imparts to an organisation. However, one could level one main criticism against such a perception. Institutions are socially-sanctioned patterns of behaviour, which are conducted for a given set of conditions. This implies that agents who are motivated by incentives or interests must implement changes however gradual. It then follows that institutionalisation as a process is profoundly political and reflects the relative power of organised interests and the actors who mobilise around them (DiMaggio, 1988).

In the same vein, one could argue that change of ownership may or may not have any significant effect on the performance of a firm. But the fact that people believe in the myth of privatisation and that it renders the whole organisation on a path of change and restructuring, which would have been inconceivable before, is important. In other words, the strength of privatisation lies in its ability to generate a renewal process in the organisation where a new set of rules and understandings could emerge and shape the way that both the employees and the management as well as the customers or clients perceive the organisation. This is a worthy claim especially since over a decade after the initial zealous pursuit of privatisation, it seems that the institutions and practices which were seemed as consequential of privatisation have now gained independent recognition, as *de facto* ways for improvement. In this respect, the would-be effects of privatisation could be studied irrespective of how ownership changes have progressed. Furthermore, it is now possible to compare the consequences of privatisation in those enterprises, which have actually experienced a change of ownership with those, which are still in the public realm but have been undergoing structural and organisational changes akin to privatised sector. However, one is tempted to pose the question: Then why is it that the effects of changes attributed to privatisation have not been comparable in different organisations? Why is it that similar practices have led to different effects in different

organisations? What is endogenous and what is exogenous to a firm when new practices are exercised in a firm? In the current work, we take an enacted view of privatisation, one that does not consider the occurrence of privatisation as an inevitable event but as an evolving process of change whose outcome is to a large extent dependent on the agency of those who undertake to institutionalise it.

## 2.5 The Efficiency Myth of Privatisation

From the beginning, government ministers as well as academics have stuck tenaciously to the argument that privatisation is an outstanding success story, especially in terms of increasing efficiency. It has been claimed that the source of performance loss lies in the nature of state ownership. Inefficiency is, allegedly, the inevitable result of public ownership. However, well over 20 years since the first privatisation programs, empirical results are at best ambiguous about the validity of claims made about efficiency rise due to privatisation.

Borcherding *et al.* (1982) citing more than 50 studies from five countries, report that “the findings in most of the studies ... are consistent with the notion that state-owned firms have higher unit cost structures” (p. 134). Millward (1982), surveying the North American literature, finds no broad support for the private enterprise superiority. Domberger’s and Piggott’s (1986) review of the literature on the Australian airlines’ experience suggests that “the private enterprise is somewhat more efficient than the public enterprise” (p. 152), while Estrin and Perotin (1987), in making cross-country comparisons between Britain and France, conclude that the French public sector was more cost-efficient than the British public sector, and that there was no distinguishable difference between the performance of the French public and private firms. Button and Weyman-Jones (1992, 1994) show that technical efficiency in large utilities does vary with the degree of privatisation. However, identifying whether changes are due to ownership, regulatory incentives, or to change of competitive environment is difficult. Parker and Hartley (1991) remind us

that “ownership is only an element in a complex model determining performance” (p. 403). Hjalmarsson and Veiderpass (1992) discuss the ownership issue by examining the productivity performance of Swedish electricity distribution utilities over the 1970s and 1980s. They conclude that ownership or economic organisation does not seem to be related to productivity changes in any significant way. In a review of the effect of ownership change and competition on British Telecom after a decade of privatisation, Parker (1994) states that: “it is not possible to say with certainty that the same changes would not have occurred had BT remained state owned” (p. 108). In a more comprehensive study of the impact of UK privatisation on labour and total factor productivity, Parker and Martin (1995) state that privatisation does not necessarily guarantee good performance and that even “those organisations that operated in regulated markets do not seem to have performed noticeably better or worse than those operating in more competitive markets” (p. 217). Having studied ownership and performance for a wide range of electric utilities, Pollitt (1995) draws the conclusion that “there was little evidence that ownership transfer *per se* could be expected to reduce costs” (p. 186).

Of course, there are certain obvious difficulties in comparing state-owned enterprises with private firms. For any comparison to be reasonable and reliable, likes should be compared with likes. This is an awfully difficult provision to uphold, especially when we are dealing with natural monopolies, which have no rival. Furthermore, any attempts to measure the relative cost efficiency would meet difficulty as it would require that the same product with the same quality to be produced by a privatised company and a comparable state-owned firm. Usually the qualitative and quantitative dimensions of the output could hardly be matched. If postal service to remote and sparsely-populated areas is one of the activities of a public postal system, then a private competitor could only be compared in cost efficiency with the former if it also did the same activity. Input prices are also important. Since firms can face different fuel prices, wage rates, interest rates for reasons other than their being public or private. Estimations of the annual capital costs are also a problem. They are usually approximated as depreciation of the firm’s capital stock plus a cost of capital times that depreciation (For a more extensive review of



these issues see Millward, 1986), and their approximated values may well be different from their real ones.

However, already several attempts have been made to compare the performance of public and private firms. While authors such as Megginson *et al.* (1994), Boardman and Vining (1989, 1992), Bishop and Kay (1988), Bailey (1986) and Pryke (1982) put evidence in favour of privatisation's role in promoting economic efficiency, the opposite view is expressed by Walker (1995), De Fraja (1991), Wortzel and Wortzel (1989) and Kay and Thompson (1986). Nor does the empirical evidence show unambiguously that private firms are more cost effective than public ones in similar conditions (for a survey, see Yarrow, 1985). Likewise the notion that the profit motive is a more effective way of reducing inefficiencies in production than any form of monitoring public managers, and that it necessarily follows, *ceteris paribus*, that a private firm will be more efficient than a public one has also been challenged (De Fraja, 1991, 1993). There are of course studies, which give a clear lead in performance to privatised firms. However, it should be noted that a large portion of such studies fail to consider the differences in the market structure and focus only on the ownership issue. Also, they tend to overemphasise easily measurable variables, such as cost or price and often neglect issues such as quality of service, range of distribution, customer satisfaction, social consequences and so on.

The most extensive empirical studies are conducted by Boardman and Vining (1989) and Megginson *et al.* (1994). The former has analysed the relative performance of 500 largest non-US mining and manufacturing companies in 1983 to determine the effect of ownership criteria on state-owned, mixed and private firms and has arrived at the conclusion that in general the private firms perform better than mixed or state-owned firms. However, in this study like firms are not necessarily compared with each other nor are the pre- and post-privatisation situations of a particular company are evaluated. As a matter of fact, a summary of individual case studies by previous researchers which is compiled by Boardman and Vining (1989: 6) is even more non-conclusive than the one by the authors themselves would suggest about the relative performance of private firms

compared to state-owned or mixed companies. Of the 54 empirical studies conducted between 1966 to 1986 on measuring and comparing the efficiency of public versus private firms on 9 different utility areas, 22 (41%) demonstrate that either state-owned or mixed companies are more efficient than private companies or that there is no difference between them (Table 2.1).

Table 2.1 Effect of ownership on the performance of a firm

Sector	SOE* more efficient	No difference	PC <sup>†</sup> more efficient
Electric utilities	3	5	6
Refuse collection	1	3	5
Water	2	1	3
Health-related services		1	11
Airlines		3	2
Railroads		2	
Financial institutions		1	1
Fire services			1
Nonrail transit			3

\* SOE = State-Owned Enterprise

<sup>†</sup> PC = Private Company

Meggison *et al.* (1994) attempt to overcome the shortcoming in Boardman and Vining's study. They compare the pre- and post-privatisation financial and operating performance of 61 companies from 18 countries and 32 industries that experience full or partial privatisation through public share offerings during the period 1960 to 1990. Despite its strength, Meggison's study does not sufficiently consider the social consequences of privatisation. Employment figures are analysed to find out whether job security has been affected. Whilst the available data for some of the companies suggest that there is a relative rise in employment, the analysis does not reveal whether the rise was due to maintaining the existing level of operations or to new investment and expansion. Considering the fact that the authors themselves acknowledge that corporate management respond to "competitive cost pressures" by

“pressuring their workforce either for wage concessions, or work rule changes, or both” (p. 439), it is reasonable to assume that there is dubious grounds to assume that there has actually been a rise in job security.<sup>6</sup>

Likewise, the authors study government subsidies before and after privatisation in order to demonstrate the financial benefits of privatisation but fail to take accounts for two other factors, which would be relevant (A more comprehensive method for doing the cost-benefit analysis is provided by Jones *et al.*, 1991 and Andic, 1990). First the cost of issuing the shares could be as much as 4 to 6 percent of the total value of sales (Mayer and Meadowcraft, 1986). Itself a huge sum, considering the fact that we are dealing with figures in billions or tens of billions. Secondly, the low share valuation put on the nationalised industries being sold is ignored. This is all the more relevant since there is usually a substantial divergence between the price at which the shares are issued to the public, and the price at which they are traded on the stock market in the immediate aftermath of their introduction. In other words, what is gained by private individuals and institutions is what is lost by the public at large. This too should also be considered part of the social cost of privatisation, and not ignored.<sup>7</sup> Thirdly, the sample of firms consisted of

---

<sup>6</sup>The thrust of the authors’ argument is due to substantial rise in employment at Compagnie Generale d’Electricite (+60,050), British Petroleum (+49,033) and Volkswagen (+20,084). If further investigation were to reveal that the new rounds of employment were in fact part of a long-term strategy by the concerned companies to expand, that is they would have done so regardless of privatisation, then the whole argument of the authors would fall in pieces. Since with the elimination of these figures, the final tally would indeed be negative and would support the argument that privatisation does in general lead to job losses.

<sup>7</sup>Privatisation transforms government capital into private income. What the government used to pay to private sector in the form of interests on its debts might be substituted by higher profits from private equity. Here are some examples from the Swedish market. The sale of privatised firms by the Bildt’s government resulted in an income of 23 billion SEK for the state’s coffers. In 1994 the private owners of the largest private firms earned over 10 billion SEK in net profits, and the size of these profits is to grow. For instance, AssiDomän earned 2 billion SEK in net profit in 1994; it was over 4 SEK in 1995. Likewise Pharmacia earned 5 billion SEK in net profit in 1994 and it rose to 6 billion SEK in 1995. If we take figures for 1994, the average rate of net profit for the private owners of privatised firms will be 43.5%, much higher than the interest earned on any sum invested in buying state securities (All figures from Arbetet Nyheterna, 28/12/1995).

the world's most successful private companies vs. a sample of very large politically important public firms, several of which were taken into public ownership to save them from bankruptcy as a result of bad management in the private sector. (Pollitt, 1995: 28).

One major flaw with the bulk of earlier research on privatisation is that they deal with the issue in the more diffused sense of liberalisation, deregulation and contracting out than with the strict changes in the ownership structure. As such these studies are more preoccupied with measuring the performance of a particular firm or branch in the pursuit of comparing privately-owned companies with the state-owned enterprises. In these studies, factors such as output per employee, income per worker, expenditure per staff, pricing policy, cost-efficiency, investment costs, unit cost, total factor productivity, etc., become the subjects of research<sup>8</sup> whilst the more organisational changes which the firm has undergone such as restructuring of the firm's divisions, reorganisation of the workforce, reshaping of distribution networks, redefinition of the objectives of the firm are overlooked. The importance of these changes cannot be overemphasised as they are necessitated both to make the firm more attractive to its prospective bidders when it is finally floated on the stock market, and to prepare the firm itself ready for structural and organisational changes, which it will undergo as soon as it is privatised. A general analytical framework for understanding the overall effects of privatisation on the workings of firms is often barely treated.

However, later studies about enterprise efficiency and performance shifted emphasis to the relevance of ownership as important determinants

---

<sup>8</sup> See for instance: Millward (1990, 1991), Molyneux and Thompson (1987), Perelman and Pestieau (1987), Ashworth and Forsyth (1984), Caves and Christensen (1980) and Pryke (1971, 1981, 1982) on total factor and labour productivity; Windle (1991), McDavid (1985), Stevens (1978), Collins and Downes (1977) and Kemper and Quigley (1976) on unit costs; Duch (1991) on revenue per employee; Lynk (1993), Foreman-Peck and Waterson (1984), Feigenbaum and Teeple (1983), Bruggink (1982), Di Lorenzo and Robinson (1982), Pescatrice and Trapani (1980), Crain and Zardkoohi (1978), Neuberger (1977) and Mann and Mikesell (1976) on costs of production; De Alessi (1974, 1977), Peltzman (1971) on pricing policy, and Megginson *et al.* (1994), Galal *et al.* (1992), Boardman and Vining (1989), Picot and Kaulmann (1989) and Monsen and Walters (1983) on various financial indicators.

of economic performance in the process of privatisation. The issue discussed in these debates was why a change of ownership from public to private sector could lead to improved performance and whether, *within the public sector*, a change in the status of an organisation could improve performance without a transfer of ownership. Differences in incentives between public and private organisations, arising from differences in the ability of owners to monitor managers were regarded as the milestones in these debates. These differences are attributed to the divergence between the objectives of principals and agents. Hence, the focus of attention should be directed towards the governance of enterprises, and the efficiency debate should be considered as an intended by-product of changes brought onto the former. So, the question to be asked is not whether a rise in certain measures of efficiency could happen because of privatisation, but why is it that such a change should be expected. The inner workings of the black box of firm, thus, become ever more important to understand and analyse. That is why the current project is concerned with studying the process of change that is associated with privatisation. But to begin this excursion into wilderness, let us first examine how previous theoretical contributions stand out and what they have to offer in this respect.

## 2.6 Summing-up

We have seen how there are different possible approaches to studying the phenomenon of privatisation. It goes without saying that each approach entails a particular set of methodology and theoretical conceptualisation. For the purpose of this research we have taken an organisational view of privatisation where conflicts and endeavours at micro-level are the focus of our attention. Such an approach does not claim exhaustiveness or make redundant societal or political approaches to privatisation. However, it challenges at a specific level the more dominant economic views on the issue of privatisation where the firm is the subject of analysis. Here, we have also considered 'the firm' as our concern. However, in pursuing an organisational approach, we believe we have a sharper stand to criticise

these economic views and a better opportunity to present a conceptual framework to challenge them.

## Chapter 3

# Theoretical Antecedents

*A review of the Public Choice theory and Property Rights theory, the dominant trends of thoughts shaping the academic debate on privatisation, are presented and criticised. Various criticisms on these theories are detailed in order to convince the reader of the serious shortcomings inherent in them. The premises of a cubic model developed to account for the pitfalls of the above theories are also examined and scrutinised. Emphasis is then laid on the need to study privatisation as a process and the neo-institutional theory is evoked to find common grounds for studying this process.*

Central to debates on privatisation is the age-old issue of how ownership affects performance. A firm (or unit of production), which can produce the same amount of the same type of output as another at a lower cost, is said to be more productively efficient than the other firm. The theoretical literature on the link between ownership and productive efficiency has at least three strands. The most prominent is the property rights literature which developed in early 1960s when the academic interest on the subject began to foster (see for instance: Hirschman, 1970; De Alessi, 1969; Demsetz, 1967 and 1969).<sup>1</sup> The argument goes back to Alchian (1965) where he argues that the inability to transfer ownership rights under public ownership prevents the capitalisation of gains in efficiency and hence reduces the incentive of the owners to seek such gains. A taxpayer

---

<sup>1</sup> The earlier debat by Von Mises and Hayek in the Austrian School on ownership and performance which dates to 1920s was more a philosophical and ideological response to the issue of planning than a study about the workings of a firm and hence have been excluded in this study.

cannot sell his implicit share in the state-owned utility and hence will not monitor the performance of its managers. A second strand is the public choice literature, following Niskanen (1971), which emphasises the inefficiency associated with the bureaucracy charged with running a public utility; bureaucrats and politicians maximise their own budgets and this rarely leads to minimum-cost production. The third strand is drawn from the literature on private monopolies and that as such they are more inefficient than public monopolies. The seminal paper here is that of Averch and Johnson (1962) who suggest that profit maximising private monopolies facing rate of return regulation will employ more capital than is socially efficient. All these general conclusions have been disputed but it would be fair to say that on balance theory suggests privately owned utilities should be more efficient than publicly-owned utilities.

### 3.1 The Dominant Theories<sup>2</sup>

The public choice and property rights literature have played a pivotal role in shaping current academic attitudes towards public and private ownership in economics. They belong to two different strands of analytical traditions and have historically been developed separately, yet they provide highly complementary conclusions. Lindblom (1977: 26) defines property rights as follows: "Property is a set of rights to control assets: to refuse use of them to others, to hold them intact, or to use them up. Property rights are consequently grants of authority made to persons and organisations, both public and private and acknowledged by other persons and organisations."

Whilst, the focus of property rights literature is on the incentives facing owners who seek to reduce costs, public choice theories explore the

---

<sup>2</sup> As pointed out earlier, there is a growing literature on the social critique of privatisation. For the sake of fairness, one might be tempted to have included a review of this literature. However fulfilling such a temptation might be, it should be said that their criticism of the logic of market falls outside the scope of the current study and hence have not been included here.



incentives facing politicians and the bureau, whose task is to run a public enterprise with the aim to minimise costs.

In essence, property rights acknowledges that there are agency problems in all forms of ownership be it public or private. However, it also propounds that because ownership is transferable through a competitive capital market in the private sector, it results in a better use of resources. In other words, property rights claims that monitoring by residual claimants is more efficient than monitoring through the political process. The literature lays heavy emphasis upon the attenuation of property rights where public ownership exists and, in turn, explores the consequences of attenuated property rights for efficiency (Martin and Parker, 1997).

The seminal work by Coase (1937) provides the foundation for property rights theories which perceive the firm to be a “nexus of contracts” between management, labour, suppliers, shareholders and creditors. Thus, the costs to a firm are determined by the relative costs of transacting for inputs in the market as against employment within the firm given: (a) information asymmetries between contractors; (b) an inability to write complete contracts covering all contingencies; and (c) the costs of monitoring contract compliance (Holmstrom and Triole, 1989; Williamson, 1975; Arrow, 1974 and 1987; Marschak and Radner, 1972). In certain circumstances it will be more cost efficient in terms of transaction costs to employ inputs directly, in other cases it will be more efficient to contract in the market. In terms of the privatisation debate, this analysis draws attention to the important role of contracting for inputs and of monitoring their performance within firms. If employment within firms is to be more efficient than contracting in the market then the inputs must be efficiently managed. Equally, the success of one firm compared to another derives from more efficient contracting leading to higher performance.

Alchian and Demsetz (1972) have argued that the firm is a team of factor suppliers with contracts established and monitored by management. It is the role of management to ensure that there is no free-riding or slacking in the team, but, since there are costs in terms of time and effort in devising

an optimal monitoring-reward system, to perform this task well management need an incentive (also see Jensen and Meckling, 1976). In the property rights literature the incentive is profit (usually referred to in the property rights literature as 'the residual'). This leads to the expectation that private sector organisations in which rights to profits are clearly defined will perform better than those in the public sector where rights, it is claimed, are diffused and uncertain (McCormick and Meiners, 1988; De Alessi, 1980; Furubotn and Pejovich, 1972 and 1974; Alchian, 1965 and 1977). Consequently, the monitoring of management by owners is likely to be much more effective in the private sector. In sum, the property rights literature is concerned with the *incentives* to monitor agent behaviour effectively under public and private ownership.

In contrast, public choice theory is concerned more directly with actual *behaviour* in the public sector. The key argument in this literature is the proposition that politicians and state bureaucrats are mindful of their own utility rather than the public interest (Aranson, 1990; Mueller, 1989; Mitchell, 1988; Blankart, 1983; Buchanan, 1972 and 1978; Niskanen, 1971, 1987; Downs, 1967; Tullock, 1965). Public choice analysts attempt to explain political decisions on the same logic as economists apply to market. In this view, the public arena is nothing but a political marketplace where politicians, public employees, and competing groups of beneficiaries seek their narrow interest. If government can be pressured to provide larger quantities of goods and services for any given group, the full benefits will flow to that group. Yet the costs are likely to be much smaller because the burden of taxation to pay for the benefits will be spread over all taxpayers. Each interest group will typically have a strong incentive to demand as much in the way of goods and services from the government as it can and it has as little incentive to oppose individual demands of other groups. The government is all pleased to comply since for the bureaucrats who run the state, it all means expansion which would eventually lead to the maximisation of their budgets and domains. Policies are arranged to maximise votes, thereby securing the careers of the politicians, and departmental budgets are expanded so that bureaucrats benefit from better jobs and higher salaries (Orzechowski, 1977; Migue and Belanger, 1974). It is also claimed that public monitoring of civil

servants favours interest-groups and not individual citizens (Kristensen, 1980; Breton and Wintrobe, 1975; Olson 1965). Civil servants gather information and can lobby for their budgets as a matter of course in their jobs. By contrast, it will usually be quite rational behaviour for any individual member of the public not to seek out the information needed to monitor state spending adequately. For any individual, the costs of information gathering and lobbying (the political transaction costs) are likely to far exceed the benefits that would accrue directly from success in changing policy. This may not be true, however, for interest groups, such as trade unions representing employees in the public sector or major suppliers. In consequence, the public sector is fertile ground for rent-seeking activity. In particular, the argument suggests that trade unions will inflate wage demands and staffing levels and contractors will gather high profits (Bhagwati, 1982; Tullock 1976). The expectation in the property rights literature is that this will be especially true in countries where state industries raise little or no capital on the open market (as, for example, in the UK) and hence are not open to the sanction of the private capital market.

Together the property rights and public choice literature suggest that state-owned and privately-owned firms will differ in behaviour and hence performance because of differences in: (a) management's objective function; and (b) constraints. In effect, the fundamental differences between state and private enterprises reduce to a matter of incentive in the face of incomplete information leading to differences in behaviour (Shapiro and Willig, 1990; Holmstrom and Tirole, 1989; Hart and Holmstrom, 1987). Hence, incompleteness of contract becomes the starting point for the theory of ownership. If contracts were complete ownership would not matter since managerial discretionary behaviour would be avoided through the contract (Hart, 1993; Grossman and Hart 1986). It is the inability of principals to write complete contracts for their agents covering all possible contingencies and to perfectly monitor and enforce such contracts that leads to scope for managerial discretionary behaviour or agency problems (Hart, 1993).

In the basic principal-agent model discussed in the literature (Ricketts, 1994), the observable outcome of an agent is given by  $X(a, \theta)$  where  $a$  is the agent's action and  $\theta$  represent the state of the world. The principal can observe neither of these variables individually, but their compound outcome is discernible. Hence principal's own action (e.g. payment to the agent), denoted  $y$ , is a function of that observed outcome. Thus the principal's problem is to choose  $y(x)$ , the incentive scheme for the agent. In doing so, he must recognise two constraints. First, the agent will behave in a self-interested way given the incentive scheme. Second, the incentive scheme must be attractive enough for the agent to be willing to participate in the venture with the principal. Otherwise, two types of information problem may arise: *adverse selection* (as a result of hidden information) and *moral hazard* (hidden action) (Laffont, 1989; Arrow, 1985; Jensen and Meckling, 1976). In both the public and private sector there are agent-principal relationships which are characterised by asymmetric information leading potentially to adverse selection and moral hazard (Bös and Peters, 1991; Jackson, 1985; Rees, 1985; Ross, 1973; Mitnick, 1980). This necessitates the creation of efficiency incentive systems. In the economics literature, the solution to an agent-principal problem involves the development of an effective package that binds the agents to follow the objectives of the principals.

In the private sector an important agency relationship exists between shareholders (principals) and directors (agents). At its simplest, the shareholders own the enterprise and appoint directors to manage it on their behalf. In the public sector, by contrast, the agent-principal relationship is more complex because the ultimate owners of state assets, the principals, are the public. Between the public and the managers of the assets (the board of state industries) exist layers of agencies (Aharoni, 1982). The greater complexity of the agency relationship is illustrated in Figure 3.1.

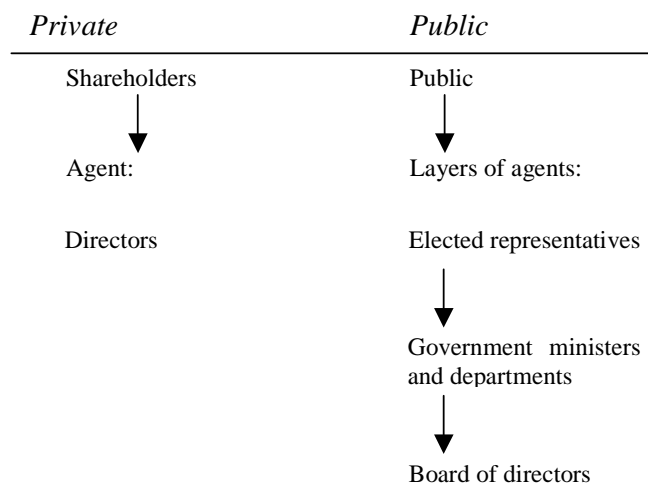


Figure 3.1 Flows of information between principals and agents in the public and private sectors (adopted from Martin and Parker, 1997: 13)

The existence of layers of agents seems to provide more scope for “noise” to distort the information flow between principals and resource managers (Smith, 1990: 55). Hence privatisation can be viewed as changing the nature of the agent-principal relationship to reduce this noise and therefore facilitate the introduction of more effective incentive systems that bind agents to the principals’ goals (Rees, 1985). In terms of Hirschman’s (1970) terminology, “voice” through the political process is a more inferior indicator of public demands than “exit” (sale of shares) in the competitive capital market.

According to public choice theory, the result of the agent-principal relationship in the public sector is an over-expansion of state budgets leading to waste or inefficiency. Various models have been put forward leading broadly to this conclusion. In the words of a leading proponent of public choice theory, William A. Niskanen, government officials (bureaucrats) pursue their own utility which is held to be a function of “salary, perquisites of the office, public regulation, power, patronage, output of the bureau, ease of making changes, and ease in managing the bureau” (Niskanen, 1971: 38). All but the last two relate to the size of the bureau and, therefore, the expectation is that public outputs will be over-supplied. Niskanen (1971: 33) concludes that the output of a monopoly government bureau will be twice as large as provision in competitive private markets (though for critical reviews of this conclusion see

Jackson, 1982: 131-5; Cullis and Jones, 1987, ch. 6; and Dunleavy, 1991: 156-62). Others have suggested that too low a rate of discount will be used when appraising investments and there will be excessive employment of labour (see, for example, Buchanan, 1986 and 1968; Orzechowski, 1977; Tullock, 1976; Breton and Wintrobe, 1975; Breton, 1974; Buchanan and Tullock, 1962). Tullock (1979: 34) argues that as a result, and as a rough rule of thumb, public sector outputs will be twice as costly as they would be if privately supplied.

Whatever the precise outcome in terms of over-production and other inefficiencies, there can be no doubting the powerful effect of the property rights and public choice theories on the academic literature on privatisation since the 1970s. Together they have provided a formidable *a priori* argument in favour of reducing state budgets and, wherever possible, transferring state activities to the private sector.

### 3.2 Criticism of Public Choice and Property Rights Literature

However, both the property rights and public choice approaches are largely based on *a priori* reasoning and lack firm empirical support.<sup>3</sup> But above all, these theories are concerned with the way that a change in the ownership structure of the firm influences the behaviour and action of the management. So improvements in the efficiency of the firm as a result of privatisation, runs the argument, is a direct consequence of changes in the governance structure of the firm. But there are several criticisms which are levelled against these theories.

---

<sup>3</sup> For instance, if according to the public choice theory the budgets were always one-sidedly in favour of expansion, spending would have grown rapidly when it has not. Nor does the pattern of government's spending always mirror the voting decisions of the voter's individual economic experience. (Starr, 1990; Runge, 1984).

### 3.2.1 Critique 1: Sharp Distinction between Public and Private Sector Organisations May Be Misleading

The variety of organisational forms in the public and private sectors raise serious questions about the value and applicability of a generalised public and private comparison. Furthermore, the property rights and public choice literature have little to say about the performance differences between organisations within the public and private sectors or differences which exist between their management styles and expectations; although it is to be understood from these theories that where rights to profit become more diffused efficiency will decline. Indeed, drawing a sharp distinction between the public and private sector may be misleading. Arguably ownership is best viewed as a continuum of organisational types. In Sweden, these range from the archetypal government bureaucracy (for example, the Foreign Office) through various types of agencies (such as myndighet, affärsverk, statligt aktie bolag, public-private partnership), through to private sectors firm heavily dependent on governmental contracts (for example, defence business), limited liability companies, and lastly the archetypal entrepreneurial small businesses. At the same time *all* firms, whatever their legal ownership, are subject to *some* degree of state influence, namely through regulations, taxes and the impact of macroeconomic management on demand, prices and interest rates. An emphasis upon ownership as a continuum always involving some state intervention suggests that it might be too simplistic to presume some readily identifiable public versus private split in organisational design and orientation. Some public sector and private sector firms may have similarities that define their behaviour and performance more clearly than the presumed differences. To remedy this shortcoming, it is true that later studies about enterprise efficiency and performance have shifted emphasis to the relevance of ownership as an important determinants of economic performance in the process of privatisation. The issue discussed in these debates was why a change of ownership from public to private sector could lead to improved performance and whether, *within the public sector*, a change in the status of an organisation could improve performance without a transfer of ownership. Differences in incentives between public and private organisations, arising from differences in the ability of owners to monitor managers were regarded as the milestones in

these debates. These differences are attributed to the divergence between the objectives of principals and agents. We shall discuss more on this subject later when we deal with the cubic model.

### 3.2.2 Critique 2: Exaggerated Conflict between the Interests of State Employees and the Public Interest

At the heart of the public choice model is the neo-classical rational actor or maximising individual. Agents are considered to behave rationally in a self-regarding way and through the pursuit of self-interest they optimise their preferences in a consistent fashion. This is held to be as true of politician and employees in the state sector as it is elsewhere in the economy. The resulting perspective on motivation in the public sector contrasts markedly with the Weberian notion of disinterested officials pursuing the public interest which underpinned public ownership.

From its inherent assumptions about individual motivation based on rational self-seeking behaviour, public choice theory leads to the conclusion that state employees pursue their own interests even when they clearly conflict with the public interest. This may be a correct view of the public sector, but on the other hand it may seriously misrepresent how employees in the public sector actually behave. Certainly organisational behaviour literature for a long time has argued that the motivational needs of individuals in organisations are more complex than as represented by neo-classical utility-maximising man (Herzberg, 1966; Maslow, 1964). Maslow argued that individuals have a hierarchy of needs, which range from physiological needs at the lowest level (such as food and warmth), through safety needs, love needs, esteem needs, to self-actualisation at the highest level. Neoclassical economics tends to emphasise low level needs, whereas esteem and self-actualisation needs are more important to high income groups.

Furthermore, Fama notes how the labour market for management may capitalise performance in managerial remuneration producing a direct incentive for managers to satisfy owners independent of the precise form of the ownership (Fama, 1980; Frech, 1980). In its simplest terms,



effective management has its own rewards in terms of salary and promotion prospects.

The work on bureaucracy by Downs (1967 and 1957), which generated a considerable amount of the later public choice literature, recognised that employees in the public sector far from being purely egotistical could well have broader motives (such as loyalty to the bureau or nation, pride in the proficient performance of work, and even serving the public interest). The contribution made by Downs is also important since he recognised the importance of intra- and inter-bureau relationships. In contrast to much of the public choice literature which takes a homogenous view of the public sector and regards all state bureaucrats to act identically or, at least, assume that the differences in behaviour between officials are relatively unimportant, Downs argues that such simplification may result in a distorted view of the performance of bureaux and state industries, especially if contrasted with an idealised, entrepreneurial private sector. Downs (1967) reminds us that bureaucracy exists in the private sector too.

It is an oversimplification to assume that the managers in the public sector have an insatiable desire to expand their departments. Since, even if they do show such a tendency, for example by using low discount rates when appraising investments, it does not amount to them being able to do so. Government employees do not face the pressure of the private capital market, but they do face considerable political monitoring of their actions and performance, including media scrutiny and official audits and public enquiries. Moreover, one should appreciate that politicians and public servants may pursue the public interest, at least some of the time (Fiorina and Noll, 1978). This is at least part of the reason why assumptions made about budget maximising models of behaviour have not been proven empirically or there are considerable controversy about findings related to them. As Mueller concludes in his review of the public choice literature: “systematic support for the bureaucracy-size relationship is sparse and contradictory” (Mueller, 1989: 339; for a similar view, see Green and Shapiro, 1994). Having studied the way in which British civil service responded to changes in public spending budgets between 1970s and

1980s, Hood *et al.* (1984) draw the conclusion that: “the link between budgetary increases and bureaucratic utility is neither clearly demonstrable nor universally applicable” (p. 163). They could not find a clear relationship between increases in budget allocations and increases in bureaucratic benefits as could be represented by changes in total staff and top staff within departments. In a separate study, Dunsire *et al.* (1988) also noted that in times of budgetary constraints, there was no evidence that people at the top echelon of civil service would unreasonably safeguard their own grades, as might be expected if the utility maximising model were sufficient predictor of behaviour. Furthermore, there were no convincing evidence to support the claim that the salaries of top civil servants had grown faster than the pay of junior staffs or pay in comparable private sector work. A similar study of changes in public spending in the USA also drew parallel conclusion (Peters, 1989).

### 3.2.3 Critique 3: Misguided Notions About the Ability of Capital Market to Constrain Managerial Behaviour

The next criticism of the public choice and property rights literature is concerned with the operations of the private capital market. While the disincentive effects of the attenuation of property rights in the public sector are emphasised, a more sanguine attitude is adopted about arrangements in the private sector. In public joint stock companies ownership and control are divorced, producing the agent-principal relationship. Capital is raised from the investing public in the shape of equity and the financial institutions in terms of equity and loans, while the control or management of assets is in the hands of professional managers (directors, mainly executive directors). The latter act as agents for the shareholders’ interests. The utility of shareholders is advanced by maximising profits (or more precisely the net present value of the firm’s current and future profits) as this increases dividends and promotes growth in share values.

Information asymmetries and incomplete contracts between the directors of boards and their shareholders are the main reasons why it is possible for managers to engage in activities which are not intended to increase the

utility of the owners of resources. Shareholders, especially in large conglomerates where ownership is particularly dispersed, lack to a large extent the means to ascertain whether profits are being maximised, and yet they are aware that those contracts which heavily constrain managerial discretionary behaviour could easily restrain the ability of management to react with speed and confidence to unpredictable contingencies on their behalf.

Since, the days of Berle and Means (1932), a steady but growing body of literature in economics, has emphasised the existence of managerial discretionary behaviour in private corporations where ownership and control are separated (Zahra and Pearce, 1989; Jensen and Meckling, 1976; Marris, 1964; Williamson, 1964; Baumol, 1959). However, in the more traditional concepts of the firm in economics, one is led to believe that private sector managers simply endeavour to maximise profits and retain or distribute those earnings in the interests of shareholders. By contrast, managerial theories of the firm argue that the separation of ownership and control in modern corporations has its benefits as it allows discretionary (non-profit) behaviour by managers in the private sector. It is interesting to note that in these managerial theories, the managers in large private companies are expected to behave in an almost identical to those made by Niskanen *et al.* about the behaviour of state bureaucrats.

However, whilst recognising the apparent similarity between the motivations of managers of large private corporations and state bureaucracy due to the separation of ownership and control, the public choice and property rights literature suggests that in the former the capital market restricts managerial discretionary behaviour much more effectively than political control does in the public sector (Fama and Jensen, 1983; Millward and Parker, 1983). They put forward two arguments in this respect. Firstly, they argue that the threat of bankruptcy in the private sector has great disciplinary effect on managers in the private sector whilst loss making state enterprises can enjoy unlimited supported from the government.

Secondly, in failing private companies, this failure is translated into unsatisfactory profits, which in turn leads to a sale of shares and a fall in the share price, and that in turn provides the grounds for a take-over by new management. Thus, the proponents of the property rights theories argue that the transferability of ownership rights and its pursuant threat of take-over is the mechanism which constraints managerial behaviour in the public joint stock company (Alchian, 1965; Manne, 1965 and for more recent arguments along the same lines, see Coffee, 1986; Madden, 1981). In contrast, the same theories argue that lack of such tradable property rights tend to provide a less effective external leverage on the behaviour of management in public sector organisations except may be in “mixed” public and private enterprises (Boardman and Vining, 1989). Consequently, there is little room for different forms of ownership to exist for the state industries or for them to develop into more specialised forms. Such a shortcoming, it is argued, is a serious handicap for effective monitoring of the management in the public sector (De Alessi, 1980). However, in the private sector, the existence of different forms of ownership, individuals, corporations and perhaps more importantly the institutional investors, necessitate the means for building up information on industries, and this in turn leads to a more effective monitoring of management.

However, the power of empirical evidence is less compelling that would otherwise be suggested by theory. It is conceivable to argue that the private capital market is a more efficient disciplinarian means since price fluctuations appear to signal better firm-specific information (Fama, 1991). But there is considerable uncertainty as to whether it does succeed to dispense funds to areas of highest return so that it could be effective in constraining managerial behaviour. So far, a considerable number of studies on the market for corporate control has been conducted and they provide evidence that it works imperfectly. Furthermore, whether the shareholders have the ability to effectively influence the behaviour of the management has been questioned even when they are in a position to enjoy adequate information about the firm (Holmstrom and Triole, 1989). Inertia along with the transaction costs of trading shares, may mean that funds are not moved even when a higher return could be earned

elsewhere. This will apply particularly to small shareholders, where the transaction costs of share dealing are likely to offset gains and where individual shareholders may free ride in the hope that others sell.

Hence, the central argument in these theories, i.e., the notion of the exchangeability of private property, a factor which is fundamental in disrupting the rigidity of the relation between the owners and the management, thus exerting a continuous pressure on them to raise the efficiency of the firm and reduce its unit cost (De Alessi, 1980; Furubotn and Pejovich, 1974) may not be valid. Private property theorists contend that the private capital market limit managerial non-profit behaviour. When performance is low, shareholders will sell their shares, making the company vulnerable to take-over by new management. This role is however questionable. Stiglitz (1985) and Grossman and Hart (1980) have argued that market pressures may not be a strong incentive on the management due to transaction costs, free rider problems and information imperfection. This view is supported by Lawriwsky (1984) and Millward and Parker (1983), whose empirical work has shown that there does not exist a simple relationship between the capital market and the managerial behaviour.

Furthermore, firms with highly diffused shareholdings do not necessarily perform worse than those with highly concentrated shareholdings (Demsetz and Lehn, 1985), but nevertheless recent studies have argued that corporate control is likely to be more effective where there are large blocks of shares (Boycko *et al.*, 1996; Leech and Leahy, 1991; Caves, 1990; Shleifer and Vishney, 1986).

Where ownership is concentrated, the benefits to the individual from monitoring management behaviour and trading in shares are more likely to exceed the transaction costs of share trading, whereas where ownership is widely dispersed there may be no individual or group with the incentive or voting power to exercise control and ensure profit maximisation.

There also appears to be a contradiction between the high expectations of property rights theorists in the ability of the capital market to constrain

managerial behaviour and the results of research into the effects of take-overs. Some studies suggest that the take-over threat produces short-termism, which penalises investment in, for example, training and research and development, leading to a long-term decline in competitiveness (Shleifer and Summers, 1991; Williamson, 1991; Dertouzos *et al.*, 1989; Aoki, 1984; but for an opposing view, see Ball, 1991). For instance, compared with their UK counterparts, German and French managers have far more security from hostile take-overs because of the structure of shareholdings, the concentration of voting rights and the term of management contracts (Berglof, 1990; Franks and Mayer, 1990). At the same time both the German and French economies have outperformed the UK economy since 1945, implying that the link between an active market in take-overs and economic efficiency is ambiguous.

Other studies have cast doubt on whether it is necessarily firms with flagging profits that attract the hostile take-over bid (Jenkinson and Mayer, 1994; Singh, 1975 and 1971). Moreover, in recent years management have learnt to protect themselves from the personal costs of a bid through methods which either make successful take-overs more difficult or provide generous compensation for loss of office, such as “poison pills”, “golden parachutes” and the like (Jacobs, 1991). Also, studies by Ravenscraft and Scherer (1987), Meeks (1977) and Singh (1975) have found that many acquisitions and mergers do not necessarily produce the expected profits. Indeed, around 50 per cent of acquisitions and mergers are said to fail, in the sense of not achieving the expected performance gains. This has led to suggestions that take-overs are a product of management empire building rather than a means of ensuring that management pursues shareholder welfare. Acquisitions increase the size of the firm and therefore the management’s span of control. They can also improve management job security because making the firm bigger can reduce exposure both to particular market segments and the likelihood of a hostile take-over bid (Morck *et al.* 1990; Caves, 1989; Hughes, 1989; Jarrel *et al.*, 1988; Hughes and Singh, 1987; Roll, 1986; Mueller, 1980). The finding that average returns to bidding shareholders from making acquisitions are at best only slightly positive (Franks and

Harris, 1989; Jensen and Ruback, 1983) and in some studies significantly negative (Bradley *et al.*, 1988; Firth, 1980 and 1979) conforms to the idea that take-overs are motivated by the pursuit of managerial rather than shareholder utility.

Lawriwsky (1984) at the end of a detailed study of the relationship between private sector industries and the capital market concluded that the degree of control over management varies and is far from predictable and that a mixture of “internal organisation and external constraints are important determinants of company performance” (p. 217). He also found that the relationship between the external capital market constraint and conduct and performance varied according to a number of factors, including organisational form, control type and size.

The above discussion should not be interpreted, however, as a complete dismissal of the capital market as a useful constraint on corporate behaviour. The threat of take-over is a constraint which clearly does not exist in the public sector. Also, large private sector firms can and occasionally do go bankrupt. Neither are the public choice and property rights theorists necessarily wrong about relative behaviour in the public and private sectors. Nevertheless, quite clearly privatisation involves a move from on intricate agent-principal relationship to another and the outcome is not entirely clear (Bös, 1993; Bös, 1991; Bös and Peters, 1991). The motivation of public sector employees may be more complex than portrayed in the public choice literature, especially in its more populist forms. Moreover, it is important not to fall into the trap of comparing a flawed state enterprise with an idealised image of the operation of firms in the private capital market. Gibbard and Varian (1978) warn against the use of caricature models in economics which exaggerate or distort reality. Arguably, in recent years the public choice and property rights theories have taken on a semblance of caricatures to support the wholesale transfer of industries from the public to the private sectors.

In reality the effects of ownership on managerial behaviour and hence on organisational performance are likely to be complex (De Fraja, 1993; Bös

and Peters, 1989; Gravelle, 1984; Rees, 1984). In so far as a convincing case for privatisation cannot be made by deduction alone, it is necessary to resort to empirical study of public versus private efficiency.

#### 3.2.4 Critique 4: High Expectations About the Role of Incentives on the Management

Central to the efficiency arguments is the role of incentives and the way which a change of ownership could influence the structure of these incentives. Much of the contributions for explaining the relations between these factors are provided for by applying the agency theory to the case of privatised versus public enterprises. Underlying this theory is a neo-classical model of the firm which views the latter as a black box, or as a production function relating inputs to outputs and stripped of any institutional detail. This exogenously given production function is essentially the same for all firms in the industry, and for potential entrants. Furthermore, both the literature on the separation of ownership from control as well as agency theory emerged in the United States, and most of the empirical literature has used US data (Gedajlovic and Shapiro, 1995). It is precisely this view of the firm that enables neo-classical economists to regard markets as neutral aggregations of consumer valuations and supplier costs, and thus to ignore the role of the national and international environment in defining and shaping the firm.

Based on the agency theory, bulk of arguments in support of why a privatised firm would have a better efficiency than its state-owned rival could be grouped into two main postulates. In general, it is argued that the change in the allocation of property rights leads to a different structure of incentives for management and hence to changes in both managerial behaviour and company performance (De Alessi, 1980). Furthermore the informational status of private owners is alleged to compare favourably with that of the bureaucrats who are supposed to audit the public enterprise. Privatisation, therefore, means that the management faces a better informed principal than before (Bös and Peters, 1991).



Thus, one immediate result of privatisation is that the structure of management is changed and it becomes responsible not to a certain ministry or government department but to private owners. The mechanism which the new owners influence the management is wholly different from what used to be the case. Contrary to the government, the new owners can forsake the firm at their own volition, and the ownership could change hand at anytime which shares are available for sale.

The owners of a private firm are said to have only one objective. They are only interested in maximising profits whilst the “government, on the other hand, is interested in attaining two goals: high consumer welfare and not too high a deficit of the enterprise.” (Bös and Peters, 1991: 27) Other government objectives are thought of as being related to the above-mentioned objectives. Hence, it is argued that compared to a public enterprise, a privatised firm alters the situation of the principal-agent in three ways:

- The objectives of principal have shifted from welfare to profit-maximisation;
- Rewards can be linked to the company’s share price via share ownership or option schemes;
- Poor financial performance could be penalised by the threat of a take-over by another firm, or by the dismissal of the management.

These assumptions have been questioned by a multitude of researchers. De Alessi (1977) and Peltzman (1971) argue that privatisation could also result in lower allocative efficiency for the consumers or the end-users. Hence, even if the company could acquire greater performance, it would not benefit the consumers or the customers by the same proportion. Amihud and Lev (1981) point out that ownership arrangements are only one of a variety of factors which influence managerial incentive structures and economic performance of a firm. The competitive structure of the industry in which the firm is operating and the regulatory constraints that are in existence, could just as well determine the actions of the management, and the risks which it is likely to take. Thus, one could not assume that the managers of privately owned firms will always work to

the best interests of their shareholders just because they are subjected to a different form of governance. Stiglitz (1985) and Grossman and Hart (1980) have argued that market pressures may not be a strong incentive on the management due to transaction costs, free rider problems and information imperfection. This view is supported by Lawriwsky (1984) and Millward and Parker (1983), whose empirical work has shown that there does not exist a simple relationship between the capital market with the managerial behaviour. Vickers and Yarrow (1988) argue that the assumption made that shareholders seek to maximise their expected financial return from the company may not be holding. Hence the risk-neutrality assumption may well be inappropriate. Grout's (1994) study reveals that the actions of the management could be constrained by the interests of a few large shareholders. Hence the mere dispersion of shareholding is not a factor of great significance for managerial incentives. Take-overs could be means to enhance the leverage of a particular present or future shareholders who already control the management or will control it. In this sense, take-over may increase the managerial utility and not the welfare of shareholders at large and be aimed at both inefficient as well as efficient firms. Even empirical studies in some countries do not support the assumption that there is a direct link between acquisitions and company performance (Singh, 1975) or that the efficiency of a firm necessarily increases as a result of a merger. In fact, some studies point to the opposite (For both sides of the arguments, see Franks and Harris, 1986; Firth, 1980; Meeks, 1977).

### 3.2.5 Critique 5: The Bias in the Monitoring of Boards by Large Shareholders

Agency theory assumes that the monitoring role of boards is best accomplished when ownership is concentrated in the hands of one or more large block shareholders because these shareholders have greater incentives to perform monitoring activities. So, stock concentration matters since 1) If the concentration is diffused then there may exist information asymmetries between managers and stockholders, i.e. stockholders may lack the data necessary to pass judgement on the desirability of certain strategies. 2) The more concentrated the stocks are,

the more able are stockholders to remove managers who fail to maximise stockholder wealth through waging proxy battles or engineering take-over bids. Thus, when stockholdings are concentrated, information asymmetries are low, the ability of stockholders to remove a management team is high, and managers are likely to feel constrained to pursue strategies that are in stockholders' interests. For instance, Hill and Snell (1989) have found a positive relationship between stock concentration and productivity which indicates the importance that a constituency of powerful stockholders have for the efficiency of a firm. The results also confirm that in addition to a direct effect, powerful stockholders have an indirect effect on productivity through their influence on a firm's diversification strategy and investment in R&D.

Thus from agency theory perspective owner-controlled firms are naturally better value maximisers than management-controlled firms. This is because owners bear the full wealth effects of their decision, and therefore require less monitoring. However recent contributions to the entrepreneurship literature suggests that owners are also quite susceptible to overblown expectations. However, in a recent study, Lane (1995) demonstrates that there is little support for the standard agency theory assumption that management-controlled firms are associated with strategically inferior levels of diversification and acquisition types, lower levels of risk and lower levels of returns than are owner-managed firms and/or firms with vigilant boards. He concludes that the governance of a public corporation is a complex phenomena and there is growing evidence that agency theory by itself is too simplistic to adequately capture its subtleties.

The existence of such inconclusive and often contradictory results leads one to suggest that not only ownership concentration, or the type of credit (be it equity or debt) or the nature of institution which provides such funds to the firm, but the interplay of ownership and involvement in the strategic decisions of the company determines to what extent these providers exert real influence on the firm. For in essence there is an ongoing struggle between those who wish to retain interest on their funds (whether in the form of debt or equity) and those who wish to develop the

company as a functioning enterprise. The struggle between representatives of the interest-bearing capital (shareholders, banks, other creditors) and functioning capital (management, investment banks, finance groups, founding entrepreneur) is a real one. Most of the studies make a distinction simply based on the type of credit forwarded to the firm, i.e. debt or equity, and overlook the fact that in the long-run dividends paid to the shareholders are as much stable as the interest paid to the creditor banks, and that both interest and dividend are influenced by macroeconomic factors alike. However, the struggle between interest-bearers and functioning capitalists is about how to divide the residual profits of the enterprise. How much to be retained and accumulated and how much to be dispensed to the creditors. There is still one more struggle, namely the struggle over the size of profits to be divided between the above contending parties. Here the size of wage funds, payments to suppliers, taxes, and even the size of profit given to the management as compensation counts. Gedajlovic and Shapiro (1995) rightly distinguish between short-run tactical behaviour of the management resulting in cost escalation and long-run strategic behaviour resulting in profit reduction. In the former the management is asking for his rewards as administrator, in the latter he is working as the representative for the functioning capital. The two may be linked but are analytically separate issues. However, what Gedajlovic and Shapiro seem to confound is the fact that for the management as the representative of functioning capital, the rate of return on capital is as much important as the shareholders. The management, too, wish to accumulate the returns for further expansion of the firm. Without continuous expansion of a firm there would be no working enterprise in the capitalistic sense. So here the management and the equity holders do not differ. On how much of the profits are to be handed out to the shareholders, they differ though. The management wants to pay as little rent on the working capital to the shareholders as possible. There lies the difference. Much of the research done on the issue of diversification is done with the intention to prove that management has an inherent tendency to waste capital in diversifications which are not profitable in economic terms (Collin and Bengtsson, 1994; Hoskisson and Turk, 1990; Hill and Snell, 1989). Their results are no

doubt flawed with uncertainty and even proved false (Lane, 1995; Collin and Bengtsson, 1994).

One of the most recent applications of public choice and property rights theories to the study of privatisation is a conceptual model developed by two researchers foremost in the field. This model which is called the cubic model, because of its three dimensional representation of factors influencing an organisation due to a change in ownership, despite its superiority to more simplified concepts of privatisation still suffers from pitfalls which are inherent in the theoretical premises on which it is based. To complete our critique of public choice and property rights theories, an examination of the cubic model is then necessary. Least of all in order to help the reader understand why such theories, even when they are finely tuned, are still grossly negligent of the intricacies of organisations.

### 3.3 The Cubic Model

It maybe true that earlier researchers have not dealt with developing a general analytical framework for understanding the overall effects of privatisation on the workings of firms. However a conceptual model initially developed by Parker and Hartley (1991) and later developed further in a book co-edited by Ott and Hartley (1991) does much to remove the deficiencies in previous approaches. The cubic model benefits from theoretical arguments furnished by both the public choice and property rights literature. The premises and conclusions of this model are as follows:

- The debate over privatisation focuses on enterprise performance and efficiency. Ownership is a determinate factor of economic performance.
- The relevance of ownership does not exclude the fact that economic performance also relies on competition and managerial freedom (for example, internal organisation and employment contracts).

- The external environment may also play a signified role in economic efficiency of an organisation. For example public sector cutbacks, withdrawal of subsidies, business-favoured labour legislation, regulatory measures, etc. could drastically limit or enhance the activities of the management or the premises of the market in which the firm has to compete. However, these effects have a certain impact at any given time on the enterprise and would eventually result in a change in the ownership structure or the competitiveness of the organisation.
- The relationship between market structure and the status of the enterprise could be represented in a two-dimensional arrangement where the axes depict capital market and product market. The former encompasses various status of an enterprise ranging from a government department to an owner manager firm whilst the extremities of the latter are perfect competition and monopoly.
- The relative positions of various private and public organisations are shown along the horizontal axis. The vertical axis represents product market competition which becomes more intensive as we move towards the origin.
- An organisation “improves” its performance as its status is changed along the horizontal axis ranging from A to B. Likewise, organisational changes which involve movement from X to Y are likely to produce performance improvements.

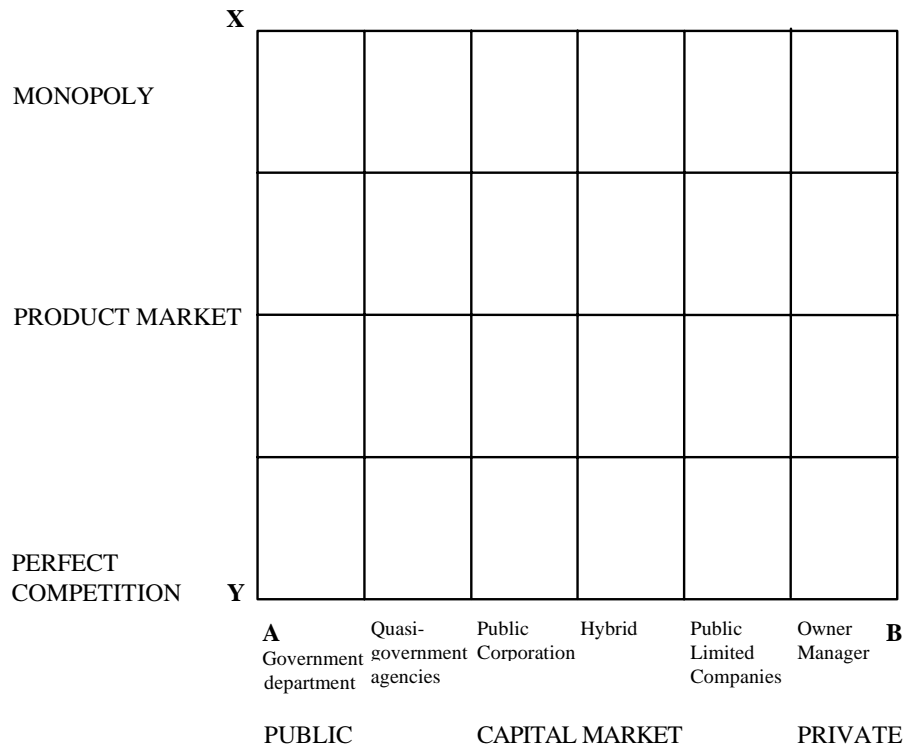


Figure 3.2 Effect of organisational change on performance (Parker and Hartley, 1991: 21)

The model discussed is restricted to product market and capital market dimensions of the organisational status. Two other major factors in debates over privatisation are not included in this model. It is argued that the objectives of an organisation and the way in which control is exercised over an enterprise also contribute significantly towards enhancement in the performance. For example, it is often claimed – especially in the public choice literature – that public sector organisations pursue multiple objectives such as budget maximisation, non-optimal pricing, employment and community service whilst the objective of private sector firms is clear-cut, namely, profit-maximisation.

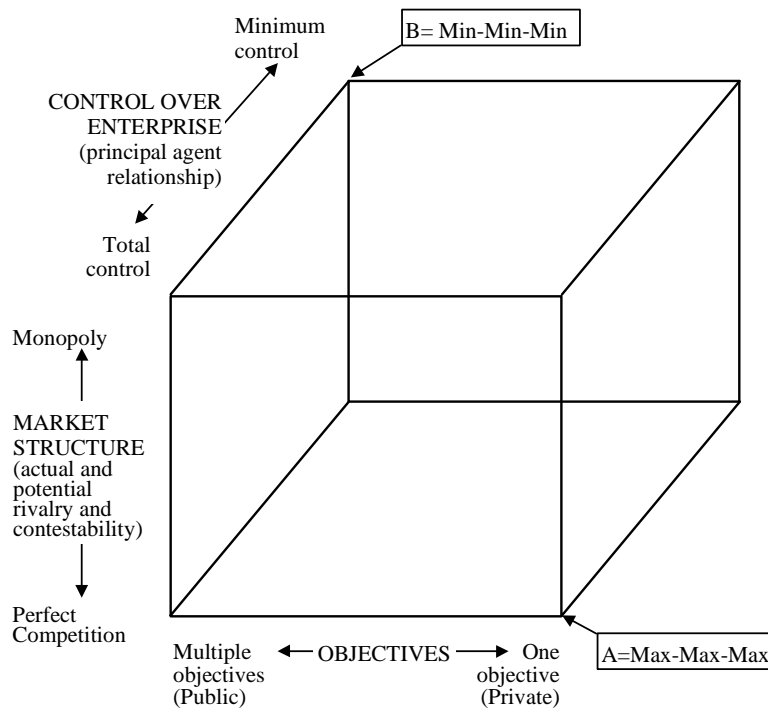


Figure 3.3 A schematic representation of the cubic model (Parker and Hartley, 1991: 23)

Likewise, it has been suggested that total control of an enterprise is achieved when the principal can completely monitor agents, so that the objectives of the two do not diverge, as in owner-manager firms whilst the existence of various layers of organisation dissociates the management from the owner thus exacerbating the asymmetry in the information available to the two, with an advantage to the management. The need to incorporate these factors has led to a modification of the analytical model presented earlier. A three-dimensional presentation of these factors as illustrated in the cubic model above is the product of these modifications. Position A on the cube is the co-ordination which corresponds to a situation where there is intense market rivalry, total control over each firm by the principals and the pursuit of one objective, namely, profit-maximisation is the ultimate goal of the enterprise. In contrast position B shows a public sector monopoly which is subject to minimum control and pursuing multiple objectives. Hence the position is represented as Min-Min-Min.



This developed model is criticised for its “penny slot machine” approach and for being over-ambitious in falsely attempting to summarise a multifaceted and complex issue in terms of three parameters (Sawkins, 1992). There is substance in the criticism made against this analytical model. It is true that the model does not account for the effects which factors external to an enterprise could exert on its performance. For instance, the role of regulation, government policies, globalisation, financial markets and such like are excluded. Nor is there adequate room in this model as how internal factors such as working conditions and employment contracts can influence performance. Nor does this model take into consideration the effect of structural arrangements on the management behaviour and the latter’s effect in turn on the performance of the organisation concerned. However, it could be argued that this model despite its shortcomings has its strength. The cubic model provides a framework for clarifying some of the issues surrounding the debate about public and private performance. It provides a snapshot picture of an enterprise at a particular time. The rationale inherent in the model is that whatever the external factors may be they eventually influence any one of the three factors included in the model to a certain degree for any given time. If this model is applied to a particular organisation, then it is possible to evaluate how performance has changed between two particular occasions, thus making it possible to explore the way which various factors have contributed to these changes.

To study a complex phenomenon, one is allowed to make a simplified version of events, a model, where the most important factors are considered under perfect conditions. This kind of modelling, well practised in natural sciences, has been imported to the study of privatisation. There is truth in the claim that 1) if control over an enterprise could only be reduced to the way that the management is influenced by the owners through pecuniary rewards or punitive actions; and 2) if one could assume that the objectives of an enterprise could be reduced to the dichotomy of welfare vs. profit-maximisation; and 3) if, further, the entire relation of the firm to its outside world could be reduced to that of its product market and its vacillation between monopoly and perfect competition, then any change in the performance of

the firm could be explained by the interaction of these factors. However such simplification is fraught with danger. Firstly, a change in the structure of incentives for management could not necessarily lead to a change in the managerial behaviour and company performance. Nor is the withdrawal of the capital by the formal owners of the firm always practical or effective in restraining or disciplining the management. Nor is a firm always under the sway of its management and hence disciplining it would shape the firm as a whole. Secondly, the product market is not the only market for a firm. The managerial market, the labour market, the credit market (i.e. non-proprietary capital), raw materials market are also as important and decisive. It is not possible or permissible to assume that the dichotomy of monopoly vs. free competition is always the same for all of these markets. For instance, whereas internal or hierarchical recruiting might ensure monopoly in the managerial market, free competition could reign supreme in the product market and at the same time the existence of only a few large creditors could give rise to oligopolistic competition. A composite value could not be given to the degree of competition for all of these diverse markets. Lastly, it is hard to imagine how in today's world a corporation could only have one objective, namely profit-maximisation. Already, in almost all industrial countries, there are severe regulations concerning environmental issues. Large corporations are social as well as economic institutions and this entails that they have willy-nilly social obligations towards their employees either because of local bargaining or because of municipal and federal regulations. Hence, to study the objectives of the firm, one should also accommodate for these multifaceted objectives which are imposed from outside.

Furthermore, other intrinsic reasons could also influence the way a firm responds to privatisation which are not considered in the cubic model. For instance, if we spare ourselves from general macroeconomic and historical factors, three sets of reasoning are noteworthy to follow:

- 1) That a firm's inability to adapt the full effects of changes attributed to privatisation is due to internal resistance from different actors in the firm. Actions which are not ironed out because of the existence of regulations, norms and contractual obligations which hinder the

complete disciplinary effects of market forces. For instance, the management could afford to oppose the changes, albeit in a concealed fashion, because it is by contract protected from the full effects of managerial market. Likewise, the employees could oppose the changes because by the strength of their organisation or numbers they could afford to hinder the full effects of a non-rigid labour market. And so on.

- 2) That a firm's ability to adapt is also dependent on the exact nature of its work and the technology (be it in terms of machinery or expertise and skill) it employs. Traditional industrial sector, such as the steel industry, or mining industry, or such public sector activities as health care may by virtue of their special production or regulatory setting be unable to fully absorb the effects conducive to privatisation.
- 3) External factors such as capital market may limit the access of the firm to investment resources and hence prevent it from fully developing the potentials inherent in the privatisation process.

Hence, depending on how each of these factors could influence a firm, the ultimate effects of privatisation process would be different. In other words, ownership does have a potential to affect a firm, but its realisation depends on a myriad of circumstances. Only an empirical study could reveal the particular role which a change of ownership has played for a particular industry, branch, sector or firm.

Thus it seems that any attempt to produce an all-embracing explanation to accommodate for changes in ownership is doomed to failure as have been the case with previous attempts. But I believe, one could circumvent the pitfalls of previous studies by focusing not on ownership *per se* but the whole process which will ultimately lead to a change in ownership. In other words, *ownership could be seen as the consequence and not the cause of changes brought about in the organisation*. It is clear that a change of ownership does mean a change in the rights of those who could ultimately accrue and control the residual profits of the firm. This is one mundane motive why investors would be finally interested to buy out or opt out a firm from the realms of the state, and why the state would be interested to fill up its coffer by selling the firm. However, in studying the

organisational aspects of the matter we could leave out this eventuality, which has of course a very important political consequence. The question, then, is not what ownership does for the changes in the firm but why is it that these changes ultimately make a change of ownership essential for the firm.

As the impregnated walls of earlier theories become porous, it no longer seems heretic to define privatisation as something beyond a simple change of ownership and to assert that theory must indeed be compatible with reality and not reality be forced into what theorists wish to explain. There is a need to understand privatisation not just as a single-event but as a whole process of changes. If such a need is felt, then one is obliged to look out for theories which do indeed provide the investigative tools for unravelling this process. Institutional theory provides in my belief some of the means to this end, although it has itself certain limitations which one should be aware of.

### 3.4 The Use of Institutional Theory in Studying Privatisation Process

By understanding privatisation as a process, one could unravel how this organisational change is institutionalised (Goodman and Dean, 1984). One starting point, however, is to view institutional systems as a “class of elements” (Scott, 1987: 497). This category of institutional theory (henceforth *neo-institutionalist* theory) owes its origins to the seminal work of Meyer and Rowan (1977) and their colleagues, according to whom the formal structure of organisations is seen to “dramatically reflect the myths of their institutional environments instead of the demands of their work activities” (p. 341). The myths that generate formal structures “are rationalised and impersonal prescriptions that identify various social purposes as technical ones and specify in a rule-like way the appropriate means to pursue these technical purposes rationally ... (and) they are highly institutionalised and thus in some

measure beyond the discretion of any individual participant or organisation” (*ibid.*: 343-344).

Neo-institutionalist theory has a number of distinct attributes (see Scott, 1987: 497-499). First it emphasises the role of cultural elements - symbols, cognitive systems, normative beliefs - in organisations and the sources of these elements, in contrast to previous theories of organisation (e.g. contingency theory) that focus primarily on technical requirements. Although organisations are clearly the product of human action and interaction, neo-institutionalist theory questions the level of understanding that is reached in viewing organisations as the outcome of human design and intention. Similarly the idea of human or ‘rational’ choice as a dominant explanatory form for organisational analysis is also rejected by neo-institutionalist theory. This is not to say that people do not make choices, clearly they do; however, neo-institutionalist argue that only partial understandings are gained by starting an analysis of organisations (or any other special practice) with choice or preferences (Meyer, 1986). The idea of an institution, rather, is a way of attempting to capture the “cultural and historical frameworks within which [choices] are embedded” (DiMaggio and Powell, 1991: 11).

Changes are thus described in terms of three processes - unfreezing, moving and refreezing (Lewin, 1951). This approach tries to explain different degrees of institutionalisation and critical process which affect it as well as explicate the critical predictors for it. Such a view places emphasis on the importance of “institutions” - defined as regulative, normative and cognitive structures that provide stability and meaning to social behaviour - in shaping practices and forms within organisational fields (Scott, 1995; Selznick, 1957). Organisational fields comprise “those organisations that, in the aggregate, constitute a recognised area of institutional life” (DiMaggio and Powell 1983: 148). Organisations, over time, become constrained by coercive, normative and mimetic isomorphic pressures within their field (DiMaggio and Powell, 1983). These pressures encourage organisations to adopt legitimised forms to ensure access to the flow of societal resources and to improve their “long-run survival prospects” (Meyer and Rowan 1977: 252). Then as a result of

institutionalisation, organisations develop coherent systems of shared understandings that support continuation of the established patterns. By its very nature, this view is gradualist in its emphasis and behaviourist in its methodology. It assumes that people probably have some cognitive representations of a behaviour before it is performed. Performance of a behaviour generates experiences, as well as rewards and punishments, that affect people's disposition towards the behaviour. As many people perform the behaviour, they become aware of other's performance, which leads to consensus about the appropriateness of the behaviour. Thus, if there is normative consensus about a class of behaviours that reflect a particular value, over time we expect some consensus on that value among organisational participants. The normative consensus in turn depends on the private acceptance of that behaviour, which in turn reflects experience from the performance of that behaviour.

The institution is a concept that, in neo-institutionalist theory at least, is not reducible to the concept of organisation. By institution it is meant the *conventions* operating within and between organisations that take a kind of rule-like status (DiMaggio and Powell, 1991: 9). In following such conventions organisational actors act and decide in ways that reflect taken-for-granted assumptions and expectations as to how to "go on" within the organisation. Describing institutions as rules does not imply that the behaviours of organisational actors are entirely predictable; there is always scope for innovation in interpreting and following a rule. As DiMaggio and Powell (1991: 20) note, all rules have large "penumbral areas" or "et cetera clauses" that allow discretion. Neo-institutional theory stresses the importance of *practical consciousness* in human actions. As a product of particular backgrounds and education, human behaviours are constituted by many normative commitments and beliefs that are frequently unrecognised and rarely questioned. Often normative beliefs operate within organisations as if they were facts (DiMaggio and Powell, 1991: 15); in neo-institutional theory individual action is less the product of calculation than a process of following routines that reflect largely unstated normative assumptions and commitments. Hence, understanding organisational structures and processes implies an initial investigation of the historical conditions within which organisational actors adopt certain

ways of operating and have their preferences or interests structured by the institutional environment. DiMaggio (1988) argues that by studying the institutional origins an opportunity is provided to bring agency (actors intentionally pursuing interests) back into institutional analysis. He asserts: “New institutions arise when organised actors with sufficient resources (*institutional entrepreneurs*) see in them an opportunity to realise interests that they value highly” (DiMaggio, 1988: 14).

Neo-institutionalist theory places less emphasis upon institutionalisation as a distinctive process and explains organisational conformity to institutionalised belief in terms of reward through increased legitimacy, resources and survival, not necessarily because such beliefs “constitute reality”. One key element of neo-institutionalist theory is an attempt to account for the structural similarities that exist (increasingly) between organisations: *institutional isomorphism*. In so doing, neo-institutionalist theory stresses the relationship that exist between organisations and their environments. The requirements for reward, status and legitimacy leave many organisations open to influence by their important external agencies, such as state organisations, regulating bodies and funding institutions. Organisational structures and procedures can reflect the organisation’s needs for legitimacy and the resources that follow from having legitimacy.

In developing their understanding of process of institutional isomorphism, DiMaggio and Powell (1983) identified three distinctive modes: *coercive*, *mimetic* and *normative*. Coercive isomorphism refers to pressures upon organisations to conform to certain modes of organisational procedure exerted formally and informally by other organisations. A good example of this is the requirement for organisations to follow certain statutory rules in their financial reporting practices. Mimetic isomorphism refers to the processes of institutional conformity that emerge out of following the ways of other organisations that at any point in time are considered successful. The adoption by Western firms of Japanese management methods seen rightly or wrongly as the source of success of Japanese corporations - Quality circles, Total Quality Management, Just in Time production - is a prominent instance of mimetic institutional

isomorphism. Normative isomorphism arises largely from the practices of the distinctive professions within organisations. Members of professions attempt to impose within all organisations their methods of working as means of legitimating their own status as professionals. In so doing professionals contribute to particular structural similarities between the organisations employing them.

A number of theorists have argued that this broad emphasis on process of conformity to institutional pressure has led to a downplaying of the role of interest and agency in organisational adaptation to institutional environment. (Elsbach and Sutton, 1992; Oliver, 1991; Powell, 1991; Powell and DiMaggio, 1991; Covaleski and Dirsmith, 1988; DiMaggio, 1988; Scott, 1987). A narrow focus on the processes of conformity has deflected theoretical interest away from accounting for the circumstances in which institutionalisation is resisted or challenged (Powell, 1991: 195). As Scott argued, “Just as is the case within their technical environments, organisations may be expected to exercise ‘strategic choice’ in relating to their institutional environments and responding to institutional pressures” (*ibid.*: 170).

Over time two main perspectives have developed by institutional theorists to account for the degree of strategic choice which organisations can exert in response to environmental conditions. One perspective emphasises external control (Romanelli and Tushman, 1986) and the importance of environmental constraints, including industry, economic, and social characteristics in limiting strategic responses. Some researchers have highlighted organisational adaptation primarily with respect to companies’ competitive, or task, environments (Pfeffer and Salanick, 1978). In contrast, the strategic choice perspective emphasises the ability of organisations to interpret and select their environments, responding to relatively fixed constraints and modifying other environmental elements (Hitt and Tyler, 1991). Organisations can then both adapt to environmental conditions and actively determine strategic response to them.

Regardless of which perspective one adheres to the fundamental question still remains: what factors affect organisational response to institutional



pressures? Oliver (1991) has elaborated a theoretical framework in terms of five factors: cause, constituents, content, control and context to respond to this question. She has argued that on these factors organisations may respond to institutional pressures in a variety of modes ranging from passive compliance with institutional norms to direct and active defiance of an institutional environment. Oliver has emphasised two important processes through which institutional pressures are exerted on organisations: legal coercion and voluntary diffusion. Organisational conformity to institutional demands is more likely when norms and expectations have been voluntarily adopted and diffused among organisations within a given field or sector (Scott, 1987; DiMaggio and Powell, 1983). Similarly, when there is a high degree of interconnection among organisations, the diffusion of institutional norms and demands is widespread and the likelihood of conformity is high (DiMaggio and Powell, 1983; Meyer and Rowan, 1977).

In short, neo-institutionalist theory gives more attention to institutionalised beliefs and practices, and underscores the multiplicity and diversity of institutional sources and belief systems. It draws attention to the role of the state and professional associations in shaping organisational life through the imposition of bureaucratic procedures and constraints, and the promulgation of new “rational” systems. In contrast to the image of privatisation as a “rational” choice for raising the efficiency of state-owned enterprises and enhancing planning and decision-making in them, neo-institutionalist theory could offer the process of privatisation to be examined as both as set of institutionalised practices and as part of the organisation’s cultural elements. The whole claim made about privatisation, as a process which leads to rationality, effectiveness, value for money may be myth. But organisations that undertake privatisation are rewarded by society through increased legitimacy and improved chances of survival.

### 3.5 Summing-up

Our survey of earlier theories suggest that there is a need to build a bridge between two distinct models of social actor that underlie most organisational analyses, which we refer to as a rational actor model and an institutional model. The former is premised on the assumption that individuals are constantly engaged in calculations of the costs and benefits of different action choices, and that behaviour reflects such utility maximising calculations (Coleman, 1990; Hechter, 1990). Public choice and property rights theories are based heavily on such an assumption. In the latter model, by contrast, “oversocialised” individuals are assumed to accept and follow social norms unquestioningly, without any real reflection or behavioural resistance based on their own particular, personal interests (see Wrong, 1961). The neo-institutional theory is inclined to favour for such an assumption. We suggest that these two general models should be treated not as oppositional but rather as representing two ends of a continuum of decision-making processes and behaviours. Thus, a key problem for theory and research is to specify the conditions under which behaviour is more likely to resemble one end of this continuum or the other. In short, what is needed is an understanding to explain when rationality is likely to be more or less bounded. A developed conception of institutionalisation processes provides a useful point of departure for exploring this issue and sets the ground for explaining the process of privatisation. This is an endeavour which we shall undertake in the Chapter 5, but first we should deal with the methodology which is necessary to make this work tenable.

## Chapter 4

# Methodology

*A critique is made of the functionalist methodology employed in most of the existing research on privatisation in order to direct attention to other non-economic aspects of this process. The need for a qualitative methodology is emphasised and it is explained how an idealised scheme may be used to help pattern out relevant processes from a myriad of information assembled with the help of a multitude of resources.*

The current research is in part a critique of the economic theoretical traditions on the issue of privatisation. This critique is not merely theoretical, it is also methodological. Methodology constitutes a broader territory between the realm of ideas and the world of events, a place in which the relevance of ideas to reality (and vice versa) is negotiated, established and explored. Much of the existing research on privatisation is influenced by functionalist theory tradition where formal structure is assumed to reflect organisational decision-makers' rational efforts to maximise efficiency by securing coordination and control of work activities. (Blau, 1970; Pugh *et al.*, 1969; Thompson, 1967; Stinchcombe, 1959). Hall (1987) provides a thorough review and summary of the findings of this literature).

## 4.1 The Black Box Methodology

In this functionalist/economic theoretical tradition, the inner workings of a firm is considered analytically irrelevant. The firm is a black box. The focus of this methodology is on attributes at aggregate-level rather than individual-level variables, and suggests that they influence behaviour independently of individual-level attributes. The central argument in this methodology is that critical concepts such as attitudes, cognitions, and values cannot be measured directly. Anyone trying to do so would be plagued by significant problems: measurement error, differences in conceptual definitions, violations of theoretical parsimony, and low levels of explained variations. Thus, aggregate variables may prove superior to these better known concepts because they are easily measured and produce more parsimonious explanations. It is expected that such concepts which are not directly observable, can be operationalised, and the resulting measures can be tested for reliability and validity. In this instrumental approach, the emphasis is on prediction rather than explanation. Explanation is seen as essentially antithetical to prediction. Hence, such theories are *more or less effective rather than more or less true*. A limited number of variables and their causal relations are seen as being the basis for formulation of law-like patterns .

In this approach, variables prove good predictors when they provide effective, consistent predictions for some outcome, regardless of the context in which the relationship is studied. The results may generate multiple, mutually exclusive, often implicit theories involving numerous additional concepts. Despite the important, sometimes critical, role of such additional theoretical concepts, researchers often leave them loosely specified and unmeasured, creating a black box filled with vague and untested theories.

The inherent empiricism of this methodology articulates an ideal approval for the natural sciences as well as for the behavioral sciences. This ideal regulates the relationship between the researcher, the research process, and the aspect studied. A key element in the ideal is the belief that only objective, detached observation ensures intersubjective certification.

Hence, the viewpoints and sensibilities of the observed and the observer, the scientists and their erstwhile subjects are polarised without seeing the necessary connectedness, and even the complicity, of these two roles. The attempt to establish correlations between variables lacks any attention on how these variables are defined by the people being studied (Silverman, 1993: 20). Thus, the proponents of this methodology view science as monistic, physicalistic and reductionistic. According to the logic of physicalism, behavioural concepts may be treated in the same way as physical entities, for instance, by isolating bits of behaviour from the system of which they are constituent parts. Such bits of behavior are then reified - treated like things manipulable in the experimental laboratory and measured by interval or ordinal scales (Arndt, 1985).

Since, late 1960s black box methodology has been heavily and effectively criticised on numerous grounds. Organisational research concerned not only with the economic aspects of a firm have since shifted focus to include consideration of the effects of environmental forces in determining structure, but the basic functionalist/economic explanatory framework is still retained by most work (see for example, Lawrence and Lorsch, 1967; Thompson, 1967). Despite the dominance of this approach to analysing and explaining formal organisational structure (or perhaps because of it), this paradigm came under increasing fire by the early 1970s. In part, increasing skepticism reflected the general lack of cumulative empirical findings from work in this tradition (Meyer, 1979). The widespread revival and reassessment of the general applicability of arguments developed earlier by Barnard (1938), Simon (1947), and March and Simon (1957), emphasising inherent limits on organisational decision-makers' ability to act with a high degree of rationality, may have also helped lay the groundwork for acceptance of alternative paradigms (Weick, 1969). Reflecting the growing dissatisfaction with traditional explanations of formal structure, a new approach to organisation-environment relations, labeled resource dependence (Pfeffer and Salancik, 1978), became increasingly prominent during the 1970s. This perspective focused attention on decision-makers' concerns for maintaining organisational autonomy and power over other organisations. By emphasising the determining role of power considerations in explaining

organisations' structure (see Thompson and McEwen, 1958), it challenged dominant theoretical approaches that focused largely or exclusively on production efficiency concerns. However, like earlier work, a resource dependence approach also was predicated implicitly on a rational actor model of decision-making in organisations, albeit one in which actors' behaviour was based on calculation aimed at maximising power and autonomy rather than pure efficiency. The operation of social influence processes, such as imitation or normatively based conformity, which might mitigate or limit autonomous decision-making, was largely ignored.

This argument challenged then-dominant causal models of structure. In terms of the determinants of structure, it directed attention to external influences not linked to actual production processes, such as the passage of legislation and the development of strong social norms within an organisational network.

The relationship between actual, everyday activities and behaviours of organisational members and formal structures may be negligible. This implication also represented a direct challenge to traditional explanations of structure which, by treating formal structures as means for coordinating and controlling activities necessarily assumed a tight connection between structures and actual behaviours of organisational members. Thus, there has occurred a shift from quantitative methodology to qualitative one, a causal understanding to a processual examination, a shift from studying events to processes. Of course, this has not been a unanimous move.

## 4.2 The Conceptual Premises of My Methodology

We have adopted a realist approach to research (Huberman and Miles, 1985). Fundamentally, we think that social phenomena exist not only in the mind, but in the objective world as well, and that there are some lawful, reasonable stable relationships to be found among them. The lawfulness comes from the sequences and the regularities that link

phenomena together; it is from these that we derive the constructs that account for individual and social life. This stance acknowledges the historical and social nature of knowledge, along with the meaning making at the centre of phenomenological experience. The aim is to explore these processes by carefully constructing explanations that can account for them in plausible ways. Thus, our realism calls both for causal explanation and for the evidence to show that each entity or event is an instance of that explanation. So, there is a need not only for an explanatory structure, but also for a careful descriptive account of each particular configuration.

Such a realist approach has immediate implications for this study. Since, firstly, it acknowledges that the subject of our study has a life of its own. It exists irrespective of whether it has been investigated. Moreover, it exists over a certain time-span. Hence, it is not an isolated or ephemeral event. In this sense, not only does it exist independently, it also *reproduces* its own conditions of existence. It follows then that it is governed by some kind of socially constructed patterns, what we may call for the sake of convenience laws, regularity or whatever.

Secondly, such an approach acknowledges the centrality of institutions in constituting the subject of our study. Since, institutions make social life patterned, regularised, habitualised (Berger and Luckmann, 1967) and thus, in principle, susceptible to rational inquiry. In other words, regularised human interaction gives rise to a discernible order which is amenable to rational inquiry and abbreviated representation (Cooper, 1986). Institutionalisation furnishes the link between recurring patterns (habitualisation) and quasi-formal cognition (typification).

Thirdly, the concept of institutions allows us to conceptually break down the process of privatisation into a number of distinct stages each corresponding to a certain level of abstraction. But what is viewed as abstract in connection to the phenomenon being studied as a whole, is at a different plane of investigation an objective reality on its own with its own life history and course of development. Such an understanding enables us to dismantle the whole process of privatisation into its

constituent levels of abstraction, and, in turn, logically reconstruct the whole process by way of conceptually placing each abstraction at its right place. To the extent that our attempt in this work is consistent and sound, to the same extent we would find that different levels of reality match with our mentally reconstruction of the object under investigation.

Finally, and this brings us to our last methodological consideration, no inquiry of institutions can be conducted without due reference to their history, the context in which they were formed and developed and the inner processes which drive them from within. But, what is wrong with much of the literature on business and organisational change, and, in particular, studies on privatisation is that they are ahistorical, aprocessual and acontextual in character. Pettigrew (1990a: 269) rightly asserts: “There are remarkably few studies of change that actually allow the change process to reveal itself in any kind of substantially temporal or contextual manner. Where the change is treated as the unit of analysis the focus is often on a single event or a set of discrete episodes somehow separate from the immediate and more distant antecedents that give those events form, meaning and substance. Such episodic views of change not only treat innovations as if they had a clear beginning and a clear end but also, where they limit themselves to snapshots time series data, fail to provide data on the mechanisms and processes through which changes are created. Studies of organisational change are, therefore, often preoccupied with the intricacies of narrow changes rather than the holistic and dynamic analysis of changing”.

In my view change should not be seen as a consequence of managerial derives for efficiency and effectiveness, though on the surface the custom and practice of persuasion may dictate that initiatives for change are publicly justified in such a way. Rather, changes are also a product of processes which recognise historical and continuing struggles for power and status as motive forces, and one needs to ask the question: how do interest groups and individuals gain or lose as proposed changes surface, receive attention, are consolidated and implemented or fall from grace before they ever get off the ground?



“The acts and processes associated *with politics as the management of meaning* represents conceptually the overlap between a concern with the political and cultural analyses of organisations. A central concept linking political and cultural analyses is legitimacy. The management of meaning refers to a process of symbol construction and value use designed both to create legitimacy for one’s own actions, ideas, and demands and to delegitimize the demands of one’s opponents.” (Pettigrew, 1985:44) If one sees major change processes at least partially as a contest about ideas and rationalities between individuals and groups, then the mechanisms used to legitimate and delegitimize particular ideas or broader ideologies are crucial. Equally, the resolution of such contests about ideas needs to be sensitive to questions of power and control in the organisation. Structures, cultures and strategies are not just neutral, functional, constructs connectable to some system need such as efficiency or adaptability; those constructs are viewed as capable of protecting the interests of dominant groups.

### 4.3 Case Study Design Strategy

A case-study was employed for the collection and analysis of data as prescribed by Eisenhardt (1989), Yin (1989) and Burgelman (1983). The case study is a holistic one in the sense that it encompasses the entire life cycle of each case. Thus, the intermediate stages in the development of each organisation or the particular organisational forms which they had acquired in their move towards privatisation are not *per se* the subject of current study, nor have we tried to compare these stages with each other. Indeed, the holistic design of these case studies allows us to examine the global nature of the process of privatisation, and, thus, the theory underlying these case studies is also itself of a holistic nature.

The theory developed here is used for analytic characterisation, in other words, it has been used as a template with which to compare the empirical result of the case study. Thus, it was necessary to develop as rich a theoretical framework as possible. To accomplish that, the emergent

concepts were related to the extant literature. This involved considering a broad range of literature (Eisenhardt, *op. cit.*).

In the current study, the entire population of the cases relevant were studied. SKDföretagen/Sema Group and Kommundata/Dialog, the two conglomerates examined in this research, encompass with minor exemptions the entire field of public IT branch (the local authorities and the central government). As such there are no more cases to cross-examine or relate to. Such a limitation hampers any methodology which is based on iteration. Nor is there any room for theoretical sampling of the cases where as Pettigrew (1990a) noted the choice of cases are such that they stand at extreme to each other so that the process of interest is “transparently observable”. However, a longitudinal study based on the whole life-span of the conglomerates concerned was considered. In view of the fact that the two conglomerates shared the same branch, belonged to the same time period in the same social setting makes the job of comparison rather transparent.

A theoretically deduced model for the process of privatisation was suggested. This conceptual model was used as a guide to follow the process of privatisation for each conglomerate. Relying on this idealised model, three different strands of processes were recognised to have shaped the institutionalisation of privatisation. Although, every step in the institutionalisation of the privatisation process is necessary, it is not to be understood that the start and the termination of each step would follow in the exact sequence which we have outlined in our schematic model. That model is an ideal representation of the way the institutionalisation of the privatisation process might progress. It is a conceptual tool which has been construed logically to express how the whole process of privatisation might be conceived. In real life, it is more likely that the initiation and termination of these steps might occur in parallel, or one step might be dormant whilst the other is active. However, our model suggests that the successful completion of each step is a requisite for the success of the next step.

We do not follow a linear causality perspective here. We take it that causes are always multiple and “conjunctural,” combining and affecting each other as well as the supposed effects (Ragin, 1987). Causes and effects must be seen as configured in networks – themselves deeply influenced by the local context. Thus, the central assumption in this line of enquiry is that causation of change is neither linear nor singular (although there is a general framework for explaining the change). Whilst, a number of factors could be discerned to explain the process of privatisation and the change in the governance structure of the firm, one is reminded that these factors are interrelated and represent a pattern of association rather than a simple line of causation, and should be seen as a series of loops rather than a causal path between independent and dependent variables. Furthermore, assessing causality is of necessity a retrospective matter, requiring us to note how “some events have occurred in a particular case” (House, 1991). Thus we need the historian’s method of “followability” (Abbot, 1992), and will typically be making “a retrospective gathering of events into an account that makes the ending reasonable and believable ... configuring the events in such a way that their part in the whole story becomes clear” (Polkinghorne, 1988: 171).

Hence, our model leaves room for diversity among the cases. There is no reason to believe that each stage of the process of privatisation would proceed smoothly. There is a certain human element involved in each of these steps which may hamper or facilitate the process. Furthermore, the constraints and opportunities presented to each case might not have been duly noted and responded to. The model only suggests what a complete institutionalisation of the process of privatisation might be. Nowhere does it propound that such a process might be driven in full circuit. So, against the predictions of institutionalists and population ecology theory (Powell and DiMaggio, 1991; Meyer and Rowan, 1977) our approach allows substantial variety within the organisational populations studied. Partly this related to varying patterns of historical evolution. We shall see later on if these early findings on organisational heterogeneity are corroborated by data. Whilst we do not deny the rule of isomorphism as indeed it has been suggested by some influential population ecology models (Hannan and Freeman, 1988; DiMaggio and Powell 1983) which argue that

organisations change essentially to become isomorphic with pressures emerging from their environment, we make it clear that it is not a foregone conclusion. Nor do we claim that isomorphism is a matter which could proceed unchallenged. What is a theoretical possibility may not become a realised eventuality. It may, however, be true that a process of isomorphism takes place which can be seen as “the constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions” (DiMaggio and Powell, 1983: 149). Nevertheless, the fact that the number of cases are limited makes it hard to reproduce the results using other instances. Further studies based on such a methodology might be needed to corroborate our model.

Contrary to the existing methodology in other studies on privatisation, the current methodology provides room to include non-economic factors and relate them to the historical development of the case concerned, the way that those factors are internalised, how they have been championed or challenged by the people involved and whether they shape certain processes whose cumulative effects over time lay the ground for the full institutionalisation of the process of privatisation. We shall see later how this methodology has helped us to unravel the process of privatisation of the two conglomerates in greater details, and the reader could, then, decide whether a recourse to such methodology, despite the limitations imposed on it due to number of cases, has superiority over the existing methodology in much of the current literature on privatisation.

#### 4.4 Data Collection Methods

This research project covered the period between 1968 and 1998. Three sources of data were utilised for the study. They were (a) archival material, (b) interviews with key informants, and (c) the examination of newspaper articles on the cases, and this includes staff journals published during the period of study for both conglomerates. Additionally, a historical and background understanding of the IT branch in Sweden was

developed by reading special reports on the subject published in a number of Swedish business journals.

*Archival material:* Five different types of archival materials were used. These include: 1) Protocols of board meetings for the two conglomerates concerned. In case of SKDföretagen these protocols covered all the board meetings from 1989 until 1992 whilst in case of Kommundata, the period was more extensive and included the period between 1981-1994. The fact that these meetings were regularly held and had extensive appendices detailing most of the decisions on the strategy of the conglomerates concerned made them essential in understanding and charting the course of development which these organisations had undergone. 2) Company internal documents. These documents, most of which were clearly stamped “confidential” provided a privileged source of information to this project. The current management of what is now left of the old SKDföretagen and the management of Enator, the current owner of the old Kommundata were extraordinarily generous and helpful in allowing me to freely get access to these documents and scrutinise them. These internal documents, some of which were referred to in board meetings’ protocols but not supplemented to them, provided an inside knowledge of what issues were on the minds of the management and how they were attempting to deal with them. 3) Company’s annual reports. These are public documents which were also a valuable source of information. In case of SKDföretagen, these reports covered the period 1985 to 1996 whilst for Kommundata the more extensive period of 1981-1996 was included. The annual reports of Sema Group plc. for 1992-1997 and Enator for 1996-1998 were also studied as complementary background materials. Detailed financial reports available in these documents and the complete list of acquisitions contained in them, provided additional material to chart an exhaustive account of the two case studied. 4) Relevant parliamentary reports and proceedings of government inquiry commissions for the period of 1972-1992 were available at the Swedish National Archives and provided much of the background material for understanding the historical development of SKDföretagen and its two main subsidiaries, Statskonsult and DAFA. Equally important were documents from the Swedish Association of Local Authorities and the

Federation of Country Councils which shed light on how these two institutions, which were the joint owners of Kommundata, conceived the importance of IT technology and its application at local authorities and county councils. A valuable dossier of documents, close to 500 pages, from the archives of the county council division of Kommundata complemented the material from the Federation of County Councils. 5) Lastly, an almost complete collection of SKDföretagen's staff journal, *Åjour* for the period 1989-1992, Kommundata's staff journal *Datten*, for the period 1976-1990, Sema Group's staff journal *InternT* for the period 1996-1997, and a few available issues of Kommundata county council division's staff journal *Om-tanken*, were complementary source of information on how the developments of these cases were reflected in the internal debates among the employees and how the management were trying to introduce changes and convince the employees of their importance for the survival of the company. A satirical essay written by two ex-employees of Kommundata and entitled *Kvalitetsresan* (Quality Voyage) also provided valuable inklings of the changes from the sharp perspective of two disgruntled employees. Finally, an electronic database on Swedish companies, *Bolagsfakta*, was also used to provide data on the numerous subsidiaries of the two conglomerates concerned.

*Key informant interviews:* Out of an initial list of 44 persons chosen for face-to-face interviews, 31 took place. Except for one interview, the location where interviews were conducted was the interviewee's workplace. These interviews were carried out between December 1997 and January 1999. In selecting the final list of interviewees, care was taken to include key informants from different sides of these organisations. Some of the informants were the old veterans of the companies and some were new-comers. But all had in some way or another direct involvement in the developments of the organisation. The interviewees included members of the old management and board of the company as well the union activists or convenors. A complete list of the interviewees is available in appendices 2 and 3. The interviews were guided by a set of questions focusing on three distinct topics: background to change, the process of change and the consequences of change. Depending on the background of each interviewees the specific questions

in each topic were slightly changed. A sample copy of the interview guide is available in appendix 4. The interview guide only provided a general framework, and the interviewees were free to expand on any topic or details which they sought more relevant to their own experience and involvement. In this sense, the interviews were essentially semi-structured. The interviews, except for two which were conducted in English, were done in Swedish. All the interviewees agreed that should the need arise they could be contacted for complementing any information which was missing or unclear after the transcription of their recorded interviews. This opportunity was subsequently used in some cases. As well as recording the interviews, notes were taken during the interviews.

*Newspaper articles:* Two electronic databases were used as the primary reference for finding the relevant articles. These include, *AffärsData*, an exclusive database on business articles and one which has a complete index and complete text of articles from the three most foremost Swedish business journals, *Affärsvärlden*, *Dagens Industri* and *Veckans Affärer*. *Artikelsök* was the other electronic database. It has a complete list of articles from 30 of the biggest Swedish dailies as well as from another 525 newspapers and periodicals published in Sweden. The two databases were screened to obtain any relevant material on the two cases studied. In all up to 250 relevant articles covering years 1980 to 1998 were found. In the archives of SKDföretagen, there was also a collection of articles which included materials on different subsidiaries of the firm as they had been reported in local or provincial newspapers. These were not indexed in the electronic databases. The newspaper articles collected by these various means provided two kinds of information. Some of them provided regular and extensive survey of the IT branch in Sweden covering the period 1985-1995. In particular review articles from the well-respected *Datateknik* and *Affärsvärlden* were helpful in providing extremely good background material for the current work. Other articles provided information on the situation of these two conglomerates as seen and reported by outside sources. The information from these articles provided a reliable source to scrutinise the statements made in the interviews as well the claims and counter-claims made in the conglomerate's internal documents and board protocols.

## 4.5 Data Analysis

It was a Herculean task to cipher out relevant information out of close to 4000 pages of documents assembled. To delve into such a huge amount of information would have been overwhelming. Based on the premises explained earlier, the process of privatisation was conceptually broken down into a number of processes. The development of each process was logically construed over time. This idealised model, which will be presented in the next chapter, informs us of what the successful completion of the process of privatisation might be or how is it that this process could be institutionalised in its entirety. This schematic model provides a tool for discerning patterns which were relevant to this study.

All interviews were initially completely transcribed and then with reference to interview notes a more concise version of them was prepared in which certain information were highlighted for the ease of reference. The essential statements from each interviewee were then tabulated and compared with similar statements made by other interviewees on the same subject.

Triangulation was then used for analysis and confirmation issues. Thus, interview statements were all compared with data collected from other sources. Through this method of triangulation, the reliability of information provided by the interviewees were checked. It was then possible to analyse data from all the diverse resources which were at our disposal, and detect certain landmarks which were later used to ascertain the temporal positioning of the processes concerned.

Once the data was patterned to resemble the ideal model outlined, we then proceeded to compare the actual findings with the predictions made by the model. The discrepancies were the source of further analytical discussions which have been presented later in this thesis. So, whilst, the processing of data was theory-driven, it was realised from the beginning that the the predictory power of this model was constrained.



## Chapter 5

# An Institutional Framework for Studying Privatisation

*Privatisation is presented as a transformation process. A review of theories dealing with the issue of transformation of organisations is then dealt with. This provides a springboard for introducing the institutionalisation concept of privatisation. Initially, different aspects of the later are examined. In particular, the importance of active agency in shaping the process of privatisation, the need for the reconfiguration of power structure at the organisation and the role played by regulatory, normative and cognitive processes in shaping and bringing to completion the process of privatisation are explained. Lastly, a schematic model is presented to account for the entire process of privatisation.*

### 5.1 Seeing Privatisation as a Transformation Process

At an organisational level the question of privatisation is really a question of studying the process of transformation. Of course, this event is not peculiar to privatisation, and it could be invoked for a variety of reasons. During mergers and acquisitions, strategic change-over or major restructuring of subsidiaries by parent companies, a process of organisational transformation does occur. So in this sense, the organisational aspects of privatisation are not something unique. However, what makes these changes specific and research-worthy is the reason that they have occurred as a result of a change in

ownership. State-owned firms or public enterprises are different from other privately-held companies, because they are perceived and expected to work not for earning a profit but for serving the public, whatever the latter may imply. Such a distinctly different aim would necessarily result in a different governance structure and set of values or norms. In an acquisition, the firm which is acquired and the one which acquires it are supposedly both private, their aims are consequently not different in this respect and though cultural differences, be it national or corporate, may imply different set of norms and practices, acquisition and change-over from one owner to the other is not a fundamentally new phenomenon. In privatisation it is all different and that is where the specificity of transformation process for an organisation lies.

The concept of transformational change in organisations has indeed been hotly debated by a considerable number of writers in recent years (Blumenthal and Haspeslagh, 1994; Romanelli and Tushman, 1994; Beckhard and Pritchard, 1992; Gersick, 1991; Dunphy and Stace, 1988; Miller and Friesen, 1984, 1980). Whilst these authors also share the view that transformational change is a particular form of strategic change and is radical in its impact, they have failed to adequately define the characteristics, which distinguish such transformational change from strategic change (though authors such as Blumenthal and Haspeslagh (1994) and Romanelli and Tushman (1994) have dealt with this issue in particular). Previous definitions of strategic change (Pettigrew, 1985; Tichy, 1983) emphasise that such change extends across a range of major subsystems of the organisation, such as the product-service subsystem, financial subsystems, and structural subsystems. This form of change has much in common with other examples of strategic change in the public and the private sector (see, for example, Pettigrew *et al.*, 1992; Pettigrew and Whipp, 1991; Hinings and Greenwood, 1988; Tichy, 1983) but, it is argued that it has also a number of additive and distinctive characteristics. It is a multilayered process affecting different levels of the organisation to embrace multilayered, multisystems change, including the alteration of power bases, a substantial shift in the

culture of the organisation and even the context of the organisation's operation, simultaneously.

The importance of external pressure and the role of crisis in initiating change in large organisations has been illustrated in a study by Pettigrew (1985) where he has argued how the combined effects of internal and external pressures lead to the recognition of strategic organisational change. In a separate study, the concept of discontinuous or frame breaking change has been explained by Tushman and Romanelli (1985) as when an organisation passes through a period of punctuated equilibrium. These authors argue that such periods involve "relatively short bursts of fundamental change (revolutionary periods)" ( p. 171). In their understanding, such transformations lead to sharp and simultaneous shifts in strategy, power, structure, and control mechanisms. The idea of discontinuous change lays stress on the importance of observing not only the scale of the changes involved, but also on appreciating the significance of the time-scale and the speed of change as relevant aspects in the study of more radical organisational change. The distinction between reactive and proactive change, which relate to how organisational change is a response to or a step taken in anticipation of foreseeable external pressures, has also been recognised by Tushman and Romanelli (1985). Borrowing a phrase from semiotics, the theory of discontinuous transformation assumes that an organisation has a *deep structure* i.e. a set of fundamental "choices" which it has made based on (1) the basic parts into which its units will be organised, and (2) the basic activity patterns that will maintain its existence. Thus, it is inferred that an organisation could simply accept any change, any time, as long as it is small enough, but big changes do not result from the insensible accumulation of small ones. In other words, this approach suggests that, the deep structure of a firm sets limits beyond which "change is actively prevented, rather than always potential but merely superseded because no adaptive advantage would accrue" (Gould, 1989: 124). As a result, fundamental changes would occur in the organisation if a dismantling of the old deep structure of the firm precedes them. Thus the pattern of fundamental organisational

transformation is one of radical, brief and pervasive change. A shift in the goals of a firm, from serving the public to earning profit, or in its ownership structure, from being owned by the public to the shareholders, would only proceed if the old norms, rules and structure of the firm are drastically changed. This view is mostly a formal view of change in the organisation.

At the most general level, one could define transformatory change as one resulting in multiple change outcomes, both horizontally across the organisation and vertically up and down the layers of the organisation (Ferlie, *et al.*, 1996). Thus, the change in an organisation could be gradual since its very structure is being reconstructed continuously by whatever constituent, which happens to muster greater power and influence. It is not to deny that an abrupt organisational change could not be imposed onto a firm as when for instance the government sell out a public enterprise to private investors with little preparation or restructuring but for it to succeed, we argue here, there is a need for the institutionalisation of the processes which shape privatisation.

## 5.2 An Institutional View of Privatisation

The notion of institutional view of privatisation needs to be clarified here before we dwell on our conceptual model. The use of the phrase “institutional” does not entail that the author is employing a strict neo-institutional framework to this study. This work does not involve examining conceptions of reality in their tangible forms (rituals, symbols and artefacts) in order to understand how apparently “rational” processes, programmes and initiatives have influenced the process of privatisation. Thus, for this researcher, the process of privatisation has a life of its own and is not a myth as it may be construed from a social constructivist perspective. That is not to say that there are no myths associated with privatisation, but what we say is that these myths are by-products of a fundamental process of

organisational change and not the basic components of this process. A believer of the social construction of reality might argue that privatisation is essentially a process of creating rationales, which give order to a chaotic array of actions arising out of the pragmatic problems facing a state-owned organisation. The rationales are myths, which are important to the actors involved because they help them make sense of ambiguous and uncertain phenomena. They make the subjective objective and the non-rational rational. Here, we take a realist perspective. For us the reality out there has a life of its own. Its existence is not a matter of perception or efforts to rationalise but a given fact based on factors, which objectively create, maintain, legitimate and provide the conditions for its reproduction. As such, it can well become routinised through procedures, steps, actions and measures which are deeply embedded in the history and the settings which have given rise to this reality and helped develop it. As such, the process of privatisation is built on a number of institutions, i.e., patterns of relationships whose birth and development are embedded in the history of the organisation and conditioned or initiated by the changes, which have occurred in its environment. So, whilst we talk about the institutionalisation of privatisation we are not ardent neo-institutionalist, we have only tried to borrow the theoretical toolbox and rich categories which this fascinating school of thought has provided for the study of organisations and organisational development.

Now, in presenting an institutional view of privatisation we are obliged to clarify two issues. Firstly, what is it, which is institutionalised, and, secondly, how does this process of institutionalisation proceed?

The concept of privatisation, which is essentially followed in this thesis, is based on the assumption that a firm is an entity surrounded by different environments. The underlying factor for each environment is a market structure where there are certain actor or actors dominant in it. These markets could include 1) credit market where share-holders, investors and creditors are the major actors; 2)

managerial market where the demand and supply for managers determine the incentives and turn-over of managers; 3) product market where raw materials and goods are offered by the suppliers, distributors, competitors and the firm itself; and 4) the labour market where employees are offered for instatement and the level of wages are determined by it.

Thus, a firm is not just any other organisation. Its *raison d'être* is economic gains and efficiency whatever these terms may be implied or constructed. Its relations to its environment are based on economic rationality, i.e. that of economising, and not necessarily maximising. These relations to others could be governed by contractual or non-contractual bonds. Privatisation implies transforming these relations in tune with market. However, this is not a process, which could proceed smoothly. It would be faulty to assume that economising transaction costs for each relation solely drives them, and not to consider the effects of the wider economic, social and political context in which the transactions take place. Government support or legal sanctions could indeed enhance the change or prevent it from happening.

But to understand how this process proceeds, one should bear in mind that the existing structure of a publicly-owned enterprise or activity is an entity, which has long survived. The longevity of such an establishment has marked its imprints on a variety of processes, which, in turn, help maintain and reproduce it over time. It is in this sense that the existing structure is one, which has become taken for granted by members of a social group as efficacious and necessary, and, thus, it serves as an important causal source of stable patterns of behaviour. (Zucker, 1977; Berger and Luckmann, 1967). But to be institutional, such a structure must generate action. As Giddens (1979) argues, structure that is not translated into action is in some fundamental sense not "social" structure. Geertz sounds a similar note: "We gain access to symbol systems only through the flow of behaviour – or, more precisely, social action" (1973: 17). Thus, from an institutional perspective the existing structure of a public enterprise

requires for its survival normative and cognitive legitimacy. (Stryker, 1994; Della Fave, 1986; Walker *et al.*, 1986). No less relevant for such a structure is the role of regulative agencies, which exercise legitimate powers to formulate and enforce rule systems, which leads to an emphasis on the flow of rewards and sanctions. Hence, to change the existing structure requires not only dismantling the old processes, which have maintained it, but also replacing them with new processes, which are capable of sustaining and legitimating the new structure in the long run. In this sense it goes without saying that creating the new structure takes more resources than maintaining the old: alteration and creation of organisational structures do constitute costs for the organisation. Hence, the setting of this new social structure is not simply a by-product of human activity; rather, human agency is required to produce it (Zucker *et al.*, 1995; Zucker and Kreft, 1994). Thus, the new structure that is altered or created must be believed to have some positive value for the organisation, or decision-makers typically would not allocate resources to altering or creating new formal structure. Organisational decision-makers, of course, may have more or less discretion: sometimes decision-making power is very broad, sometimes it is very circumscribed.

Thus, the marketisation of each relation between the firm and its environment or its stakeholders requires a fundamental evolution in the underlying processes which maintain and reproduce that relation as it has existed so far. These processes include:

- **Regulative processes** involve the capacity to set the preconditions needed to establish rules, inspect or review other's conformity to them, and as necessary, manipulate sanctions – rewards or punishments – in an attempt to influence future behaviour. They play an important role at the initial stages of the process of privatisation. In most cases they are set in full motion as external constraints. Thus, they tighten the screw on the firm and the latter is pressured to imitate the more successful ventures in the public sector for its survival.

- **Normative processes** introduce a prescriptive, evaluative, and obligatory dimension into social life. Normative systems include both values and norms. Values are conceptions of the preferred or the desirable together with the construction of standards to which existing structures or behaviours can be compared and assessed. Norms specify how things should be done; they define legitimate means to pursue valued ends. Normative systems define goals or objectives (e.g. making a profit) but also designate the appropriate ways to pursue them (e.g. conceptions of fair business practices). They are important in bringing about consensus among the different and often conflicting groups of the employees and the management in an organisation set to privatise. However, their effects are dependent on how the whole process of consensus-building is steered.
- **Cognitive processes** furnish not the objective conditions but the actor's subjective interpretation of these conditions and how symbols – words, signs, and gestures – have their effect by shaping the meanings one attributes to objects and activities. These processes act as the seal on the institutionalisation of the process of privatisation. They help internalise the norms and values, which have gained credence or superiority in the organisation. However, without the cognitive processes the conditions for the reproduction of these norms and values over generations is not possible and hence the process of privatisation may end up defunct.

Hence, we view privatisation as a process of institutionalisation, in other words as the development over time of regulative, normative, or cognitive systems capable, to varying degrees, of providing meaning and stability to social behaviour. (Scott, 1995: 33). The success of privatisation then lies to the extent a concurrent or sequential completion of these processes has occurred.



## 5.3 Different Aspects of the Institutionalisation of Privatisation

### 5.3.1 Technology, Market and Legal Setting

Organisations have to be understood in the context of the constraints and possibilities offered by the environment in which they operate (Pettigrew, 1985). Organisations grow up around technologically defined procedures that help to insure reliable performance and regulate behaviour and actions. Thus, the nature of firm's technology, the way it influences work organisation, production and delivery of services and goods, is important in how the process of privatisation is developed. Likewise the sector, particularly when strongly competitive, determines the path a firm must take for its future success (Child and Smith, 1987). Finally, being in the possession of the state or a local authority, the premises of an organisation in the public sector would certainly change if pressures were brought upon it by legislation to conform to certain modes of organisational procedure, for instance, as in the case of an organisation having to comply with certain statutory rules in their financial reporting practices. Just as technology, market forces and legislation help shape the conditions for a publicly-owned enterprise, it is logical to assume that a drastic change in any of these factors may give rise to the initiation of the drive towards corresponding changes in the legal or organisational set-up of the enterprise. Indeed, these three factors are the bases for the conditions in which the enterprise operates and its activities are sanctioned by the force of market or law. It would not come as a surprise that the drive towards a change in the ownership structure of publicly-owned enterprises has been greatly influenced at a time when the technology of production has fundamentally changed, or when there is greater competition or deregulation in the market or when a newly-elected government introduces bills which essentially reshape the legal settings for the operations of the enterprise.

### 5.3.2 The Role of Management

In his seminal work, *Leadership in Administration*, Selznick (1957) distinguished between routine tasks and the ones, which are critical. The critical leader as contrasted with the routine leader is not simply in charge of an “organisation” which has a certain bareness, and a lean no-nonsense system of consciously co-ordinated activities. Rather he is dealing with an “institution”, which is more nearly a natural product of social needs and pressures - a responsive, adaptive organism (p. 5). As an institution, both internal and external social forces shape the *adaptive* change and evolution of organisational forms and practices (p. 12). This ongoing process of change and adaptation is what Selznick terms institutionalisation. It is something that happens to an organisation over time, reflecting the organisation’s own distinctive history, the people who have been in it, the groups it embodies and the vested interests they have created, and the way it has adapted to its environment (p. 16). Institutions, whether conceived as groups or practices, may be partly engineered, but they have also a “natural” dimension. They are products of interaction and adaptation; they become the receptacles of group idealism; they are less readily expendable (pp. 21-22). A critical leader, Selznick argues, is an “institutional statesman” (p. 37) who looks beyond questions of routine administration and productive efficiency to the broader philosophic implications of the collectivity and its role in the larger society. His responsibility is to define the mission of the enterprise, to infuse organisation at many levels with accepted values affecting the perspectives and attitudes of personnel (p. 26). In this sense the leader is an agent of institutionalisation, offering a guiding hand to a process that would otherwise occur more haphazardly, more readily subject to the accidents of circumstance and history. The critical leader is not an experimental psychologist but a clinical one and as such he is distinguished by an interest in the change and growth of the total personality of the organisation (p. 30). Of course, no institutional leader can avoid concern for the minimum conditions of continued organisational existence. But he fails if he permits sheer organisational achievement, in resources, stability, or reputation, to

become the criterion of his success (p. 27). The institutional leader, *is primarily an expert in the promotion and protection of values* (p. 28).

The first task of such a leadership is to generate public recognition of a consistent pattern of dissatisfaction or organisational failing that is characteristic of the organisation; the second task involves developing theories that provide a diagnosis of the sources of dissatisfaction or failing, theories that are compatible with a new structure as a solution or treatment. The leadership who succeeds in identifying the new structure with new values and norms helps promoting cognitive and normative legitimacy to changes he is planning to do and brings about consensus among the employees at the organisation.

### 5.3.3 Re-Configuration of the Political Structure

Effective leadership is critical to the change process, but the matter proves to be more complex than it sounds. Since, organisations are hardly monolithic entities. Indeed, they are coalitions of groups and individuals who come together to perform certain agreed tasks (Robbins, 1987 and 1986). One should bear in mind that the degree of consensus about these tasks, and the extent to which members of the organisation are committed to achieving them, are dependent on the strength and the recognised legitimacy of the organisation's culture. As Pfeffer and Salancik (1978: 11-12) argued: "It is difficult to think of situations in which goals are so congruent, or the facts clear-cut that judgement and compromise are not involved. What is rational from one point of view is irrational from another". Organisations are political systems, coalitions of interests, and rationality is defined only with respect to unitary and consistent ordering of preferences.

Employees are not always behaving in a manner consistent with the interests of the organisation – in particular when the whole value system of the organisation is undergoing re-definition. As Robbins (1986: 283) remarked: "a political view can explain much of, what may seem to be, irrational behaviour in organisations. It can help to explain, for instance, why employees withhold information, restrict

output, and attempt to build empires”. It is this phenomenon of individuals and groups, throughout an organisation, pursuing differing interests, and battling with each other to shape decisions in their favour, that has led many commentators to characterise organisations as political systems (Pettigrew, 1987 and 1985; Morgan, 1986; Mintzberg, 1983; Pfeffer, 1981). Pfeffer (1981) suggests that the construction of organisational goals is itself a political process. It also follows that political activity is likely to be most prevalent during periods of change (especially change which may challenge the status quo). Murray (1989: 285), reporting on a major study of the introduction and use of information technology commented that: “the use of new technology is subject to processes of organisational decision-making and implementation characterised by often conflicting managerial objectives, rationalities and strategies developed through the mobilisation of organisational power”. Therefore, as far as Morgan (1986), Murray (1989), Robbins (1987) and Pfeffer (1981) and many others are concerned, the process of organisational change is inherently a political one. This views that the choice of structure, and other key decisions, is the outcome of a political process, rather than the application of rational analysis and decision-making, has significant implications for organisation theory. Pettigrew (1987) concluded that the process of change is: “... shaped by the interests and commitments of individuals and groups, the forces of bureaucratic momentum, gross changes in the environment and the manipulation of the structural context around decisions structures, cultures and strategies are not just being treated here as neutral, functional constructs connectable to some system need ... the constructs are viewed as capable of serving to protect the interests of the dominant groups ... the context of strategic change is thus ultimately a product of a legitimation process shaped by political/cultural considerations, though often expressed in rational/analytical terms” (quoted in Murray, 1989: 287).

Change of ownership is inherently a political phenomenon. It does not have to be revolutionary in implementation. It could, and most certainly, take place as a gradual and cumulative process. However,

this does not change the fact that a serious event is taking place in the firm. This in itself is a political act. It would certainly mobilise not only the management, but the entire workforce, professionals and ancillary personnel. The outcome of this conflict is not given because it involves an array of changes in the position and authority of those who could influence the effects of privatisation in the enterprise. This matter is settled, and above all guaranteed, by a shift in the power configuration of the firm. Sources of power being the board, the top management, and the middle management as well as stakeholders such as the shareholders, the employees, the major suppliers or procurers of the firm's products or services. The stronger the current institutions of a firm are the more potent the resistance to change and the institutionalisation of privatisation will be. On the contrary, the more diffuse the constituent institutions of a firm are the more likely it is that privatisation proceeds smoothly (Leblebici *et al.*, 1991; Covaleski and Dirsmith, 1988; Rowan, 1982).

But, even in the absence of direct opposition to privatisation, consolidation may be truncated gradually because of a lack of demonstrable results associated with a structure. A weak positive relation between a given structure and desired outcomes may be sufficient to affect the spread and maintenance of structures, particularly if advocates continue to be actively involved in theorisation and promotion. Hence, full institutionalisation of the privatisation process is likely to depend on the conjoint effects of relatively low resistance by opposing groups, continued cultural support and promotion by advocacy groups, and positive correlation with desired outcomes.

#### 5.3.4 The Need for Consensus and Socialisation of New Norms

Furthermore, it is clear that a change in ownership is likely to bring about new norms in an organisation. However, the issue is not simply the generation of new norms but of the settings, which reproduce the conditions for the maintenance and survival of these changes.

Hence, we do not agree with Beer *et al.* (1993) who in suggesting that the most effective way to promote change is not by directly attempting to influence organisational behaviour or culture, advocate restructuring organisations in order to place people in a new organisational context, which imposes new roles, relationships and responsibilities upon them. As such, they believe, the new structure forces new attitudes and behaviours upon people. Such a view is also shared by Peters (1993) who advocates rapid and complete destruction of existing hierarchical organisational structures as a precursor to behavioural change. A number of other researchers who also appreciate the importance of normative changes argue that an abrupt break with the past is the solution. Brunsson (1982) argues that radical changes need to be preceded by and initiated through ideological shifts. Thus if allegiance to the old ideology persist then the context for change is poor. An important conclusion of March and Olsen (1989) is that it is easier to produce change through shock than it is to control what new combination of institutions and practices will evolve from the shock. The concept of radical shock can result in unpredictable outcomes.

Wilson (1992: 91) has taken a rather sceptical approach to such a view when he rightly claims: "... to effect change in an organisation simply by attempting to change its culture assumes an unwarranted linear connection between something called organisational culture and performance. Not only is this concept of organisational culture multifaceted, it is also not always clear precisely how culture and change are related, if at all, and, if so, in which direction." Whilst Czarniawska-Joerges (1989) recognises the impact of reforms on the structure of an organisation in the long-term, she argues that their effects could be better understood if analysed in relation to the way that they have influenced power relations at the time of their implementation. Based on such a perception she criticises March and Olsen whom she believes have failed to find evidence of the impact of public sector reform because of their adherence to the conventional expectations such as efficiencies, responsiveness, and control. By

implication, Czarniawska-Joerges's approach suggests that regardless of whether the primary objectives of those initiating reforms have been met, there are always some value attached to all reform efforts. Thus, she turns the attention to the importance of observing and analysing the process of reform, and how those involved in the implementation process at different levels in the organisation attempt to achieve outcomes from the reform process by guiding at least some aspect of it into specific directions which may not be the same as the original objectives. Alvesson and Berg (1982) take the matter one step further when they suggest that the potential for change can be broadened still if one considers that the presentation of a powerfully coercive, though partly false, external image of the changes can result in indirectly influencing human behaviour internally, thus arguing that where the primary objectives of a reform have not been achieved the outcome of the reform process might not be as totally ineffective as originally assumed.

So, the transformation involves the reconfiguration of power relations and the development of a new culture. In other words, the longer term change in an organisational system will not be effected or sustained, unless the underlying values and belief systems of the members shift. This may be particularly true if the foundational logic of the system is changing, as when a public sector organisation shifts to a market-based and more commercial mode of operation. But culture is an ambiguous and loose concept, which is difficult to operationalise. Some researchers have argued that organisations could be conceived as patterns of meaning, values and behaviour (Morgan *et al.*, 1983). Such a conception renders organisations as cultures. However, this has been contested by Pettigrew (1990b) who questions the significance of the term and the concept, and argues that such broad definitions provides the management with little room to have any influence on culture. Where culture has been defined more narrowly and concretely (Schein, 1983; Smirich, 1983), the importance of appreciating the different levels of visibility and analysis are acknowledged. To help unravel the issue, Meyerson and Martin (1987) have elaborated three different views of culture. In their

attempt to resolve ambiguities and contradictions, they breakdown the concept of culture into three paradigms: culture as an integrative mechanism; culture as characterised by diversity and differentiation; and finally, culture as ambiguity. The second paradigm, in turn, recognises the importance of subcultures in many organisations. More recently, researchers have pointed to the importance of recognising how cognitive frameworks and the mind-sets influence organisational members, thus suggesting that effective organisational transformations are dependent on the alteration of these cognitive frames or they may falter (Bartunek, 1993; Bartunek, *et al.*, 1992; Giola and Chittipeddi, 1991; Isabella, 1990; Hinings and Greenwood, 1988).

Indeed, one conclusion which could aptly be derived from the recent literature is that a change in the norms of the organisation would necessary have to be implemented in the recruitment and socialisation routines of the firm. New employees would have to be screened to ensure that they do have preferences which the firm now wants its employees to have, and the various levels of authority should interact in the sense that they are supporting the new power configuration of the firm. Likewise, it is incumbent that employees, too, view each other and their collective action in concordance with the general mood of change in the enterprise. In all, the organisation has to be imbued with a new culture and there should be conditions which help reproduce that culture.

### 5.3.5 How the New Cognitive Framework is Maintained

But how do these new norms and values are internalised and reproduced in the cognitive framework of the employees. In attempts to privatise the public enterprises, there are certain catchwords which have symbolic value in this regard. In the publicity war waged to undermine the state sector and win over suspicious public and employees, certain catchwords were coined to capture the superiority of privatisation and downgrade state-ownership. The public was told that privatisation amounted to active interference from the private



owners who would mount a fierce challenge to the excesses of any bureaucratic management. The employees were told that rather than following the rules they would be empowered to influence their company which they could partly possess because of share-ownership. The customers were told that they would have greater control over the actions of the firms which provided utilities and services to them. However, it was clear that privatisation would amount to a market-oriented organisation. In other words, the new rulers were supposed to be the consumers who could decide the boom or bust of a firm as they buy or refuse to buy its products. Thus, it was declared by the protagonists of privatisation that in a consumer-laden society the satisfaction of customers should be the ultimate aim of any privatised organisation.

Indeed, with equating privatisation with greater “customer satisfaction”, keeping up the quality becomes an important regulating norm, a space for representation, and a territory in which identities have to be created and affiliations have to be settled. Hence, the focus of control is moved from outside the individual to within; the objective being to make employees think of themselves as suppliers of the next person in the supply chain; and to take on the role of this person when performing their work so that they experience a sense of fulfilment when their “customer” is satisfied. Relatedly, each employee is enjoined to watch and control the “quality” of work they receive from their suppliers (i.e. their fellow employees). “It is a form of involvement in which the agenda is said to be dictated by customer requirements. Therefore, employees are immersed in the “logic” of the market and are thus more likely to be convinced of the legitimacy of company decisions.” (Wilkinson *et al.*, 1991: 30). No doubt, this market relation is illusory, since there is no element of choice in the relationship between customers who are also workmates. The operator does not own the product he or she produces, and has no opportunity to earn from its external customers to the organisation; the “price” and the “customer” are dictated. The only thing that the operator “owns” is the responsibility for the production and quality of the goods. However, to identify oneself as an element in a customer/supplier

chain is to accept the conclusion that one's effort is exclusively directed to serving internal and external customers and to regard the market relations as unproblematic and legitimate.

Hence, this approach in fact reduces work to a single market relation, a relation in which the activities of the individual producer have significance only to the extent that they are effectively subordinated to the requirements of the superordinate customer. In this manner, each customer down the line, usually a workmate, is operating a control and surveillance role, as might a customer in the marketplace. In such a system, once the requirements of the supply chain have been quantified, the worker has to perform for and is controlled by his or her fellow worker. Thus, any working practice - however degrading and insecure - is then justified so long as it is deemed to contribute to the enhancement of "quality". By disciplining others when pointing out faults, they discipline themselves. In such a way, a whole system of self-subordination begins to develop.

Furthermore, the apparent contrast between an advocacy for empowerment and the fact that there are real limits if not restraints on what this empowerment is, is also legitimised by the very commodification of relations both inside the hierarchy as well as between hierarchies and individual consumers of services or products. The chain metaphor is based on internalisation of market relations, which is fomented by a culture change program which promotes the notion that it is only by seeing the next person down the chain in the labour process as a customer that quality can be assured. The notion of "quality" as a central corporate objective becomes a metaphor for the internalisation of pseudo-market relations. The market as metaphor does not just permeate into organisational relations, but is intended to embrace attitudes and behaviour within the organisation. The efficacy of this type of control is "bound up in a socialisation to the rules, values, and assumptions constituting this form. ... The conditioned worker has internalised the rules of the form - control appearing as freedom" (Rosen, 1985: 37)

As Wilkinson *et al.* (1991) observe, quality culture seeks to “immerse employees in the logic of the market”. Employees are encouraged to devote themselves to the values and products of their corporation, and to assess their own worth in these terms. By promoting this form of devotion, employees are simultaneously required to recognise and take responsibility for the relationship between the security of their employment and their contribution to the competitiveness of the goods and services that they produce. The market and, in particular, the external environment, allow management to shift responsibility for enhanced control and exploitation away from themselves and on to external pressures. Thus employees are encouraged to identify with the objectives of the organisation and become increasingly concerned with the profitability of the organisation while they themselves undergo intensified work regimes to enhance profitability.

Hence, the worker is made “subject”, in that he or she is both subject to someone else by control and dependence, and tied to his own identity by a conscience or self-knowledge. Our sense of who and what we are is constituted and confirmed through our positioning within particular relations of power. These relations are both technological and economical: *technological* in the sense that they are exercised in and through specific knowledges; *economical* in that their effects are to create and sustain a self-disciplining subject. The exercise of power depends on an unstable juncture. In this sense, power is productive, it helps bring about stability and permanence to an otherwise precarious situation. It is the positive aspects of power/knowledge which makes them so plausible, so effective and so seductive. Quality culture does all that and hence it “relies upon the constitution of subjects who are tied by their sense of identity to the reproduction of power relations” (Knights and Willmott, 1989: 537). The establishment of self-development of the worker and the increased competitiveness and flexibility of the enterprise enables an alignment to take place between the technologies of work and the technologies of subjectivity.

Thus, quality-based identity attempts to redefine the terms in which the social relations of work and employment are imagined. For, unless people identify with and become subjects of a new conception of “work”, “business”, or “society”, it is unlikely that it will emerge. Quality management works as an ideology by addressing the fears, anxieties, and the lost identities, of a people. It offers people the fantasy of entrepreneurship. It promotes an image of self-determination at work. By making us into buyers and sellers, it invites us to feel as if we are our own bosses, to become entrepreneurs of ourselves. It is not to suggest that there is no logical contradiction in the aims of workers becoming their own boss and yet being subjugated to the rules governing a capitalist enterprise. But to invoke contradictions in quality culture is to misunderstand the ways in which ideology works. Ideology never works in a logical, intellectual fashion. It does not collapse as a result of a logical contradiction because it does not obey the logic of rational discourse. In its discursive structure, it is closer to the “logic of the dream-work” than to that of analytic rationalism (Hall, 1988: 86). Rather than viewing ideology as a false or illusory representation of reality, it is reality itself which should already be conceived of as ideological. Ideology is a fantasy-construct that serves as a support for our “reality” itself. The function of ideology is not to offer us a point of escape from our reality but to offer us the social reality itself as an escape from some traumatic real kernel (Du Gay, 1991). In such a way, the values introduced as a result of the drive towards privatisation become generally accepted norms in the enterprise and help prop up changes which consolidate the process of privatisation. Indeed, once, these new values are taken for granted in the organisation, the institutionalisation of privatisation has eventually come to completion and the new structure with its stable pattern of behaviour has replaced the old one.

## 5.4 A Schematic Model for the Process of Privatisation

Now with an understanding of the different aspects of the process of privatisation, we should like to attempt and construct a schematic model to account for it. So far, we have noted the importance of certain initiating factors, namely technology, market forces and legislation. We have also found out that a firm has to respond to these changes and one important factor in how decisions are made rests with the leadership of the enterprise, i.e., the management. Furthermore, we have realised the significance of the power configuration in the firm and the role which normative processes have in legitimating the change in the balance of power. Finally, we have touched on the importance of cognitive processes and how they essentially help maintain and reproduce the new set of values introduced as a result of privatisation.

We saw in Chapter 3 how there are two distinct models of social actor that underlie most organisational analyses, which we refer to as a rational actor model and an institutional model. The former is premised on the assumption that individuals are constantly engaged in calculations of the costs and benefits of different action choices, and that behaviour reflects such utility maximising calculations (Coleman, 1990; Hechter, 1990). In the latter model, by contrast, “oversocialised” individuals are assumed to accept and follow social norms unquestioningly, without any real reflection or behavioural resistance based on their own particular, personal interests (see Wrong 1961). Thus, institutionalisation has almost always been treated as a qualitative state: structures are institutionalised, or they are not. Consequently, and of how such variation might affect the degree of similarity among sets of organisations, have been largely neglected. Furthermore, it has often been overlooked that both organisational and individual actors are potential creators of new institutional structure (Zucker, 1988). (See also DiMaggio’s 1988 discussion of “institutional entrepreneurs”). Thus a more developed view of institutionalisation is required (Tolbart and Zucker, 1996). Here we attempt to present an institutionalisation scheme for the process of

privatisation. (see Figure 5.1 below). We have separated four steps in the process of privatisation: The initiation step; the problem-solving step; the consensus-building step and the consolidation step. So, Initiation → Problem-solving → Consensus-building → Consolidation.

Different factors influence each step. Whilst, technological change, legislation and market forces influence the initiation step, mimetic isomorphism influences the second step i.e. problem-solving. Leadership is a major factor in the transcending of problem-solving to the consensus-building step. Finally, positive outcome, advocacy or resistance of interest-groups and socialisation act as propellants or

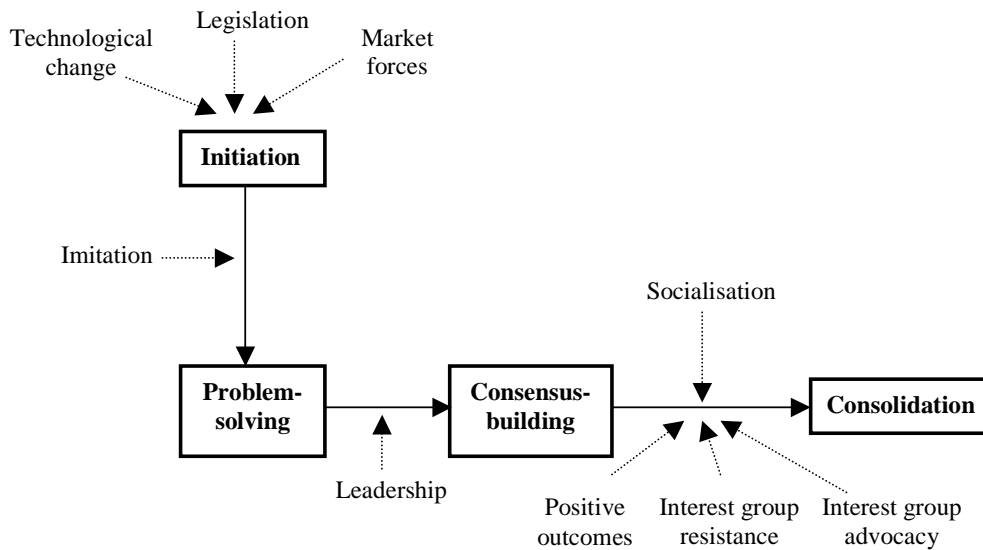


Figure 5.1 A schematic representation of the institutionalisation of privatisation

obstructions to the completion of the institutionalisation process. We regard the move from initiation to the problem-solving as belonging to the pre-institutionalisation stage whilst an organisation which has achieved consensus-building has completed the process half-way i.e. is at the semi-institutionalisation stage. Only upon consolidation has the process of privatisation been fully institutionalised. This set of sequential processes – initiation, problem-solving, consensus building, and consolidation – suggests variability in levels of institutionalisation, thus implying that some patterns of privatisation are more successful than others.

Although, every step in the institutionalisation of the privatisation process is necessary, it is not to be understood that the start and the termination of each step would follow in the exact sequence which we have outlined in our schematic model. That model is an ideal representation of the way the institutionalisation of the privatisation process might progress. It is a conceptual model which has been construed logically to express how the whole process of privatisation might be conceived. In real life, it is more likely that the initiation and termination of these steps might occur in parallel, or one step might be dormant whilst the other is active. However, our model suggests that the successful completion of each step is a requisite for the success of the next step.

At each stage, different set of institutional processes is at work. Whilst at the pre-institutionalisation stage, regulatory processes are mostly responsible for shaping the fate of privatisation, at the semi-institutionalisation stage the move towards the latter is greatly influenced by how normative processes lead to a gain of legitimacy for the drive towards profit-seeking and commercialism. At the stage leading to full institutionalisation, i.e. at the stage when premises of privatisation should be taken for granted, cognitive processes are greatly influential. It should be noted that one could not set an exact starting point for any of these institutional processes. Regulatory processes are in full motion until the very last step of consolidation. Likewise, cognitive processes begin to influence the organisation at the very moment when the idea of privatisation is introduced. However, it is possible to point out at what stage each of these processes are more dominant. The strength of each of these processes depends on how important they become in pushing forward the process of privatisation at each step. The following table gives an indication of how each process is ranked at different stages of privatisation.

Table 5.1 Different steps in the institutionalisation of privatisation

Step	Influencing factors	Stage	Institutionalising processes
Initiation	Technological change Legislation Market forces	Pre-institutionalisation	Regulatory – strong Normative – weak Cognitive – negligent
Problem-solving	Isomorphism	Pre-institutionalisation	Regulatory – strong Normative – weak Cognitive – negligent
Consensus-building	Leadership	Semi-institutionalisation	Normative – strong Cognitive - weak
Consolidation	Positive outcomes Interest-group advocacy Interest-group resistance Socialisation	Full-institutionalisation	Cognitive strong

There are at least two sequential steps involved in the initial formation of the privatisation process: **Initiation**, where the need for some kind of response to environmental constraints different to the traditional solutions employed in the state-owned sector is felt; **problem-solving** where the necessity to present some form of patterned solution and not a haphazard reaction to environmental constraints is considered. Regulatory processes begin at the initiation step. The organisation considers isomorphic imitation to adopt solutions which are tested and tried in the private sector or are sanctioned by legislation. The generation of new structural arrangements in response to the initiation step, and the formalisation of such arrangements in the policies and procedures of a given organisation, can be classified as being at the pre-institutionalisation stage.

Indeed, once a drastic change in these factors has initiated new regulatory processes, it is incumbent upon the organisation to undertake structural adjustments. This may begin by the introduction



of a new management team, a new organisational formation and new incentive and reward schemes. But the movement towards a more permanent and widespread solution rests heavily on building some degree of social **consensus** among organisational decision-makers concerning the value of the new structure. Such a consensus ensures that patterns adopted would rely on a certain degree of normative legitimacy. This is a task whose undertaking depends very much on those leading the organisation. It should be noted that the very premises and institutions of the organisation are evolving or changing. Here, we are not dealing with the day-to-day operations of the organisation.

To be persuasive and effective, theorising efforts must also provide evidence that the change is actually successful in at least some cases that can be examined by others considering the adoption of new structure. Berger and Luckmann (1967) suggest an additional aspect of institutionalisation, one also identified by Zucker and termed “exteriority”. Exteriority refers to the degree to which typifications are “experienced as possessing a reality of their own, a reality that confronts the individual as an external and coercive fact” (p. 58) so that new members who, lacking knowledge of their origins, are apt to treat them as “social givens” (Tolbert, 1985; Berger and Luckman, 1967). In the context of the privatisation process we refer to this step as consolidation.

Full institutionalisation of privatisation involves **consolidation**, a process that fundamentally rests on the historical continuity of structure, and especially on its survival across generations of organisational members. Consolidation is characterised both by the virtually complete spread of structure across the group of actors theorised as appropriate adopters, and by the perpetuation of structures over a lengthy period of time. Thus, it implies both “width” and “depth” dimensions of structure (Eisenhardt, 1988). Identification of factors that affect the extent of diffusion and the long-term retention of a structure is thus key to understanding the process of consolidation. One such factor that has been pointed up in a variety of

studies is the existence of a set of actors who are somehow adversely affected by the structure and who are able to collectively mobilise against them. (Leblebici *et al.*, 1991; Covaleski and Dirsmith, 1988; Rowan, 1982).

## 5.5 Summing-up

So we could see whilst a change in the governance structure of the firm may be a rational consequence of a change in ownership, and whilst its needs may be swiftly approved and sanctioned by the new management and the board of directors, its final implementation and acceptance depends on a line of processes whose outcomes are not guaranteed unless sheer coercion and total denial of the rights of those employed in the firm are sanctioned *a priori* by social practice or legislation.

Hence, a change in ownership is reflected in a change in the governance structure of the firm by a number of mediations. In this sense, we can see the inadequacies of Agent-Principal, Transaction Cost Economics and related neo-classical approaches in understanding, predicting and explaining the development of the governance structure of a firm as a result of a change in the ownership. Rather than seeing market-based or hierarchical forms of governance, we see a growing number of hybrid forms which resemble either of these ideal types but preserve their own distinctions. This phenomenon is a reminder of the reductionist nature of earlier theoretical traditions, which have failed to see the intricacies of the black box of organisation and the important influence that institutional settings have in facilitating or inhibiting the intended consequences of a change in ownership in the governance structure of the firm.

One should now understand why the results of conflicting and incongruous steps described above may be varied and hence the

ultimate configuration of the firms undergoing privatisation may be diverse. This is not to suggest that there is no general (ideal) framework for change. But it is to suggest that within this general framework, the final outcome for each firm depends on a myriad of factors which are shaped by the technology of production, ideology, culture and co-operation of the employees. So far from the management and the board of directors settling issues in concordance with the wishes of the shareholders or the debt holders, the intrinsic and endogenous factors shaping the enterprise also play a determining role.

The analytical model presented here for the study of privatisation offers us a number of milestones which it predicts are discernible in the history of an organisation pursuing a course of privatisation. This model also tells us why the issue of ownership should be approached with more laxity and why greater emphasis should be laid on the significance of the history of the organisation concerned. We shall see in the coming chapters whether such a model is a good match to explore the organisational course of development which our two cases have experienced and to what extent the milestones, i.e. the four steps, the three initiating factors and the three constituting processes, are relevant to studying organisations becoming privatised.

## Chapter 6

# Case Study of SKDföretagen/Sema Group

*The history of SKDföretagen is explained through the parallel development of the twin organisations whose merger in late 1980s brought about this conglomerate. The particular development of each of these organisations is described in order to explain how and why the final outcome of this fusion resulted in the formation of a conglomerate, which was already private in almost every aspect except its legal attributes. The sale or privatisation of SKDföretagen is thus explained as a necessary extrapolation of existing developments rather than a sudden turn of events.*

### 6.1 Introduction

This giant conglomerate was the result of two state-owned companies, DAFA and Statskonsult. Although, the former was an agency first subjected to control by Statskontoret and then an independent body, and the latter was a legally independent state-owned stock company, their very names suggest that they were not set up to sell services and products to their customers. Statskonsult (state consultancy) and Datamaskincentralen för administrativ databehandling (computer centre for administrative data processing) reveal much about their non-commercial origins. Indeed, their very names were to be a reminder that they were to serve their government or public clients. The history of DAFA and Statskonsult and their eventual union, is a narration of how these two major enterprises tried to shed off their non-commercialism and

adopt a more business-inclined orientation. These changes occurred prior to the privatisation of these organisations, and, indeed, paved the way for this eventuality. Since, it was Statskonsult which became the initial repository of SKDföretagen and it was its executive director who steered much of the course in the pre-privatisation phase of the conglomerate, we begin our examination of these two companies by giving an account of the history of Statskonsult and how it developed towards privatisation.

## 6.2 Statskonsult

In a press release issued by Statskontoret in December 1968, the following was noted: "Statskontoret has proposed in a letter to his Majesty that a state-owned stock company should be established to take care of consultancy work needed for the rationalisation area in the state administration". So, with this proposal the initial stage was set to establish Statskonsult, an enterprise whose work by definition was to focus on rationalisation, i.e., cost efficiency and not to any rise in revenues or profitability. This was an important stepping-stone in the development of this inconspicuous company and shaped the initial culture of Statskonsult for the years to come. The origin of the ordinance on Statskontoret goes back to a policy formulated by the Committee for Automatic Data-processing (DBK), which had stated in 1955 that in the face of growing demands by the government agencies there was a need to set up a special organisation with the task of supervising computer needs for these agencies. According to this policy, the organisation in question should have provided co-ordination, expertise, planning, maintenance and effective implementation of computer facilities. On the basis of this policy a State Computer Board was set up in July 1963. The Arithmetic Machine Board (MMN) and the Swedish Central Bureau of Statistics (SCB) were asked to provide the technical and manpower basis for the work of this newly founded board. The new organisation had 234 personnel. As early as 1962, there were plans on the way to separate the computer operations of the Swedish Central Bureau of Statistics into activities that only dealt with the production of statistics and those

concerned with the management and maintenance of computer facilities. The latter became the precursor of DAFA and eventually led to its formation.

Indeed, during the two years of 1961 & 1962 government investment in computer facilities had quintupled from 8 million SEK to 40 million SEK. By 1964 the state administration was in possession of 30 computers with a value of 84 million SEK and distributed in 40 different locations around the country. Almost 80% of these rented or purchased computers were IBM equipment and based on mainframe solutions. The predominance of the state administration on IBM mainframes and the management, ancillary staff and consultants which were trained to deal with them, created a working practice and routines dependent on mainframe solutions which were to last for the next two decades and shape the future development as well as limits of this government enterprise. Nevertheless, in 1960s a multitude of administration routines were in dire need of automation and mainframe solutions were the only ones available. From population registration to tax administration to social insurance, retirement system, student loan facilities, vehicle and driving licence registers, pharmaceutical and drug databases, and housing and real-estate registers, there was an urgent need for rationalisation.

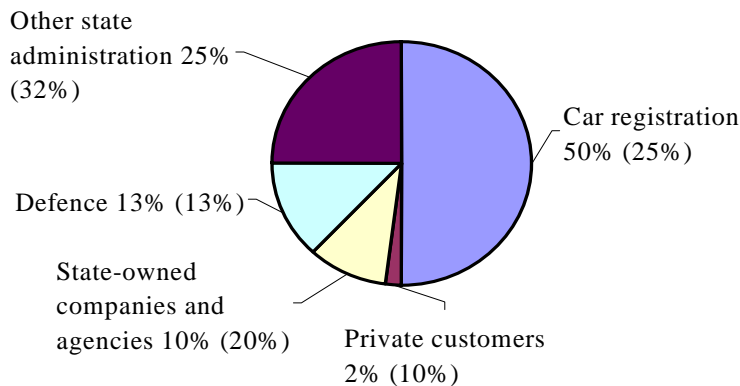
Despite this conspicuous rise in demands for computer administration, there was a shortage of skilled personnel for programming and system design. This problem also had effects on Statskontoret, which was now given the task of helping other government agencies with their increasing demands for computer know-how and administration. A growing number of computer consultants had already helped Statskontoret with its workload either directly or by subcontracting works it had undertaken for other agencies. This had led to a mushrooming of small computer consultancy firms, which were often break-off from larger private computer firms such as IBM. As far as Statskontoret was concerned, it needed a steady and continuous flow of personnel on whose competence and readiness it could rely. In view of the sensitive nature of most of the works entrusted to Statskontoret a permanent liaison with computer consultants and a guaranteed inflow of their expertise was a necessity. So,

in line with Williamsonian notion of high asset specificity, it was only natural that Statskontoret attempted to turn market supply of competence into a hierarchical organisation. And so it happened. By mid 1960s, there were ongoing discussions within Statskontoret to set up a state-owned consultancy stock company. Now, the preference for stock company should not be understood as a step by the government to compete with private firms in its sale of services and products. By a large margin, government's own demand for services and products outstripped any possible supply of such services and products by the would-be company. However, this company had to compete with private firms in the labour market for attracting competent personnel. At the time, there were statutory salary grades in governmental agencies and departments, which were not necessarily competitive with those, offered by the private sector for corresponding jobs. Being a stock company and not a state agency, would have removed any legal sanctions on the discretion of the management to set the salaries and hence they could attract the right personnel for their operations. Once the preparations were done, the government legislated by an act of Parliament the formation of a state-owned stock company to undertake the task of administrative rationalisation of departments and agencies.

The establishment of Statskonsult during 1970-72 took the government agencies with surprise. They now had to face the fact that this new enterprise, was operating on the basis of market-based prices. Although, its primary market was based on their demands and it had priority to serve them, it had no obligation to charge them with prices other than those offered on the market for similar activities. So, the need to make a stock company in order to free it from the restriction of state salary grades had its first impact on the orientation of the firm. This newly born company, despite its name and its primary market, was commercially inclined. However, Statskonsult had a guaranteed supply of customers who could not afford to be choosy in view of the shortage of competence at that time. So, Statskonsult had absolutely no competition from private firms for that public segment of the market. The government had initially modest expectations from Statskonsult. In its first year, it was sought that a supply of 50 consultants should be adequate to meet the demands. By

the end of the first year, the number of consultants rose to 68 and in the next two years it increased to 105 and 121 respectively. The 1970 turnover of the company based on different customer segments is represented in the pie chart below (corresponding figures for 1972 are given in parentheses).

Figure 6.1 Statskonsult's different sources of revenue 1970 (1972)



The stability of the enterprise, its guaranteed and increasing workload, and the security, which its employees therefore enjoyed, imparted a great sense of loyalty towards the firm. Generally speaking the employees were satisfied as shown by low personnel turnover, low sickness leave and long hours of work, which the employees accepted. The result was not just a firm but also a community of like-minded and like-interested consultants whose work and social life overlapped to a large extent. This resulted a we-culture in the firm.

Once, Statskonsult was established, steps were taken to consolidate and expand its operations. The period between 1973-1977 was taken up by these efforts. There was a large increase in the number of employees. 100 personnel in 1972 increased to 280 by the end of 1977. Statskonsult's engagement in large national government projects, and its state-ownership had earned it the trust of many private firms for two reasons. Firstly, its engagement in large projects was indicative of the fact that it already had the competence to undertake similar projects, and, secondly, its state-ownership was a guarantee against bankruptcy and thus was a good partner for long-term transactions. Already the result of a government committee set up to study the works of DAFA and Statskonsult had



proposed the recommendation that "to the extent that there are sufficient resources, the company should extent its operations to other parts of the public sector as well as the private industry." Statskonsult's reputation and a slack in the demand from the state sector prompted the management to make full use of this recommendation and pave the way for further commercialisation of the company. The fall in demand from the government was caused by two factors. Firstly, there was no longer any large national project to build. Those, which were necessary in 1960s, had already been done. By 1977 the number of large projects (bigger than 100 000 SEK in value) was only 23% i.e. less than one fourth of total projects. Secondly, there was now greater indoor competence in government agencies themselves to take care of the maintenance and supervision of their built systems. Thus a shirk in Statskonsult's primary market and a legislative go-ahead for it to make inroads in the private market, facilitated a gradual cultural and organisational change in the organisation. The share of private sector, which in 1972 was only 10%, rose to one third of total turnover by 1975, to be topped by one-half by 1977.

Just as the main clients of Statskonsult were no longer large but few government agencies and it had to deal with a more dispersed spectrum of customers, so there arose the need for the company to decentralise its operations in order to be easily accessed by its increasing portfolio of customers. Thus between 1974 and 1977, Statskonsult experienced a surge of rationalisation and a few acquisitions. The size of regional offices were modest but they were clear indications that Statskonsult was out to get new private customers and for that it no longer set itself any geographical boundaries. Indeed, in one acquisition case, Statskonsult went beyond Swedish boundaries when it obtained the Norwegian Information System International A/S. The acquisition of the sister company of Swedish Bohlin & Strömberg in Norway also paved the way for the acquisition of the mother company in Sweden itself. The thirst of Statskonsult for international operations led to the formation of its subsidiary Statskonsult International AB (SINTAB) that since its formation in late 1976 engaged in a number of operations especially to those countries, which used to receive aid from Sweden.

Just as Statskonsult was experiencing a change in the spectrum of customers it was serving, as the number of its private clients were on the rise, there was also a corresponding change in the recruitment policy of the firm. During the years 1973-1977, the number of personnel had steadily increased by 20% each year reaching to a total of 280 by the end of 1977. The average age for the personnel was 34 showing the youth of the company. However, what was now interesting was that only one fourth of the employees were being recruited from the state sector and the rest came with a background from the private sector. One eighth of all the consultants had already worked in a private consultancy firm and one quarter of all the employees were now women. Thus the grey-suited male consultants/officials from the state sector were being gradually replaced with a more mixed lot bred in the private sector environment.

By 1977, Statskonsult's operations had developed into four major divisions: the division for system engineering, the division for organisational development, the division for project administration and the division for training. By 1977 the division for system engineering, which contained about two thirds of the total staff was renamed to administration development (AU) and was organised into four market-oriented subdivisions: administration development and computer strategy, database/data communication, planning of the physical installation of computer facilities and design of operation and security systems. The other three divisions were not affected and were pretty much the same as they were in 1972. Based on these new subdivisions and the old existing divisions as well as the need for cross-divisional cooperation there arose a need to reinvestigate the organisational situation of the company. Statskonsult's Goal and Organisation Group (SMOG) was created in June 1976 to meet this challenge. It was made of representatives both from the management and the unions. By the end of 1977, SMOG was ready to deliver its verdict. SMOG proposed that each part of the organisation, which could be organised as an independent business entity, should be organised as such with profitability targets and with its own responsibility for the marketing and sale of its products and services. These business entities would be subsidiaries to the parent company, which should then be mainly in charge of strategy, planning and supervision. So, we can

now see a clear pattern of development for Statskonsult. A modest-sized stock company which had started as a single organisation, then developed into a hierarchical organisation (H-form) with its divisions and subsidiaries, to be ready for taking up a multitask-form (M-form) where the headquarters would supervise independent profit-centres (incorporation).

Despite its rapid expansion, Statskonsult was impeded by one major predicament. The original legislation bill which had sanctioned the formation of Statskonsult had also stated that the company should not seek after profit as such, but only should have adequate proceeds to cover for its eventual losses arising from individual assignments, or to finance its development costs. This was indeed a limit to the expansion of Statskonsult, which now had to resort to a policy of acquisitions in order to benefit from the economies of scale, and, thus, could compete with its emerging competitors in the market. Now, the management wanted the government to accord Statskonsult the right to gain profit and to use it for its expansion.

Incorporation of the subsidiaries of Statskonsult was the next stage in its development. It corresponded with a change of the chairperson of the board and the executive officer of the company. The decision to incorporate subsidiaries was a way to impose strict financial restraints on them and oblige them to meet certain profit targets. This decision was taken at a time when the whole IT market was experiencing a new surge of changes caused by the sidelining of mainframes and the fast introduction of mini-computers and personal computers. The initial development of Statskonsult was secured thanks to a guaranteed line of demands for big projects. These projects involved consultancy work for a long period. However, with the number of these projects falling rapidly and with mainframe solutions becoming to a considerable extent a thing of the past, Statskonsult had to enter a more competitive and insecure market where competitors, which were more equipped with the solutions for the new mini- and personal computers, could challenge its previous competencies.

To meet this new challenge, Statskonsult turned its four major operational divisions into four independent stock companies. Furthermore, in order to gain access to new customers, it resorted to the customary practice of buying out its competitors. Thus from 1979 till 1985 a considerable number of sister companies were built. Regional offices were also turned into stock companies and came under a single central command. For these newly constructed companies, the head office set stringent targets for profitability. So, now all parts of Statskonsult were faced with the challenge of meeting financial targets set by the centre. Some of the regional offices failed and thus were closed down. One of the previous divisions, which had now gone astray, was sold to its employees.

In all, the new management had made it clear that it was after profit and not any amount of proceeds to cover its likely costs. This change of heart coming in the midst of a turbulent period for the company had its own consequences. Some felt the old aims of the company were betrayed and with it their own survival in the company diminishing. As a result of this sense of apprehension and uncertainty a number of the co-workers and even the management team left the company. However, with the benefit of hindsight without this sense of crisis, and the turbulence it had created, it is hard to imagine if the management could have indeed carried out their drastic policy of restructuring the company. We will see later that the management of SKDföretagen and Kommundata deployed almost the same tactic.

To meet the challenge of a changing market and its new customers, Statskonsult invested its resources in two new areas. Firstly, it recognised the need to supply PCs for a growing number of customers. Secondly, it realised that the domain of PCs was growing and hence there is a need to provide software solutions for these new machines. The formation of Statskonsult Data AB (STADAB) in 1984 was a means for the company to establish a foothold in the growing PC retailing. It was followed a year later by the formation of Statskonsult Programvaruhuset AB (PVAB) a subsidiary specialised in producing UNIX-based programs for PCs. The fact that Statskonsult was now made of a number of independent business entities, each with its own profit targets and its own responsibility for

sales and marketing, had made it possible for the parent company to easily close down unprofitable subsidiaries and re-deploy staff where they were needed. This ease to hire, fire and move personnel and equipment was the product of the M-form organisation, which Statskonsult had acquired, in early 1980s. However, as the mid 1980s approached and the pressures of competition were more forcefully felt by Statskonsult, it decided to streamline its diverse activities and instead concentrate its resources on core business. The corporation was divided into three separate divisions. Statskonsult group was given the task of concentrating on administrative development and computer matters. Bohlin & Strömberg Group was assigned to carry out management and consulting tasks. Finally, Statskonsult International was given the task of taking care of exports of services. By clearly separating these three divisions, it was now possible to see if there were any synergic effects from these divisions and if it was worth keeping its two non-core divisions. The Ministry of Public Administration established in 1985 a holding company ESKA Statskonsult to look after its interests in each of these three divisions. By 1987, it was clear to the management that neither Bohlin & Strömberg Group nor Statskonsult International were generating adequate profits for it to keep them. The latter was liquidated in 1987 and soon after the union between Statskonsult and Bohlin & Strömberg Group came to dissolution. So, by the second half of 1980s, Statskonsult had little resemblance to the organisation which was formed by the act of Parliament in 1969. Its primary market was no longer the public sector. Nor was its recruitment based on personnel from the public sector. The internal relations between different divisions inside the company were now fully commercialised and its subsidiaries had developed an aggressive market-oriented profile. Its overall operations were now considerably streamlined and it was set to make use of the new and growing market for PCs. The new Statskonsult was ready for a new phase of expansion and it was natural for it to assume that the first chunk of acquisitions which it was entitled to get was DAFA, an agency which it had time and again asked the government to hand it over. After some fifteen years of development, the stage was finally set for the grand union of DAFA and Statskonsult. But let us first see how DAFA had fared during this time and how ready it was to be acquired by Statskonsult.

### 6.3 DAFA

Computer Centre for Administrative Data Processing or datamaskincentralen för administrativ databehandling (DAFA) came into being in 1970 when the government proposed the formation of a new agency for administrative data processing. The proposal was accepted by Parliament and the agency DAFA was established on July 1, 1970 (prop. 1970: 1 bil. 9, SU 1970: 7, rskr 1970: 7). The task of the agency was to carry out administrative data processing on behalf of other civil agencies. In essence, it was an offshoot of The National Bureau of Statistic's computer division. The task of DAFA was to provide primarily services to state agencies with the least total costs possible and with due consideration to long-term as well as short-term aspects of its operations. As well as serving state administrative agencies, DAFA was expected to provide similar services to other state organs connected with the department of defence. Only if having served these state agencies and organs did it have surplus resources, was DAFA expected to accept assignments from other agencies.

The operations of the agency were to be wholly financed by fees it charged for its services. During its first 10 years, DAFA had a unique position, almost a monopoly, in the government administration. However DAFA was permitted, if it had the resources available, to accept work from customers other than government agencies. Nevertheless in 1981, 95 per cent of its revenues emanated from government agencies. So until 1981, DAFA had a special position in providing system design and programming for state agencies. Until 1975, DAFA was not even an independent state agency. It was under the supervision of Statskontoret. However, in 1975 a government ordinance (Rationaliseringsförordningen 1975: 567) on rationalisation activities within civil administration redefined and specified the relations between government agencies and Statskontoret as well as DAFA and Statskonsult. As a result of this ordinance, DAFA became an independent agency. The same ordinance reasserted the special position of DAFA as an agency entrusted with the task of providing other agencies with standard programs and helping them to tailor-make these programs to their needs. Furthermore, a subsequent

government inquiry (Ds FiU 1976: 2) narrowed down the scope of DAFA's activity. It stipulated that under normal circumstances, DAFA's workload does not include development of new systems and the latter should at all time give priority to demands from state agencies. Thus, whilst the special position of DAFA was secured, the government had put limitation to its ambitions and had curtailed any future enlargement by it other than what was expected from a growth in the size of demands from government agencies. SDS report (Ds Fi 1974: 11) as well as DASK (SOU 1976: 58) also treated DAFA's organisational form. In both of these reports it was argued for a state computer centre thus insulating DAFA against any competitor which wished to perform the data processing of state agencies. Hence, the freedom of action associated with a stock company was not seen as relevant against this background.

The technological change occurring in the information technology and the introduction of personal computers had brought about the need for rethinking to the government. These new developments were making any defence of the position of DAFA as the sole supplier to government agencies untenable and even, if the former were not to adjust itself to these changes, uneconomic. Thus, the government appreciated the need for considering new solutions.

In 1979, the monopoly commission suggested in its report on competition in computer industry (Monopolutredningens betänkande Datakonkurrens DB 1979: 1) certain scaling down in the special position of DAFA whilst providing it with greater chance to work with system development. The report considered restrictions imposed on DAFA to develop new system designs, to purchase or decommission computer facilities only on the basis of funds available to it from the government and to strictly observe statutory salary grades to be serious hindrance to its freedom of action as a commercial entity and thus in the long-term untenable. The report also suggested that the restriction on the right of DAFA's management to dispense with profits should either be lifted or eased. The association form of DAFA was also discussed in the report although it clearly fell outside the concerns of the commission. The report concluded by suggesting that DAFA should compete on equal footing with other

service bureaux and there were strong reasons for it to develop from a state agency to an independent company. Suggestions made by this official report were taken up by the budget proposal for 1981 (prop. 1980/81: 100, bil. 11). Although the proposal did recognise the need for changing the legal status of DAFA in order to facilitate its competitive position, it failed to agree on transformation of DAFA into a state-owned stock company and went as far as approving certain measures to improve the existing situation of DAFA. By that time 95 percent of DAFA's customers were state authorities, hence, the official report set the stage for a new development in the direction of DAFA. It suggested a widening of DAFA's customers spectrum and less dependence on state agencies and authorities as a source of revenue. As a result, by 1 July 1981 DAFA gained partly a new direction.

The immediate result of this change was the adoption of a new organisation by DAFA. The aim of this new organisation was to make DAFA in an increasing degree more market-oriented. DAFA's activities were at the time essentially concentrated in one location, i.e. Stockholm. The activities in Stockholm were now divided up into 5 distinct entities. These entities which were given letter abbreviations rather than more easily understood names, as it is to be expected from technically minded administrators, were I, S, U, D and A divisions. Division I was responsible for maintaining and running DAFA's central databases. It had also the task of developing information retrieval products and services. Division S was responsible for those activities, which were aimed at developing customer specific system designs. In other words, it was to tailor-make software for economic and personnel administration for DAFA's clients. Division U was in charge of developing new programs, ancillary accessories, small computers, and application programs for office automation, graphical presentation techniques and so on. Division D was given the task of running and maintaining mainframe computer facilities and all the tasks, which were associated with it such as planning and maintaining computer resources and data communication. Division A was responsible for the common administration of all the other divisions. Among others, it was to take care of personnel administration, economic accounting and supervision, security, archives, purchase, accommod-



ations etc. DAFA also had branch offices outside Stockholm, which fell under the supervision of S and D divisions respectably. Divisionalisation of DAFA was in itself a step forward towards a change in its organisation. However, the new organisation was still much a product-oriented body run by experts. The divisions were mainly concerned with running a particular product or service within DAFA. None was directly responsible for marketing and sales of its own products or services. A small sales entity at the head office was to take care of this matter centrally. In this sense, DAFA's organisational form was much less developed than Statskonsult at the time. Of course, there was little motivation for any drastic organisation change in DAFA's structure. A look at DAFA's sales profile illustrates the point.

Table 6.1 DAFA's revenues 1980/1981 -- 1983/1984

	80/81	81/82	82/83	83/84
<b>Turnover (million SEK)</b>				
Public customers	107,3	107,8	116,6	119,5
Private customers	9,7	17,8	24,7	30,8
Other customers	0,7	0,3	0,2	0,3
Other revenues	6,8	5,1	4,9	5,6
<b>Customers (number)</b>				
Public sector	104	112	115	128
Private sector	101	120	165	180
Others	22	22	18	29
<b>Revenues/Customer (thousand SEK)</b>				
Public sector	1032	963	1014	934
Private sector	96	148	150	171
Others	32	14	11	10

As could be seen in the above table, the part of the turnover, which came from private customers, had increased from 8 percent in 1980/81 to 20% by 1983/84. However, the bulk of this increase was due to the sale of services from National Personal and Address Registration Office

(SPAR). Although the number of DAFA's private customers had almost doubled in the same period, their share of the revenues was modest compared to those from the public customers. A year later (1984/85) those customers of DAFA whose invoices valued more than 1 million SEK accounted for about 70% of its total turnover. The number of these customers was only 22 and the total value of their invoices was 134 million SEK. However, despite these drastic statistics, the government was fully aware of the general trend in the coming years. Thus, in September 1984, the Ministry of Public Administration initiated an inquiry whose final report was entitled: "DAFA - Myndighet eller Bolag?" (DAFA - Agency or Company?). The recommendation of the report was unequivocal. It suggested that DAFA should be placed in full competition, it should behave as a service bureau and not a state agency and that it should be turned into a stock company. Since, in view of this inquiry, a company, which is assessed by its results and profitability, is more effective if it is run as a business enterprise. In short the report suggested that DAFA should enjoy greater degree of freedom, and a speedier path to make its decisions as far as the following were concerned:

- Provision of capital
- Wage determination and other conditions of employment
- Investment (decision and financing)
- Co-operation with other organisations

The Ministry of Public Administration appointed in the autumn of 1985 an organisation committee to formulate a policy for how the above law could be implemented. (Redovisning av organisationskommitténs C 1985: 03). Based on the above studies, a bill was presented to the Parliament (prop 1984/85: 225), which passed into law late spring 1985. The bill acknowledged the analysis in the above report. It recognised that the general trend in IT market was a shift from mainframe solutions to more decentralised smaller units and that this trend was as much relevant for private companies as government agencies. The bill thus stressed that there was a need for DAFA to balance its current biased dependence on mainframe solution with a development towards this new emerging

market. This was essentially the decision, which Statskonsult had taken a few years ago. Now that DAFA was also going to undergo a similar shift, it was natural that the idea of merging DAFA and Statskonsult, both of which were owned by the Ministry of Public Administration, be aired again. Thus, the bill acceded to a close co-operation between a soon-to-be incorporated DAFA and Statskonsult. To achieve this aim, the bill recommended the formation of an organisational committee to work out a detailed plan for the incorporation of DAFA. The chief executive officer and chairperson of the board of Statskonsult also participated in this organisational committee. In December 1985, the committee reported that the change in the status of DAFA from a government agency to a stock-company was by no means a change in the overall course of its development but was merely a consequence of what it had undergone in the past few years. This was a correct assessment since during its last five years as a government agency (1981-1986) its revenues from non-governmental customers had increased and amounted to 20 per cent of its turnover. The size of DAFA's revenue reached to a record level of 200 million SEK by 1986. This was more than six times the size of DAFA's initial turnover 15 years ago (30 million SEK). It also recommended that the best way to assimilate DAFA into the existing Statskonsult organisation was for the latter to join the ESKA Statskonsult, a holding company which was set up in 1985 by the Ministry of Public Administration to take care of the three main divisions (Statskonsult Group, Bohlin & Strömberg Group & Statskonsult International) of the old Statskonsult. However, before DAFA could be turned into a stock-company, its former legal organisation had to be dismantled totally. The conditions for labour contracts for DAFA, as an agency was to be different from that of a stock-company. The employees who were a hard core of 300 persons with many years of employment at DAFA were fully aware of this turn of events. Thus, a long-drawn industrial battle between the employees and the management started. Understandably, the employees were unwilling to give up their better contractual provisions for the sake of a shake up in the legal structure of DAFA. Finally, the management gave in and it agreed to demands of the employees for keeping the same rules on length of holidays, medical care, company health care, job security and wages and reinstating all the personnel from

the old DAFA. Just before the start of the New Year in 1986, the management and labour representatives signed a new deal removing the last hurdle to the incorporation of DAFA. By an act of Parliament in the spring of 1986, DAFA was set to officially become a state-owned stock company from July 1, 1986 (prop 1985/86: 112). A week later, i.e. on 8 July 1986, the shares of DAFA were transferred from the Ministry of Public Administration to ESKA Statskonsult AB. However, with the loss of the other two previous divisions of this conglomerate (Bohlin & Strömberg Group & Statskonsult International), it was to be a union of equals between the DAFA and Statskonsult Group.

According to a plan drawn up by Matz Hentzel the chairperson of ESKA Statskonsult this holding company should have been turned into a conglomerate governed by a strong and active leadership. The core activities of the conglomerate was to be organised in five business areas: consultancy, training, software, computer sales and facility management. Each business area was not simply a profit centre, which had to meet a particular financial target. But it was an instrument to develop and further the overall plans of the conglomerate for a certain part of the core activities. In other words, business areas were not simply to follow orders but had to formulate and advance the policies of the conglomerate. To achieve this, each business area also needed active and vibrant leadership. Thus, each group was to be made of a number of subsidiaries and headed by a business area manager who was also a member of the top management team and the chairperson of the boards of all the subsidiaries he was heading. For better communication and co-ordination, the chief executive officers of the subsidiaries of each business area and the area manager were to form a leadership group for that particular business area and they were supposed to meet regularly. Likewise, the business area managers and the chief executive officer of the corporation were to form a corporate leadership group due to meet at regular intervals. Furthermore, regular annual conferences with the participation of all levels of management were to take place to iron out major policy issues and so on. In this scheme of things, a hierarchical system of management was supposed to bring about unanimity and unison in an organisation, which was by its very nature destined to grow by acquiring ever more new and

diverse subsidiaries. However, to start with, it was recognised that DAFA needed a period of adjustment on its own before it could enter into a full union with Statskonsult Group. The policy document prepared by Mats Hentzel on joining of DAFA to the holding company ESKA Statskonsult assessed that a period of three years was needed before a full consolidation could be made. The date set was 1 July 1989.

However, during this period, DAFA played an important role in the overall development of ESKA Statskonsult and later SKDföretagen. When it became a company, DAFA had to work in open competition with other companies and in accordance with commercial principles. The organisation was to be run with profitability as its goal and was expected to deliver an acceptable yield.

The most important reason given for turning DAFA into a company was that this would give DAFA the same financial freedom of action as its competitors. This was considered important for reasons of competition and also since it would greatly increase the possibilities of the organisation to work together with other organisations on the market. The reason for government ownership was that it was considered essential that the government, as is the case in most large companies, should have access to its own service bureau in the EDP field. Prior to the final decision a thorough examination was made of the financial prospects and the market potential of the company. Proposals for the objectives of its operations, for how it should deal with personnel matters and suchlike were also prepared. When deciding to form the company, the government stipulated that it should have profitability as its goal. At the same time the government also specified its requirements where yields and dividends were concerned. So, in joining ESKA Statskonsult it was clear that DAFA was to meet certain profitability requirements, which were similar to what was expected of Statskonsult Group. The designed period for the full consolidation of DAFA into Statskonsult Group was the time given for the management to adjust the company to these requirements.

This task was given to Håkan Kihlberg the new chief executive officer of DAFA. Kihlberg had many years of experience in the computer branch

and was well aware of the situation of DAFA through his early business contacts. He had also experience of working in a government agency back at the time when he was employed at Rymdbolaget (Space company, a state-owned stock company acting as the national space agency). The new executive officer had been selected after a considerable headhunt, which could only be interpreted, that those who had selected him were fully conscious of what type of leader was needed for DAFA at the particular time. Karl-Erik Strand, the chairperson of the inquiry commission in 1985 was chosen as the chairperson of DAFA's board of directors. It was only in 1989, when DAFA became part of the consolidated group of SKDföretagen, that Strand was replaced by Mats Hentzel the chief executive officer of Statskonsult Group. DAFA's board was from beginning a team of 10 persons including the two representatives from labour unions and it showed continuity in its composition. Even after the formation of SKDföretagen, none of the pre-1989 board members were replaced and indeed three of the original board members were still present. There was a mixture of people from the Prime Minister Office, state agencies and the private sector. So, it could be said that the leadership and board of DAFA benefited from stability, continuity and to a large extent harmony. This had its effect on DAFA and its ensuing development.

Since it started operations as a company, DAFA's progress was characterised by rapid growth and good profitability. DAFA's growth was mainly due to a considerable number of acquisitions and it secured a rate of growth greater than the 10% asked for by the organisation committee back in 1985. By 1989, DAFA as a whole had a turnover of 363 million SEK of which 287 million SEK belonged to the parent company. For 1992 the group presented the following information (parent company's figures in brackets). Turnover: 751 million SEK (530). Profit before depreciation: 57 million SEK (38). A more detailed account of the financial progress of DAFA between 1987 and 1992 is as follows:

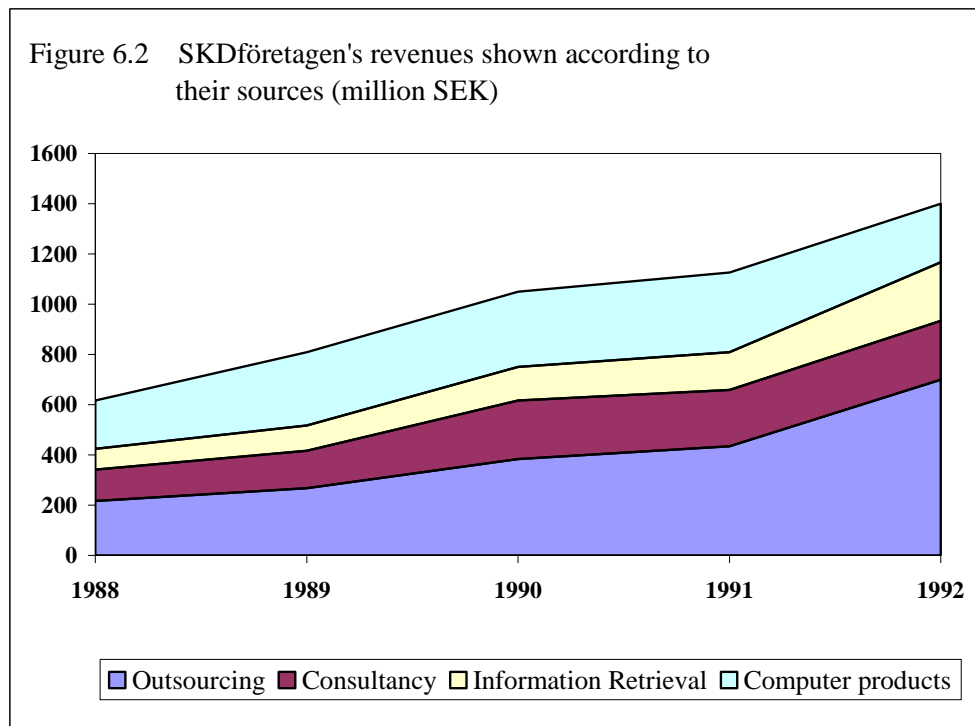
Table 6.2 DAFA's economic progress 1987-92

Turnover in million SEK						
	1987	1988	1989	1990	1991	1992
Parent company	222	250	287	375	447	530
DAFA Group	231	295	363	518	593	751
Average no. of employees						
Parent company	369	358	342	352	367	371
DAFA Group	376	405	436	530	546	634
Turnover/employee in thousand SEK						
	614	728	833	978	1086	1184
Operating income after depreciation in million SEK						
DAFA Group	21	24	28	36	47	57
Return on total capital (%)						
DAFA Group	19	17	19	19	20	23
Return on stockholder's equity (%)						
DAFA Group	23	25	39	44	43	57

The growth of DAFA was mainly due to its vigorous expansion in the private market at the same time as it had succeeded to a considerable extent in retaining its government customers. Private customers now accounted for some 60 per cent of the company's turnover. To sum up, it can be said that the change of the organisation from an agency into a limited company had, for all intents and purposes, been free of problems and that the company's financial growth was extremely positive.

## 6.4 The Formation of SKDföretagen

SKDföretagen was set up in 1989 to take over ESKA Statskonsult holding company. By this time it was only DAFA and Statskonsult Group of companies, which remained in the domain of this newly-formed conglomerate. Other non-essential divisions had either been sold or liquidated. Since its formation, SKDföretagen underwent continuous restructuring, part of its activities were shut down whilst others were added or expanded. Before its privatisation, SKDföretagen was a conglomerate of no less than 30 firms in the information or computer branch. This group of companies were spread geographically throughout Sweden. In 1990 the total turnover of the group was 956 million SEK and the number of employees was 900. DAFA was the largest in the group and employed 400.



This change in the firm's fortunes is illustrative by some figures about its financial growth. By 1993 the company's annual earnings had risen to 1.2 billion SEK. 80 percent of the company's revenues in 1986 came from the government orders, by 1993, the size of these orders were down to 40% although the overall size of the firm's revenues had increased 6 folds. The rate of profit for the firm in 1986 was zero, as it was supposed to be for a



government service provider. By 1993, the corresponding figure was 8 percent. In comparison, the revenues from IT-consulting, mainly provided by Statskonsult AB, had only modestly increased in the years from 1986 to 1993. For the corresponding time period, the growth in the revenues from the sale of databases and information services was modest and had only risen organically. Håkan Kihlberg believes that it was this growing market and its recognition by DAFA, which made the actual process of change easy and understandable for the people involved. In 1986, the only real customer, which enjoyed the outsourcing facilities of SKDföretagen, was the National Personal and Address Registration Office (SPAR). But, in a short span of time, the company succeeded in attracting a number of big customers, among others one could mention, National Audit Board (Riksrevisionsverket), National Student Grant Organisation (CSN); the haulage firm Svensk Bilspedition; Philipsons Car; British Petroleum; County Insurance Office (Länsförsäkringar) and Vasa Insurance company.

In order to expand, SKDföretagen needed to win over the customers of its competitors. In view of the stable customer-supplier relation which existed in the IT-branch, such a venture in effect implied the acquisition of other firms. So, since late 1980s, SKDföretagen embarked on buying up its competitors. The major acquisitions included: Tortec AB, a consultancy firm specialised in the PC and UNIX environment and the sale of IBM RS/6000 computers; Nordsystem AB and Malmfältsdata Informationsutveckling AB (M.Data), two facility management companies in the northern Sweden; QZ UniversitetsData AB, the company responsible for much of Stockholm University's computer and data processing works; Computer Publishing Systems AB, a company specialised in desktop publishing and multimedia productions; LönePartner AB which later was responsible for the processing of payrolls for a large number of clients; Axiell AB and AdressKompaniet AB, two companies specialised in data retrieval and processing of archival data; SoftData AB, a software developing joint-venture, and last but not least of all, Svenska Datacentralen a rival to SKDföretagen in every aspect.

The SKDföretagen had four main operating areas: outsourcing, database services, consulting, and products. There was a fifth operating area consisting of its international businesses. SKDföretagen's main business areas were essentially outsourcing, where it had clients in both public and private sectors, and consulting, where it had companies specialising in both IT and management consultancy. Software and direct PC sales as well as information retrieval were also its other sources of revenue.

**Data Production (Outsourcing):** This area provided outsourcing and some project services (systems consultancy, software development and system integration). The main operating subsidiary was DAFA AB which was usually known as just DAFA. It was by far the largest operating company in the SKDföretagen. DAFA's domination in the conglomerate became indisputable after its acquisition of a rival company, Svenska Datacentralen, in January 1993. The latter was founded in 1985, and was listed on the Swedish stock exchange in November 1988. In January 1989 it was bought by Sapia, a large diversified company, in an agreed take-over. However, Sapia had borrowed heavily and was forced to dispose of some of its assets by the recession and high interest rates in Sweden. It sold the company to SKDföretagen. Both DAFA and Svenska Datacentralen were much more widely known than the parent company, SKDföretagen. The operations of Svenska Datacentralen were merged with those of DAFA. The latter was the largest part of this group with around 675 people and revenues of 800 million SEK. This group built up its capabilities in developing new systems, upgrading systems and software to Microsoft or X-windows, and industrial system maintenance. It had a group of 100 consultants within DAFA working on this area. DAFA mainly used IBM MVS and VM/VSE mainframes to provide bureau type services, with the computers being located at remote sites. It did some outsourcing at customers' sites, but its preference was to relocate the data processing to its own location as soon as it could.

If DAFA had a weakness, it was the heavy commitment to IBM mainframes. Meanwhile, many potential customers were building distributed systems and/or downsizing, often as an alternative to outsourcing. Sooner or later some of these customers would want to

outsource their distributed systems. To win this business, DAFA needed expertise outside the IBM environment.

The systems development group might have well helped DAFA to gain this experience. However, in other respects this group was in the wrong business unit. Outsourcing generally does not require particular vertical market knowledge. In contrast, building new systems and upgrading old ones demand a lot of vertical market knowledge (that is why we now have matrix organisation in Sema), as does systems consultancy. The systems group might have been better placed with the consultancy business unit. Prior to the merger, all DAFA's incomes were from the government sector, whilst those of Svenska Datacentralen's were from the private sector. After the merger, the combined group had about half its business from central government. Due to the EC's competition directive, it faced potential difficulties in this area, and was bound to lose some of this business. The company intended to attack the local government market, which was then held by Kommundata. This was an outsourcing service co-operatively owned by the Swedish local authorities. The management of SKDföretagen believed that some local authorities were keen to move their businesses from Kommundata. Correspondingly, Kommundata was keen to sell its services into the central government market. The whole SKDföretagen was confined to Sweden and Finland, the largest and (depending on exchange rates) smallest markets of the main Nordic region. Was this a weakness? Probably not, because outsourcing is an essentially localised service. Concentrated coverage of the area you serve is more important than reaching a wide geographic area. As outside companies increasingly challenged for government business, DAFA in particular and SKDföretagen in general were liable to find the business available to them shrinking. To avoid this, both parent and its subsidiary needed to develop new areas quickly.

**Database Services:** This was essentially a database marketing operation employing around 300 people. The main company was Infodata, formerly a subsidiary of DAFA but now a subsidiary of SKDföretagen in its own right. The Swedish government keeps extensive data on every citizen, and

Infodata exploits this information commercially to provide marketing databases and direct mail for its customers.

**Consulting:** SKDföretagen had around 400 people in this area producing a revenue of about 350 million SEK. Just less than ten percent of the revenues from this area is in management consulting, the balance was in systems consulting or payroll system outsourcing. In the consulting area, the most important subsidiaries in this area was Statskonsult, which specialised in systems consultancy, and Omnia Gruppen AB, a management and organisational consultancy. The payroll business was run by Växjö PA-konsult AB. It developed and marketed payroll systems. Växjö PA-konsult AB also ran a payroll bureau using DAFA resources (it was formerly a Datacentralen subsidiary). The bureau administrated the pay of 500,000 people.

**Products:** There was one large operating company and many smaller ones. The large company, Stadtab, marketed IBM-compatible PCs and Unix systems.

**International Operations:** The companies in this business unit were all part of Tictonovo OY, SKDföretagen's subsidiary in Finland (it was formerly a Svenska Datacentralen subsidiary). It had three subsidiaries:

- Novosoft, which carried out systems consultancy and software development, and also had a specialisation in EDI
- Novocentre, and outsourcing bureau company
- Novosys, which sold IBM AS/400 systems

SKDföretagen had no formal alliances. However, in 1991, DAFA and Svenska Datacentralen set up a joint venture called Transpac Scandinavia with Transpac, a division of France Télécom. Transpac had one of the largest X.25 networks in the world. Sema Group plc. also happened to have a share in the France Télécom, Transpac. The network was mainly based in France but Transpac was expanding its business across Europe through similar joint ventures. Its services included public data network services, electronic mail, EDI, frame delay, videotext and network

management services. With the merger of DAFA and Svenska Datacentralen, DAFA now owned 40% of Transpac Scandinavia.

## 6.5 The Privatisation of SKDföretagen

Despite its progress, SKDföretagen lacked certain essentials for going further. For instance, in a study commissioned by the company's management on comparing the extent of editorial coverage given to SKDföretagen with that for its competitors, it was found that size of coverage for VM Data was disproportionately higher. The fact that the latter was quoted on the Stockholm stock market was concluded to have been one strong reason behind this advantage. To seize the lime-light and to become public-friendly, it was the opinion of the management, that SKDföretagen had to change its legal form. There were a number of options available at the time. In 1992, change of government meant that the option for going to stock market was viable and legitimate. However, the economic crisis which stroke Sweden in the ensuing years and led to an astronomical rise in the rate of basic interest rate, now meant that any flotation of the shares of SKDföretagen on the Swedish stock market was bound to lead to severe under-pricing and a substantial loss for the government.

Either the privatisation of SKDföretagen had to be shelved for a considerable time or other options should have been tried. Selling the whole of SKDföretagen to a single buyer was deemed appropriate. However, the acquisition of the company by a Swedish partner was opposed, at least by the then managing director of DAFA, Håkan Kihlberg, on two grounds. Firstly, he believed that a Swedish buyer would not add any new values and resources to the firm; rather it would only exploit the gains it had already made. Secondly, the national market was already restrictive of any future growth for the firm and by selling it to a Swedish buyer, SKDföretagen's future development was doomed to failure. So, an international prospective buyer was seen more appropriate. Through his previous relations with France Télécom, one of the owners of

Sema Group plc., Håkan Kihlberg suggested the latter as a possible choice outside Scandinavia.

It just happened that selling of SKDföretagen also fitted well with the overall business strategy of Sema Group plc. Since its formation as a result of a merger between the CAP Group in the UK and the Sema Metra in France, the new company had adopted the strategy of becoming the largest IT service provider for the European market. Indeed a look at the acquisitions and joint-ventures of Sema Group for the past 9 years (1988-97) is a proof of this fact. However, compared with previous acquisitions in Germany, France and England, the purchase of SKDföretagen was the largest single buy-out by Sema Group plc.

Table 6.3 Acquisitions of Sema Group plc.

1988	<ul style="list-style-type: none"> <li>• Birth of Sema Group, from the merger between Sema Metra (France) and Cap Group (UK).</li> </ul>
1989	<ul style="list-style-type: none"> <li>• Sema Group acquires the German services company ADV/ORGA.</li> </ul>
1990	<ul style="list-style-type: none"> <li>• Sema Group acquires 49% of Tibet, a services company specialised in stocks management.</li> </ul>
1991	<ul style="list-style-type: none"> <li>• Formation of BAeSEMA, a 50/50 defence joint venture with British Aerospace.</li> </ul>
1993	<ul style="list-style-type: none"> <li>• Creation of Sema Group Télécom, a joint company with France Télécom, specialising in civil telecoms.</li> <li>• Sema Group acquires the outsourcing, consulting and systems integration activities of SKDföretagen AB, a Swedish state-owned company (1,200 employees).</li> </ul>
1994	<ul style="list-style-type: none"> <li>• Sema Group acquires Contact Group in Spain (facilities management of payment and fidelity cards).</li> <li>• Sema Group acquires Aero (France).</li> </ul>
1995	<ul style="list-style-type: none"> <li>• Sema Group acquires 51% of Progénia (France).</li> <li>• Acquisition of 45% of Paradigm (South Africa).</li> <li>• Acquisition of 40% of TS-FM (France).</li> </ul>
1996	<ul style="list-style-type: none"> <li>• Acquisition of Goya Servicios Telematicos (Spain).</li> <li>• Acquisition of Datashield (UK).</li> <li>• Acquisition of Mouncey &amp; Partners (UK).</li> <li>• Acquisition of 75% of Infoservicios (Spain).</li> <li>• Acquisition of Syntax Processing, with branches in Italy, UK, Belgium and France.</li> <li>• Acquisition of Telis (France).</li> </ul>
1997	<ul style="list-style-type: none"> <li>• Acquisition of BR Business Systems in the UK.</li> <li>• Acquisition of Devotech (France).</li> </ul>

Håkan Kihlberg believes that this acquisition provided the long-awaited solution for the growth of SKDföretagen. It immediately transformed the firm into a public company with its stocks quoted as Sema Group plc.'s shares on European stock markets and it provided it with new expertise and resources and access to an international market.

The sale of SKDföretagen followed a number of steps. The government revived the dormant Svenska Datacentralen DC Aktiebolag and renamed it DAFA Norr Aktiebolag on 12 March 1993. This new company became the repository of that part of SKDföretagen which was later sold to Sema Group plc. This move was thought to provide the buyer with certain tax advantages although the exact mechanism of this action is hard to get.

SKD subsidiaries were divided into strategic and non-strategic companies. 29 companies were sold at first. The remaining 53 companies were left for sale to either the staff or other buyers. The SKD subsidiaries in Finland which it had acquired through the acquisition of Datacentralen AB a year earlier were sold separately. Transpac Scandinavia AB was bought in a separate deal by France Télécom Transpac, itself a subsidiary of Sema Group plc. Agresso System AB and DC Datacentralen System AB which in the initial deal had been left out as non-strategic were bought by the Sema Group plc. whilst Protect Datasäkerhet AB was sold back to SKDföretagen. Thus, bringing the number of companies bought by Sema Group plc. to 30. This ensemble of companies was completed with the control of two further associated companies (DC Tidningsdata & On-line CC AB) of the old SKDföretagen.

The remaining assets of SKDföretagen were to be privatised according to a parliamentary report by the government dating back to the last year of Bildt's conservative coalition. (Prop. 1993/94: 100, Bil. 13: 8). However, since the Social-Democratic government took office, the remaining subsidiaries of SKDföretagen have been either liquidated or spun off as private firms. Before the sale, the annual turnover of the conglomerate had reached 1,8 billion SEK and employed up to 1400 persons. Sema Group plc. is one of the largest software houses in Europe, with more than 14,000 people in Europe and in Asiatic south-east. Headquarters are in

France and UK, but large companies are in Germany, Belgium, Spain and Malaysia. and are quoted on the London Stock Exchange. Through the sale of subsidiaries, almost three quarters of SKDföretagen have now become privatised and is owned by one giant corporation.

That part of SKDföretagen which was sold, is now renamed Sema Group Sweden AB and is made of a parent company (Sema Group AB) and three subsidiaries (Sema Group Konsult AB, Sema Group InfoData AB and Sema Group Outsourcing). The turnover of this company was 1,5 billion SEK in 1997 and employed about 1600 people. It has expanded continuously since it was formed after the acquisition of large parts of SKDföretagen. According to *Computer Sweden* (1996: no. 15), Sema Group Sweden AB, is gaining greater importance in Sema Group conglomerate. Up to 20% of conglomerate's overall turnover and 17% of its profits are believed to have come from its Swedish division. It is now the third largest subsidiary of Sema Group conglomerate in terms of revenues.

A constant theme echoed by the management and one which helped them win the argument for privatisation was that SKDföretagen would not survive as an IT company if its ownership composition did not expand. For instance, Mats Hentzel, the chief executive officer of SKDföretagen made in an internal document entitled: "SKDföretagen - ägarkomplettering" an almost apocalyptic prediction about the likely future of the company if it failed to broaden its ownership structure:

"The IT branch is going to restructure. The big companies are going to get bigger at the expense of small and medium-sized ones. The profitability is going to sink in the short run. The traditional computer suppliers are going to concentrate more and more on selling services instead of traditional hardware. We are going to witness a lot more big competitors from overseas among others as a consequence of our future links with EU. The technological changes are taking place at a furious pace." ... "In order that SKDföretagen could continue with its strategic aims, that is achieving a long-term growth with profitability, there is a need for the existing capital base to be consolidated." ... [Thus] "the conglomerate should get access to external capital market and use its own shares



as liquidity for a possible big acquisition." ... "that new owners are found who are willing to share the risks and responsibilities of the conglomerate".

Flotation of the firm was believed to "automatically create legitimacy for the company and its activities both in Sweden and abroad" and "increase the interest of the business world and the media for the conglomerate and its activities" (same source).

Of course such predictions were out of tune with the actual economic status of the firm. As the numbers in the following table show, SKDföretagen was by no means a company in dire need. Nor did it lack adequate profitability. Indeed available data suggests that it was at the top of the league in the IT-sector. Likewise the need of the firm for urgent capital in-flows was a myth. The company itself had produced, and continued to produce adequate profits from its own cash-flows. No extra infusion of capital has occurred by the mother company following the privatisation of SKDföretagen.

Table 6.4 SKDföretagen's financial indicators 1987-1990

	1987	1988	1989	1990
Turnover (million SEK)	471	584	776	956
Net income (million SEK)	15	37	40	44
Asset turnover	292	421	426	471
Increase in turnover (%)	39	24	33	23
Debt/equity ratio (%)	35	28	32	32
Liquidity (%)	143	136	114	107
Return (%)				
– on operating capital	14	20	25	25
- on total capital	8	11	12	11
Number of employees	663	744	860	871
Turnover rate of capital	1,6	1,6	1,8	2,0

- SKDföretagen's ranking in terms of revenue among companies in the Nordic countries

	1988	1989	1990
Position	788	732	664

- SKDföretagen's ranking among firms in IT-branch for the Nordic countries:

	1988	1989	1990
Position	14	12	9

- The average increase in the turnover of the largest companies (employing more than 40 employees) in IT branch was as follows (that of SKD is written in parentheses):

1988 -1989	15%	(29%)
1989 - 1990	10%	(23%)

- The average rate of profit for the biggest companies in the Nordic countries was as follows:

	1988	1989	1990
• Profitability on total capital			
Average	9,5%	11,7%	8,5%
SKDföretagen	11,9%	12,4%	11,4%
• Profitability on operational capital			
Average	18%	21%	10%
SKDföretagen	18%	23%	21%
• The average equity/debt ratio for the biggest companies in Nordic countries was as follows:			
Average	21%	23%	19%
SKDföretagen	24%	32%	30%
• The average number of employees for the biggest companies in IT branch in Nordic countries was as follows:			
Average in the Nordic countries	1005	946	1019
Average in Sweden	877	750	794
SKDföretagen in Sweden	730	860	871

At the time immediately prior to its sale, i.e. the first six months of 1993, SKD conglomerate had a revenue close to three quarters of a billion SEK and enjoyed 15% share of market in outsourcing, 3-5% of market share in consultancy and 25% of market share in information databases. Thus, the fuss made by the management that the company was in peril seems to be out of place. However, a look at facts about the acquisition and the

revenues generated by Sema Group Sweden suggests that Hentzel's assertions are not all true. This is what 1993 Annual Report of Sema Group plc. says about the acquisition of SKDföretagen:

In October 1993 the Group acquired certain group undertakings of SKDföretagen AB (The DAFA Norr Group) for a consideration of Skr250 million (£21.05 million). Of the total cash consideration, Skr200 million (£16.84 million) was payable immediately and Skr50 million (£4.21 million) was paid on 31 January 1994.

Now, annual reports for years 1994-1996 reveal that the operations in Sweden alone had generated the following pre-tax profits for the Group:

Year	1994	1995	1996
Profit (£ million)	7,455	7,807	7,896

Sum for the three years = 23,158 i.e. the total pre-tax profit for these three consecutive years is tantamount to 110% of the purchase sum paid. Thus, SKDföretagen had generated more wealth for the Group than it had paid to acquire it, and, that only in three years. Furthermore, on acquiring SKDföretagen, the Group also enjoyed a tax rescheduling scheme for its latent tax reserves which amounted to £4,450 million by 1996. No wonder, why the vice-chairman of Sema Group plc. made the remark that one had to pay a lot more to buy such an enterprise<sup>1</sup>!

The change in ownership, however, appeared to have not been met with any drastic reaction from the employees. It seems that by the time the firm was privatised it was already in all but name a private firm. Yet, immediately after the sale of the company, the management who relied on the disciplinarian pressures of the market remained oblivious of the concerns of the employees. Not much of a coup was staged by the latter but an attitude survey conducted by a human resources consultancy firm revealed that many of the employees were dissatisfied with being left in the dark and not consulted. They were questioning management's way of

---

<sup>1</sup> Tidu Maini, vice-chairman of Sema Group quoted in Dagens Industri 93/10/16.

steering the changes. This had its toll on quite a number of employees, and some from the top management team left the company. This might have initiated the departure of the then chairman and managing director of the newly-named Sema Group. Although, he himself claimed that his leaving of the firm, was due to the fact that he now believed that his mission in the firm was accomplished and there was no longer any need for the task that he was initially employed to undertake. Some members of the senior managers are still in the firm. For instance, the managing directors of the two main business divisions of the old SKDföretagen, Statskonsult and IT Data & Information, are still very much in charge of the two new functional divisions of Sema Group Sweden: Sema Group InfoData and Sema Group Konsult. The new managing director for Sema Group Sweden, the old DAFA, is an outside recruiter who has taken charge of the division after Håkan Kihlberg since 1993, i.e. when he became the managing director of the newly formed Sema Group Sweden. The more conspicuous change seems to have happened in the board composition. Apart from two of the board members who come from the government side, the other members are all non-insiders and are now appointed by the international conglomerate.

It seems that after 25 years of consecutive change and reorganisation the twin agencies which once instituted to help the governmental agencies were finally offering their services and products to the public at large. The only difference now was that they were very much motivated to serve their customers not only for the good of the country but also for winning a sizeable profit.

## Chapter 7

# Case study of Kommundata/Dialog

*A brief historical description of Kommundata is given where certain landmarks in its development are considered. The formation of Kommundata as a de facto subsidiary of Swedish local authorities is traced to its later enlargement and finally its full-blown commercialisation. The sudden departure of the new managing director and the sale of Dialog bring this process of change to an abrupt end.*

### 7.1 Introduction

Kommundata was always a stock company. One may wonder whether the legal structure of this company qualifies it as an organisation of some concern in the privatisation debate. After all its selling to a private bidder in 1993 was in the strict legal sense the sale of a private company to a private purchaser. The major owner of the company, the Swedish Association of Local Authorities is itself a private association of local authorities. Its activities and transactions are not bound by any special law and regulation. There is no legal hindrance to its conducting business transactions. Then, how could we consider the case of Kommundata a relevant one to study? Indeed, the image of Kommundata is misleading, so is the claim that it was private company acting on the best interest of its owners. The history of Kommundata makes it clear that it was not a profit-seeking enterprise, that it was in effect, the service provider to the bulk of Swedish local authorities. Kommundata was for many years an extension of local authorities. It was their internal EDP-department whose

legal structure was as much a matter of convenience as economic expediency. Indeed, the *de facto* character of Kommundata, its mission and goals, the make-up of its top management and the composition of its board, its recruitment policy and its pricing system as well as its production all make it clear that it was a company in the public domain set up and organised by the local authorities to serve their information technology needs and demands. In this sense, Kommundata was as much as Statskonsult and DAFA a company whose sale to private bidders in 1993 qualifies it as one of privatisation.

## 7.2 The Birth of Kommundata

The formation of Kommun-Data was the result of a protracted and carefully studied process which was initiated by Stadsförbundet, an agency whose function was to serve Swedish local authorities and later merged with Kommunförbundet to form the Swedish Association of Local Authorities in 1968. Stadsförbundet had conducted a questionnaire survey among Swedish local authorities as early as 1963 on how best they view the use of computer technology to help them rationalise their activities. In a report published thereafter, the findings of this survey were summarised. The report suggested that there were two possible alternatives for local authorities. Either to set up regional facilities or rely on a central organisation. Along with the trend already prevalent at central government agencies, the second choice was opted for. The report was quite clear that the second alternative meant that "practically all computing for the local authorities should be concentrated at a centrally located facility". The conclusion of this report was recognised and approved by the board of Stadsförbundet at their meeting of 17 January 1964 and the way was paved for the formation of an outsourcing agency. The latter was no more than a departmental division in Stadsförbundet and its operations were still very limited and appealed to a modest number of local authorities. Both because of its limited number of personnel and resources, the new facility was only able to provide

computer solutions for such operations as registration of child allowances, local authorities' rental arrears and so on.

On merger of Stadsförbundet with Kommunförbundet - previously Landskommunernas förbund - the computer facilities of the former were allowed to be organised as an independent body in the form of a private limited company whose shares were wholly owned by a holding company (FKF) in turn owned by the Swedish Association of Local authorities. The official date when Kommundata was formed was 21 May 1968. The original name given to this company was Kommun-Data AB; note the hyphen between the word Kommun and Data. Such a designation was to mark that this company was a part of the local authorities' domain. It was only in 1989 when the hyphen was removed in the name to turn Kommun-Data into Kommundata as a way of suggesting that the name is just a name and not some connotation to make the company a distinct part of the local authorities. At the time when Kommundata was formed there was little interest from other companies to supply the municipalities with data services. This gave Kommundata a unique status. The founders of Kommundata were bent to include county councils (landstingen) in this new venture. In a letter co-signed by the chairman of the board and the managing director of Kommun-Data at the time, the Landstingsförbundet was urged to join in and merge its existing computer facilities with Kommun-Data. The thought recurred again until in 1975 it was realised.

Kommundata had the goodwill of its owners behind itself. This was in itself sufficient to attract a stream of local authorities as its new clients. However, two further factors consolidated Kommundata's position. Firstly, since mid 1960s local authorities were bound by law to observe a certain accounting system for their bookkeeping. This expense-based control system, known as K-plan, was very distinct and differed from the other system more commonly used by private companies, known as Bas-plan. In view of the fact that accounting systems are the key and central piece of administrative tool for local authorities, the solutions offered by Kommundata for the accounting system of local authorities soon closed the road to any external competition. The cost of developing an accounting system unique for local authorities barred any likely private

contender. Secondly, Kommundata received VAT exemption on the sale of its products to local authorities since 1972. The exemption was only waived in 1992. The economic consequence of this exemption was that the prices set on Kommundata's products were up to 9% cheaper than they would have been otherwise. Hence, secured by its exclusive dominance in the market for local authorities and boosted by a VAT exemption, Kommundata was destined to grow. In the first two years, the volume of sales rose by 24% and by the end of 1972, there were 144 local authorities connected with Kommun-Data and a further 66 were using one or more of its services. The firm had no selling organisation. At best there were only four consultants who provided the local users with training, assistance and setting-up computer routines and basic techniques (for the organisational chart of early Kommun-Data see Figure 7.1). The old guard who are still at the current Enator, proudly boosted in their interviews that back then the local authorities had to wait in queue for some time before they could serve them; they simply had too much demands and too limited resources. The economic indicators truthfully reflect this sense of pride. The volume of turnover, which was 16,1 million SEK in 1971, rose over three fold by 1975 to top 58 million SEK and by 1981 had increased more than 16 times.

Table 7.1 Kommundata's revenues (1971-1981)

Year	1971	1972	1973	1974	1975
Turnover	16,1	20,7	27,4	29,5	58,4
Year	1977	1978	1979	1980	1981
Turnover	108,2	138,2	173,0	219,4	261,8

By mid 1970s Kommundata had undisputed dominance in the market for local authorities. Of 286 municipalities, 259 (91%) used one or more of the computer solutions on offer from Kommundata. In the early 1970s, there was only meagre competition to Kommundata in certain regions such as Skåne, Bergslagslän, Stockholm area and Upper Norrland. The main competitors were small companies. For instance in Skåne, there were Sedab, Dataservice and Tretorn. Up in the north 5 county councils had a common computer joint venture in the name of NorrData and they were soliciting local authorities in the northern Sweden to use their services. By 1972, the board of directors mandated the managing director



to begin negotiations with NorrData about possible joint ownership. At the same time the company tried to build a foothold in Skellefteå up in the north. The latter was realised in 1974 but the former bore fruit a few years later.

The board members and top management of Kommundata were all internal recruits with long-standing connections to local authorities. Their appointments were politically motivated. The first board was composed of Sven-Olof Dahlman, Sven Gunnar Karlström, and Sigurd Rune Herbert Skarström who was also the managing director. Mr Dahlman was the head of rationalisation division of Stadsförbundet and Rune Skarström was the head of the office organisation of the same division. Gunnar Karlström who was to become deputy general manager had served with Rune Skarström in Swedish Railways. The stability which Kommundata enjoyed in its early years, its continued expansion, a rising stream of clients and a burgeoning turnover allowed it to have a simple functional organisation.

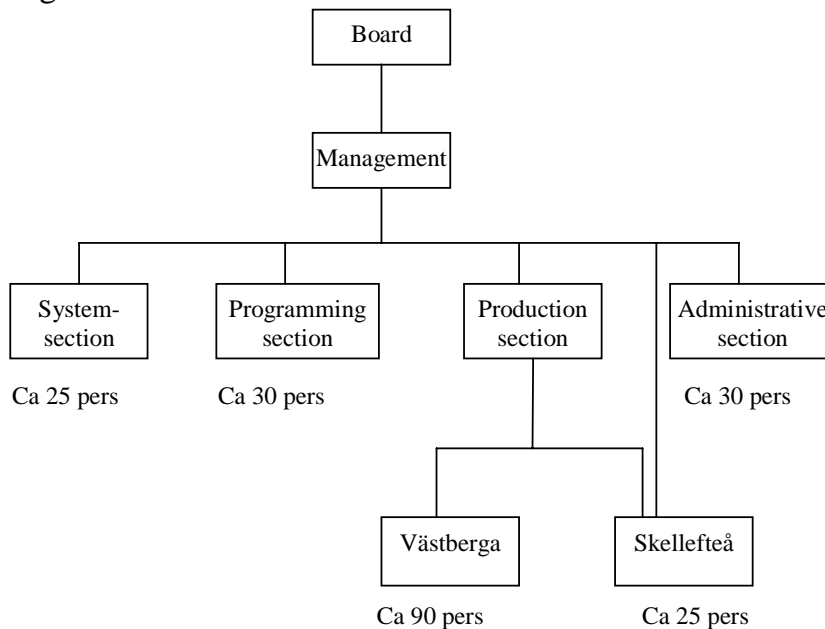


Figure 7.1 The organisational structure of early Kommun-Data

By mid 1970s, Kommundata's initial phase of consolidation was over. However in the second half of 1970s further growth and joint ventures brought complexity in the simple world of Kommundata. The most striking factor influencing the course of development of Kommundata

was the partnership of the Federation of County Councils. In 1973 the general directors of the Swedish Association of Local Authorities and the Federation of County Councils had prepared a joint document describing co-operation between the two associations. The document was ratified by the board of the Swedish Association of Local Authorities but was shelved by its counterpart, the Federation of County Councils. A year later, however, the congresses of these two associations were provided with a common document about possible co-operation between the two. With some reluctance the congress of the Federation of County Councils approved in principle the document though it noted that there was no urgency for implementing it. During the last days of 1974, this co-operation was finally realised and led to minority share holding of the Federation of County Councils. The co-operation was set to start on 1 January 1976 and it entailed the following:

1. The Federation of County Councils acquired one third of shares in Kommundata.
2. The number of board members increased to 13 to include 6 from the local authorities, five from county councils and 2 as representatives from the personnel.
3. The computer centre of the Federation of County Councils (LDC) was taken over by Kommundata.
4. The system development part of LDC, Swedish Planning and Rationalisation Institute of the Health and Social Services (SPRI) was transferred to Kommundata.
5. In all 60 employees from LDC were transferred to Kommundata, a quarter of whom came from SPRI.

Following the merger with LDC, Kommundata did undergo a certain reorganisation. But it hardly changed its functional structure. Existing divisions were reorganised into minor parts. The old system and programming divisions were merged into a new system division, which was composed of 8 sections. 2 sections for documentation, software library and special programming and 6 sections for different computer-systems. A new software development division was formed whose task was to devise new techniques and methods for software. It had a hard

core of permanent staff. Production division was responsible for maintaining different computer facilities of the firm in Stockholm, Västerberga and Sveavägen, Skellefteå and Gävle. The administrative division was doing the usual things. As yet there was no special sales organisation nor was there any special division for landstingen. However, there were some regional contact persons located at Skellefteå, Stockholm and Kävlinge. In the ensuing years, these contact persons were also situated in Sundsvall, Örebro, Göteborg area, Jönköping and Kalmar.

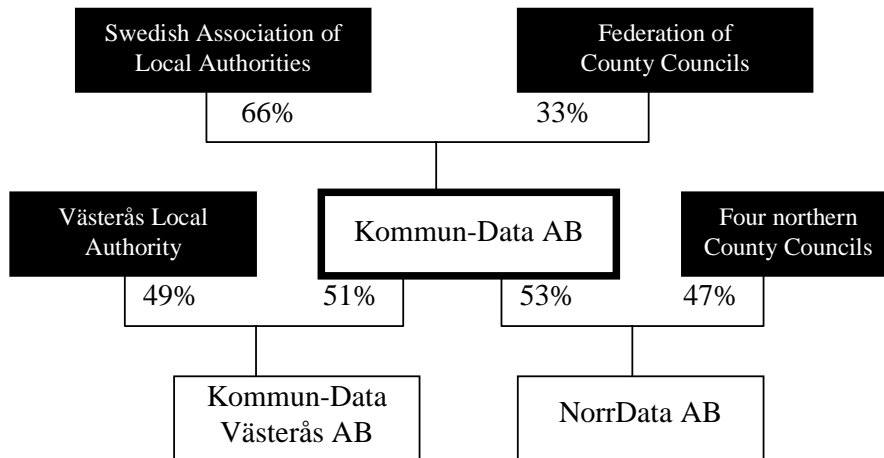


Figure 7.2 Ownership structure of Kommundata in early 1980s

The number of employees, which was by the beginning of 1975, 188 increased to 285 by the end of the same year. Once, it had acquired LDC and found a foothold in the lucrative market for county councils, Kommundata concluded a contract with the county council of Malmö to take over its computer centre at Lund. A year after merging with LDC and taking over the Lund computer centre, the number of Kommundata's employees increased from 285 to 455. The revenues of the company had in 1976 reached 65,4 million SEK a 60% increase compared to the previous year. Confident of its success so far with county councils, it continued its negotiations with NorrData AB and stroke a deal with it whereby Kommundata acquired 53% of shares in the latter and its then managing director became the chairman of the board of NorrData AB. Although the revenues from the market for county councils now accounted for 27% of the total revenues, the number of county councils relying on Kommundata's solutions for healthcare and dental care was a

meagre 3 to 4. Kommundata had not succeeded in making inroads into the healthcare market. This was a problem, which was to last for another decade.

By early 1980s administrative and accounting programs brought in close to two third of the revenues (61%). Although in absolute terms the turnover from county councils increased from 20 million SEK in 1976 to 53 million SEK in 1980, in relative terms the share of revenues from landstingen dropped from the once high point of 37% in 1977 to 24% in 1980. Indeed, through to the mid 1980s the dwindling fortunes of Kommundata in the county council market was a conspicuous fact to which the top management was slow to react. Bulk of the problem lied with Kommundata's lack of understanding of the nature of requirements by the healthcare. Reared in the mainframe environment, the top management of Kommundata was slow to respond in time to the more local-based demands of the healthcare. Indeed a study conducted by the board for technical development (STU) as early as 1979 and abbreviated DASIS (computer-supported information system for the health-care) had revealed how the growing information technology could be of use to hospitals. It is surprising that Kommundata, which was itself, involved with this study, at least in documenting the specification requirements, was slow to realise the potentials of these findings. DASIS was essentially concerned with specifying software, hardware and operative system requirements for health-care establishments serving a population of just over 100,000. It favoured such technical settings, which made the primary health care and hospitals independent of service providers and made it possible for them to use standard systems to share their data and to communicate with each other. The solution recommended by DASIS was the use of development tool MIMER and Unix-based computers. Such an arrangement would have allowed a medium-sized health care facility to use two computers connected with 5-25 terminals. A total of 24 such computers would have been necessary to serve the health care establishment of a population of 110000. The dispersion of computer facilities, which could easily communicate with each other made it possible for each care establishment to look after its own processing expenses according to its own budget and preferences. Such a situation

was ideal for many local health care facilities, which wanted to operate independently. The mainframe solutions of Kommundata and its subsidiary NorrData were not so much appealing to medium-sized health-care establishments. The larger ones such as the Stockholm or Göteborg health care had their own independent computer centres and were not among likely clients of Kommundata anyway.

By the time Kommundata developed with some delay a DASIS-based program for the health care, named EIRA, it was dealing with a market already set for competition. Partly because of bad launching and marketing and lack of support for Unix-based solutions in the company's top management who were adhered to mainframe solutions, and partly due to competing products such as BEDA (Värmlandsdata) and ADAPT (Östgötadata) and VAS (Cap Gemini) and Swedstar (SMC), Eira failed to gain dominance in the health care market.

By the end of 1978, Kommundata's dominance in the local authority and county council market was unmatched. Of 286 local authorities, 267 relied on Kommundata for one or more solutions and of 23 county councils 12 had contacts with Kommundata, 4 had their own computer services and 7 others relied on other providers.

There were three main divisions each responsible for its own costs and revenues and acted as a profit-centre with its own profitability target. The four sections in the product division were responsible for development, maintenance and marketing, training and customer services of their products. The technical division was responsible for operative systems of different computers as well as for computer communication and programming of different local computers. The service division was responsible for the reception and processing of data, handling of production and running of computers and their maintenance. The headquarters were strengthened by the addition of economic and personnel units.

### 7.3 "The Customer is at the Centre"

By early 1980s, it was clear that Kommundata had started a new stage in its development. It required a new leadership. The recruitment was mainly from the rank of local authority employees and there was a shortage of university-graduated recruits. The company recruited a new managing director. He was Göte Jonsson and as expected came from the Swedish Association of Local Authorities domain. He had started his career in Stadsförbundet's rationalisation division back in 1965. In the early 1970s he had worked at the headquarters of the Swedish Association of Local authorities in close collaboration with the secretariat. He had become the head of organisational division and was put in charge of personnel in 1977 and was among head of an inquiry team on the development of computer technology in local authorities.

In its first year in office, the new managing director set up a consultation team with two representatives from each of the nine county councils, which were its clients in order to find ways of promoting the quality of service offered by Kommundata to its clients in the county council market. In a document entitled: "Ansvarsfördelning inom Kommun-Data" from 1982-03-16 it is stated that "in accordance with the proposal submitted by the general manager and approved by the board, the management of KDAB is further strengthened by allocating resources for marketing for the local authorities and county councils". The job was given to Lennart Olausson who was then head of the production division of accounting software. It is to be understood that the representatives of both the Kommunförbundet and Landstingsförbundet had agreed on 2 September 1982 that only one person would suffice for both markets. So in the same year a marketing division with a marketing director, Lennart Olausson, and three personnel each responsible for the local authorities, county councils and private companies were set up. However, it should be mentioned here that this newly established marketing unit was mainly concerned with long-term planning rather than conducting day-to-day marketing. A task still entrusted with production divisions themselves. It was only gradually that this task was transferred to the marketing division thus completing the change in the balance of power at the organisation.

The international department of the company was also set in motion the same year and it installed a patient administration system in Dubai.

The following year Göte Jonsson reiterated that “Kommundata's aim is to provide the customers with complete support”. For him the most essential issue was “responsibility towards the customer, proximity to the customer, market-orientation and co-operation and not least of all high competence”. It is interesting to note that in the eyes of the Kommundata's management, the ultimate receivers of its services and software were no longer simply users but customers whose trust the company could not take for granted but had to earn it. To realise the issue of “proximity to customers”, Göte Jonsson approved a policy of regionalisation, namely, the establishment of regional offices to help the customers directly with their needs and problems. These regional offices were to respond directly to the company's headquarters in Älvsjö and its marketing director. This policy was pursued swiftly. By the end of 1983 the company had regional offices in 12 parts of the country. These offices were set up in 15 county councils by 1984 and two years later Kommundata had regional offices in 25 localities.

To complete this new round of indoctrination, the management introduced a program known as "the customer at the centre". This program included all the personnel in all sections of the company throughout the country. It was organised in the form of seminars. All personnel were also asked to take part in a course on service provision based on SAS model.

The 1984 reorganisation took a step further towards making the company more customer-oriented. It initiated the formation of regional offices; it divided the company into different sections each with the task of providing services and products for a certain segment of the market; it assigned a KDAP representative for each major client. There was a marketing division made up of 6 regional offices (Karlstad, Halmstad, Borås, Örebro, Lund & Älvsjö – these later gradually increased to 26), one Riks-data (this was responsible for the operations in 10 localities); 2 for local authorities, one for Landstingen and one for private companies.

To stave off the pressure from competition, to reduce internal costs and to enforce greater harmony and co-operation among different entities of the now growing conglomerate of Kommundata, the management decided that there was time to consolidate. It was decided to merge the operations of NorrData AB and county council division of Kommundata from 1988. Part of the reason was that the former, which was mainly operating in the north of Sweden, had now tried to market its products in the south of the country too. This had caused some frictions between the county council division of Kommundata and NorrData. Furthermore, the county council division of the company recognising the recommendations of DASIS project was more inclined with developing Unix-based solutions whilst NorrData management reared in the mainframe environment was more in favour of a traditional approach. The new company had 280 employees and had a turnover of 215 million SEK in its first year of operation. The managing director of NorrData became the new managing director of this company, which still kept the old NorrData as its name, and the head of Kommundata's county council division, Sune Andreasson, became the deputy-managing director. Kommundata had hoped that this action which was preceded in 1986 by the acquisition of a rival company in the health-care market, SMC, the producer of Swedstar (a licensed production of the American software Co-Star) would consolidate its position in the health care market. However, it turned out that Swedstar and Kommundata's own production, EIRA, had become competing software, leading to an overall loss of revenues for the company. As a remedy, the acquired SMC was liquidated.

#### 7.4 "All Should Take a Step Nearer to the Customer"

By 1987, with regionalisation almost completed and the expansion of the company reaching new heights through the acquisition of several middle-sized firms, the managing director recognised the need for a new organisation. He mentioned the following reasons: 1) The technical development had intensified the demands for local computer solutions. 2) There was a greater demand for common computer procedures and for



integrated software. 3) The company was facing greater competition. The mouthpiece of this new organisational strategy was that: "All should take a step nearer to the customer". In a memorandum (mem. 9) from the vice managing director the same theme was echoed. He had written that "the growing development now demands more investment capital and diminishes the advantages of large mainframe operations". He went on to say that "Kommundata should in a business way take care of its operations so that they contribute to more effective social services". What he meant by such esoteric remarks became clear when he continued to add that "with respect to previous increases in revenues it is our opinion that profitability targets should receive priority over growth targets for the current planning period (i.e. 1987-1989)".

But that was not all. The necessity to change from mainframe solutions to more locally based ones, such as Unix-based software, meant changing a pattern of operations which had in the past identified with stability and the preservation of a certain hierarchical order in the organisation. Furthermore, the very nature of mainframe solution had in the past secured a guaranteed stream of revenues to the company where most of the sequences and requirements were fixed. Now, the production of new software, the shift from mainframe to Unix-based solutions, and the quest for customers who were losing their loyalty towards the company had proven to be a daunting task which would have no doubt softened the ground under the old guard and helped promote new faces. Thus, there was reluctance among the top echelon in the organisation. Though, no one would have openly challenged the need for change, as it was becoming more demanding in time, actions were slow to come and changes were hard to make.

Kommundata was indeed an extremely resourceful and technically competent organisation. This was no less proven when in 1988 it launched a varying assortment of products fitting every dominant operative system at the time. Each major product was to be available for IBM AS/400 computers, IBM mainframe computers, Unix-based and MS/DOS based environment and so on. Three of the five lines of products were destined for locally based operative systems, which showed the

determination, by Kommundata to match the growing demands for such systems.

Table 7.2 Kommundata's line of products launched in 1988

- BETA	Local systems for IBM AS/400 system
- DELTA	IBM-based mainframe solutions
- LAMBDA	Unisys-based mainframe solutions
- SIGMA	Local system run under Datapoint RMS system and MS/DOS-based products
- OMEGA	Local UNIX-based systems

The managing director who was besieged by an aggressive competition climate and growing discontent from customers, moved on with new proposals to the company. A survey conducted in 1989 by SIFO about the attitude of different energy companies towards facility providers had revealed that of the 5 factors which were essential to these firms (security of the operations, competent personnel, high quality, service consciousness and stability), Kommundata's competitors had outscored it on four of these.

In a central document drafted by Göte Jonsson and entitled: "Förslag till Organisationsstruktur", he criticised the management for not having a clear and straightforward priority. It conceded the fact that there were too many unprofitable products and there was lack of co-ordination between different product areas. It complained that customers did not understand the contents of invoices from the firm and they were not happy about solutions they received. With an eye on the coming changes in the local authorities, the document asserted that there was a need to provide more flexible solutions i.e. more tailor-made programs for the customers and not simply deliver standard programs. It pointed towards more direct co-operation with the clients. The three different product divisions were merged into one and a new development division was instituted. The headquarters were further consolidated with an expanded staff. The marketing division was enlarged to take care of public relations, promotion sales, training and consultancy. At the same time the power of

production divisions was curtailed in two respects. First, the prerogatives to develop new products or to further develop existing products were moved to the management team and the marketing staff. Secondly, whilst it did not remove the leverage of the product divisions on setting prices and some local marketing, it stipulated that all marketing actions should be done in consultation with, and through, the heads of regional offices, which were, in turn, responsible to the marketing division at the headquarters. Furthermore, it stated that each production area would be regarded as an independent entity with its own profitability target. So, through extending the power of marketing division, curtailing the role of production offices, concentration of production facilities and unifying the interface between the customers and the company, the managing director was hoping to resolve some of the problems of Kommundata. Indeed, to complete this round of reorganisation, a new organisational structure was put in place by 1989. To implement this cultural revolution, Göte Jonsson started a dialog with its employees, known as Samspel (teamwork) where the latter were asked to provide recommendations for improvement of the company's operations. Conferences were held in different parts of the country for the employees, seminars were organised and to top that all, "get-together" parties were followed. Yet by 1990, it was still clear that the change was not still desirable. The profile of the company had changed little and so the drive for profitability had met little success. In a document entitled: "Strategiska faktorer för Kommundatakoncernen" (1990-02-12), Göte Jonsson lamented over the limited profile of the company and its lack of success in making inroads in areas other than its primary market. It said: "Majority shareholders, the Swedish Association of Local Authorities, has put forward certain economic targets for the company in the form of these key indicators. Profitability should go up during 1989-1991 on average to 15%. Equity/debt ratio should increase gradually and reach 20% by the end of 1991." As the share of Kommundata in the market for local authorities was at best stagnant if not beginning to shrink, it further said that "[o]ur aim should be to sell to other markets in order to increase the profitability of Kommundata and enhance the profile of its competence to the public". It said that outside the primary market of local authorities, Kommundata was viewed as a company whose position was forced on the local authorities and that it

would not survive had there been a fair competition. It thus suggested that Kommundata should be known not as a *de facto* internal service department of the local authorities but as a business enterprise which provided "tools and competence with a complete view to enhance the efficiency of the local authorities". It was in the midst of this catharsis that the name Kommun-Data was changed to Kommundata.

The board of directors also invited a well-respected consultancy firm, Bohlin & Strömberg to investigate its current situation and how it should progress. The firm produced a report by November 1992. It formed the foundation of the new strategy of Kommundata. The report confirmed some of the factors already aired in Kommundata. It stated that the basis for the change in the fortunes of Kommundata was the structural changes that were being introduced in the public sector and the fact that Kommundata was unable to adjust itself in time with this fast developing changes. It remarked that local authorities and county councils were becoming more commercialised and the existing differences between customers from the public sector and the private sector were disappearing. It warned that Kommundata's competitors were not small specialised firms working on a niche-segment of the market but the internal EDP divisions of the local authorities and county councils which wanted to remain independent because of the lower costs of locally-run networks and standard programs. The report asked for unity and harmony in the organisation whether among the top management, or in the choice of product lines, company profile and the structure of Kommundata. It recommended the merging of Medisys (the successor of NorrData after its acquisition of a few minor health-care companies) and the parent company Kommundata. The report disclosed that the conglomerate had different subcultures, i.e. a reference to the priority for mainframe vs. server/client solutions. It demanded the decommissioning of unprofitable product lines and greater customer orientation among the staff and the managers. It asked for a purging of product assortment of the company in the soft sector of local authorities. It recommended the use of financial leverage to discipline different parts of the vast conglomerate of Kommundata. It proposed that the contact between the customers and the company should be conducted through a single interface in order to

prevent different views been expressed to the customers. In short, the report demanded that the organisation should be more commercially driven and understand that the old ties which it had with its customers were broken. In a sense the report echoed a message already cautiously expressed by Göte Jonsson in a document on Kommundata's identity, vision and aims (16 October 1991) in which he had said: "The management now has decided that our main customers are financiers/payees, purchasers and/or producers of social services at local authorities".

The basis of problems facing Kommundata was not, despite their appearance, organisational. They were to do with the changing market to which the company was supposed to sell its products. This fact was too conspicuous not to have been observed by the management. Indeed a member of the top management team did co-author a couple of books detailing these changes and how they would influence the operations of the company.

As early as 1984 a new law came into force, *frikommunslagen*. This law tabled by the minority conservative faction at Parliament received the support of the Social-Democratic majority and was passed. The law allowed local authorities to voluntarily decide over the number of their boards and committees. By the end of 1991, 37 local authorities and 4 county councils had used the provisions of this law. Subsequent laws on primary schools and social services in 1991 offered greater freedom to local authorities. Based on these experiences, the 1991 Local Authority Act which came in force from the beginning of 1992, offered total flexibility to local authorities in deciding over their own internal organisational and commercial dealings. The local authorities made full use of this fresh legislation. The act of decision-making (which is political) and the act of purchasing or providing services (which are operational and commercial) were separated. The local authorities broke down the traditional separation of functions between different boards and committees, and where possible turned their service-providing functions into independent enterprises. Committees assigned with the provision and purchase of services were given semi-autonomous status with their own

budgets and discretionary power over how to purchase and where to buy services. These committees were mandated to act with commercial targets and opt for the cheapest products and services on offer. A local authority was no longer a singular body which acted with one voice towards external organisations and providers but a multitude of independent or semi-independent purchasers and suppliers which sometimes acted in cohort and sometimes in conflict. Each trying to make the best deal and as their local authority purchasers were no longer bound to buy from them, they now had to compete with external providers. This was a drastic change in the market for local authorities. By 1992, there were 25000 commercially driven boards and committees in Sweden's 286 local authorities (Knutsson & Forsman, 1992; Knutsson & Haglund, 1993).

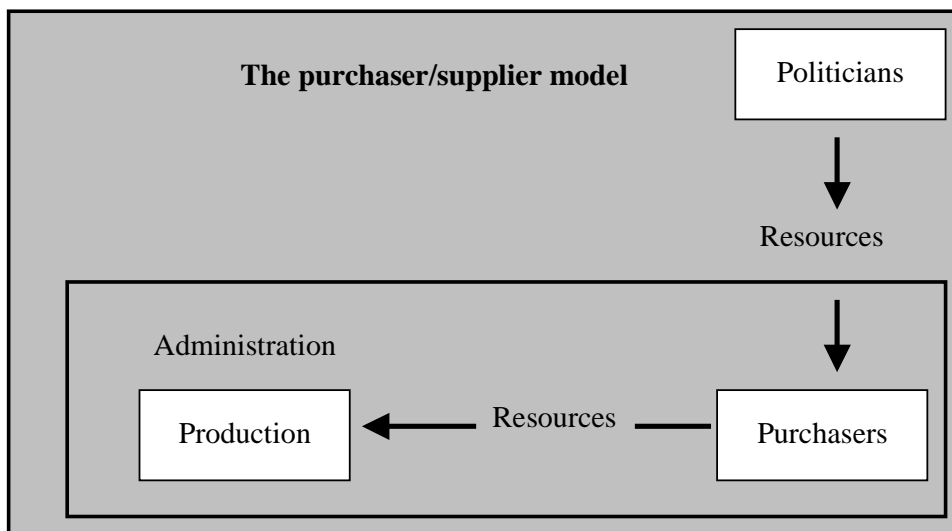


Figure 7.3 The purchaser/supplier model

These changes only intensified an ongoing attempt by many local authorities to act more independently using their own locally based computer facilities. Indeed a survey conducted by Dia, Data intelligence agency, in 1990 found out that among operative systems Unix was gaining popularity at the cost of others. It stated that: "Of the 130 local authorities which have multiple-users systems more than half have opted to invest in Unix before 1992. Local authorities want Unix in order to become independent of any particular supplier ... Since Kommundata has up to now totally dominated the market for local authorities it is to be

expected that it should lose the most from these changes. ... Kommundata has already lost grounds to its competitors. 39 local authorities rely now on service providers other than Kommundata. This implies that up to 20% of local authorities are provided by private companies." The same report informed that the number of local authorities which relied on service firms had dropped from 95% in 1986/87 to 70% in 1989/90. The report was discussed in Kommundata's board meeting of 1 June 1990 and its finding were "corrected" as the board found that "the more local computer facilities are purchased the greater would be the need for facility management".

Table 7.3 Number of local authorities using Kommundata's and its competitors' accounting software in 1991

Company	No. of local authorities	in % of total
Kommundata	213	70%
WM-Data	19	7%
Å-Data	20	4%
Datorisering	9	1%
Storkommunerna excl. Sthlm	4	11%
Others	21	7%

This course of development was unstoppable. Datavärlden reported on 28 November 1991 that Kommundata's accounting software DEVIS was not a complete system for local authorities wishing to invest in Unix. It was at its best when run on IBM AS/400 minicomputers. As a result, 15 local authorities decided to leave Kommundata and opted for Unix-based systems. Likewise, Computer Sweden reported the following year (on 10 April 1992) that nearly half of the 286 local authorities had planned to change their accounting system in three years' time. It remarked that this change of hearts on the part of the local authorities had severe consequences for Kommundata which had up to 83% of the market for accounting systems. The report also mentioned that 70 percent of the Swedish local authorities had changed or were about to change their accounting systems within the period 1986-1995. The report which was based on a questionnaire survey conducted by the Swedish Association of Local Authorities quoted the findings of this survey by saying that using a service-provider was more costly compared to using a Unix-based local system. Of the 17 accounting softwares which were used by local authorities, 4 came from Kommundata. 182 local authorities in all used

these softwares. The most commonly used economic program was Easy which was based on mainframe operative system. Of the 36 local authorities which had decided to change their accounting softwares, 16 had opted for service providers other than Kommundata which had with some delay released DEVIS which could be run both on Unix-based systems as well as on IBM AS400 minicomputers or mainframes.

However, by the end of 1991, the situation of Kommundata was giving alarm. Management's own estimate suggested that: "due to shrinking revenues on current products and customers the company would lose 30-35 million SEK and 80-100 million SEK in 1993 and 1994 respectively". As a result measures were taken to clear products with low profitability and reducing the workforce by 200 to match the 100 million SEK losses. The choice for Kommundata was clear: either it would adopt and change course or it would perish. However, the difficult question now was: whether the old management team was capable of making this change possible. The past experience suggested that they could not. It was time for Göte Jonsson to go. There was now time for a change of guards. And so it happened.

## 7.5 The Best IT-Partner

The board of directors of Kommundata appointed a selection committee consisting of the chairman of the board, Stig Davidsson, one representative from the Federation of County Councils and two from the Swedish Association of Local Authorities to find a new managing director with the explicit help of an international headhunting company, Boyden global executive search. The highly acclaimed Kaj Green was selected for the post. He came from the German Cap Debis Software und Systeme which was a joint venture between Cap Gemini Europe and Debis (Daimler Benz Internservice). He was before that the managing director of the Swedish subsidiary of Cap Geminis from 1980 to 1989.



On January 1, 1993 Kaj Green started his job. He decided to attack the very issues which had made Göte Jonsson's directorship a failure by the end of 1980s. He decided to break the power configuration which had hindered much of the earlier progress, to rationalise the structure of the company and to immediately upgrade the line of products which were behind competition. Of the nine persons in the top management of the company, five were now from outside the realm of local authorities. Kaj Green was from Cap Gemini in Germany, the deputy managing director, Stefan Olowsson was from Cap Programator, the Swedish subsidiary of Cap Gemini, Christer Måller was from IBM in France and Ola Vettergren was from Digital. Of the old guards Björn Nilsson, Lennart Olausson, Monica Ulfhielm and Nils Knutsson were still remaining. He also changed the name of the company from Kommundata to Dialog so that its profile was no longer identified with local authorities but stood on its own as a commercial enterprise.

In an interview with Datateknik (29 October 1993) the new managing director began by saying that "Changes that we are implementing are more dramatic. We have changed our organisation. Half of those who used to be chiefs no longer are. New people have taken over the posts. About 10 percent of the workforce of 1500 are gone. Our accounting softwares were too outdated and could not match the profitability demands facing local authorities in their actions." In a follow-up interview he went on to reiterate what Göte Jonsson had said before that: "the ideal customer for Dialog is not a local authority which wants to purchase computer services but instead a service company which wants to raise its profitability, lower its costs and increases the efficiency of its operations".

Kaj Green started a project to establish Kommundata as "the best IT-partner". His ambitions were to make the company a high quality service provider with a size that made it rank high in the Swedish IT market. A series of acquisitions were to follow.

Despite its setbacks, approximately 80% of the budgeted turnover for 1994 still came will from local authorities.

Table 7.4. Kommundata's sources of revenue in 1994

Category	Sales (SEK million)	Percentage
Municipalities	948	51
Private companies	428	23
County councils	407	22
Municipality owned companies	60	3
Others	14	1
<b>Total</b>	<b>1857</b>	<b>100</b>

Among municipalities and county councils (health care), Dialog was still the dominant external supplier with a market share of 50% and 25%, respectively. The main competition came from the internal EDP department, but increasingly from other external suppliers due to a slow-down in the private sector. The major competitors were VM-data, Cap Programator, Sema Group, EDS and IBM. Increasing competition was in all likelihood to come from companies in the captive market, examples being ABB, Volvo, Ericsson and Telia. The market appeared to gradually approach an oligopoly since several mid-sized companies, e.g. Lantbruksdata, Apiron and CRS were acquired. The result hereof was an intensified competition and lower margins, reinforcing the requirements for cost efficient production.

The brunt of the burden for cost efficiency was borne by the personnel who had to face considerable redundancy as their operations were merged with the parent company. By the beginning of 1993, the number of employees had developed as follows:

Employed in January 1993	1497
Employed in L-data	239
Employed in ADB Malmö	143
Employed in CRS	413
<b>Total</b>	<b>2292</b>

Due to the consolidation of data centres and the overall cost cutting program, the following staff were initially notified of termination of employment:

Employed in Dialog	180
Employed in L-data	62
Employed in ADB Malmö	70
Employed in CRS	112
<b>Total</b>	<b>424</b>

The number of redundancies were subsequently reviewed reaching 528 by the end of 1994.

Kaj Green wanted to end the ongoing conflicts among different sections of the company. Not only as an organisational measure, but in order to pool the resources and make Dialog more adjustable to the changing needs of the IT market. It took a number of steps. Firstly, it used the considerable cash reserve of the company to buy a number of firms which in his views were strategic for the future expansion of Dialog in the private market. In July 1993, Trigon Informatik AB, was acquired. Trigon offered consulting services in EDP management, data and telecommunication. In the same month, L-data AB was purchased. It was the EDP department of the county council in Stockholm which was incorporated in 1992. The acquisition of L-data was important as a defence of Dialog's position in the health care sector. As a competitor from the private sector, the acquisition of L-data would have meant a strong foothold in the health care market, thus increasing competition in this segment. Almost 80% of L-data's activities were data processing in IBM environment. The data centre was moved to Älvsjö.

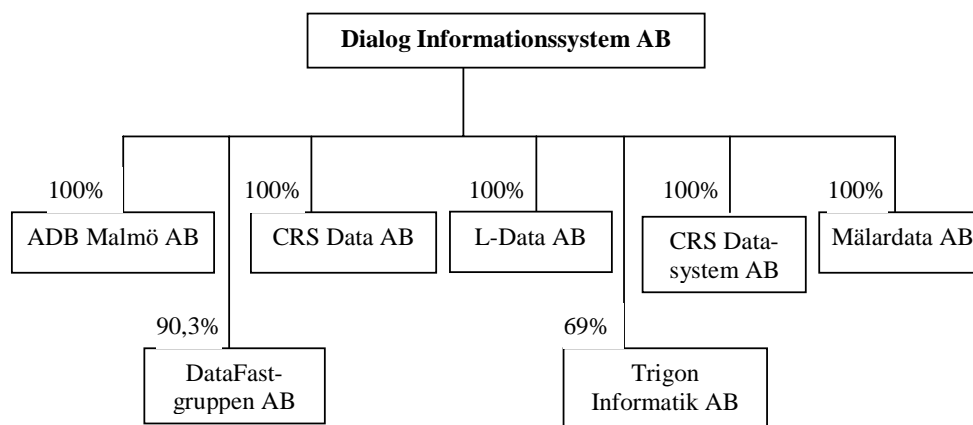


Fig.7.4 Dialog conglomerate in late 1993

ADB Malmö was the next acquisition. It was acquired in October 1993. A number of reasons made it natural for Dialog to acquire ADB Malmö, the EDP department of the city of Malmö. Firstly, Dialog could increase its strong position in the municipality market. Secondly, Dialog would be established as the supplier to the county council in Malmöhus, operating from an office in Lund, based on the same Tandem platform as ADB Malmö. Thirdly, Dialog would get a strong presence in the south of Sweden and fourthly a Tandem centre in Malmö/Lund would be established. Finally, in November 1993, Dialog acquired three sister companies from the Axel Johnson Group, CRS Data AB, CRS Datasystem AB and Mälardata AB. Furthermore, companies in the Axel Johnson group entered into agreements on data services with Dialog. The project to “refocus Dialog as the best IT-partner” implied an expansion of Dialog also into the private sector. It was a well-known fact that the Johnson group was seeking a future IT-partner to the big retail companies within the group. Therefore, the acquisition served both purposes. The Axel Johnson Group accounted at the time for approximately 30% of the CRS turnover. The Axel Johnson Group had given a guarantee on their share of CRS’s annual turnover for three years. Major clients of CRS were Tisdam, Dagab, Nyman & Schultz, Åhlens, B&W and Sydsvenska Dagbladet.

Following these acquisitions, the parent company, Dialog, included the business of Medisys, Intelligent Software i Ronneby AB (ISAB) and L-

data AB. Its other subsidiaries included: Mälardata A/S, Norway, a subsidiary to Mälardata AB; Superkom HB which had developed an electronic conference and message system and was wholly owned by Dialog, and Cepro Devis AB which offered administrative solutions to the private sector (see Fig. 7.4). The minority in Trigon was held by the management. The minority in Data Fastgruppen was held by SABO. With these acquisitions, Dialog also created one of the major data-communication networks in Sweden. Given the activity from domestic as well as foreign telecommunication companies, the network added significant value to the company. In all, approximately 47,000 workstations were linked to the network which was spread all over Sweden through 80 nodes. The company planned to integrate the business of ADB Malmö, CRS Data and CRS Datasystem into the parent company. In the future, only Mälardata and Trigon would have remained active subsidiaries.

The acquired firms and the existing subsidiaries in the parent company were restructured and the mainframe facilities were concentrated at the company's headquarters in Älvsjö.

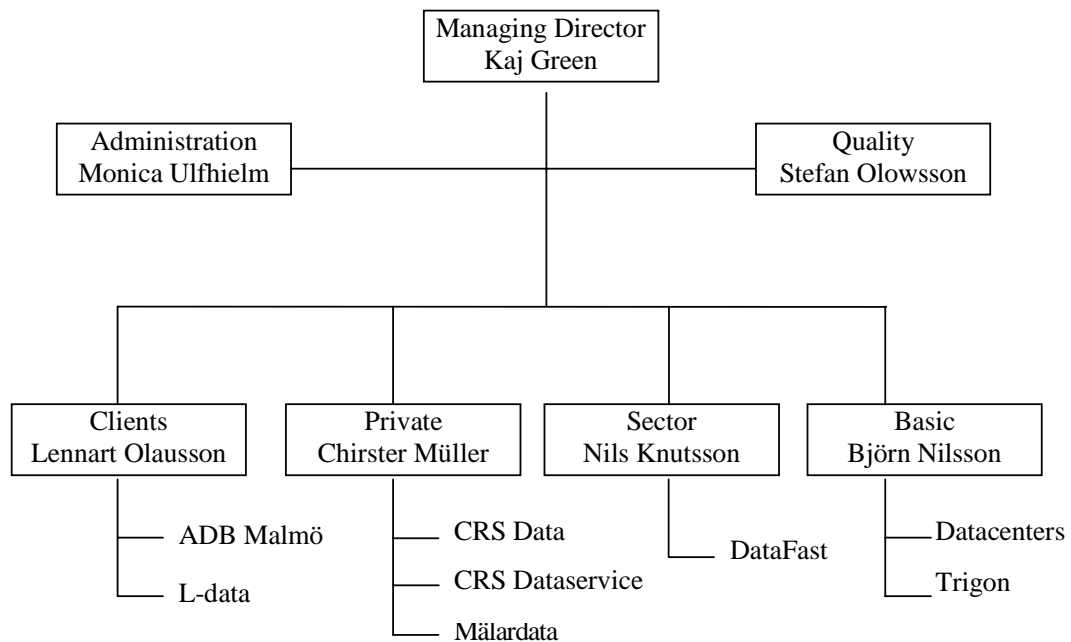


Figure 7.5 Top management during Kaj Green's directorship

Secondly, it reorganised the top management team so that they were more closely supervised by him (see Fig. 7.5). Kaj Green strengthened his staff by appointing two deputies. Monica Ulfhielm and Stefan Olowsson. The former was in charge of administration which had an overall responsibility for administrative support to other units in terms of accounting and financial control, human resource management, information and administrative services. The latter was in charge of Quality which had the overall responsibility for quality monitoring in the group. Division Client had the ultimate responsibility towards the clients. The 30 offices were organised into five geographical areas. The major areas of activities were: marketing, client service, consultancy services and client based development. Furthermore, this division was also responsible for market analysis, monitoring of competitors and the co-ordination and integration of all products based on the operations of the client. Division Basic was responsible for the outsourcing activities of the group, printing and Komnet, the data communication network with 47,000 work stations linked to the system. The division was split into four business areas; Marketing, Production (Tandem, Unisys and IBM), Communication and Graphic Production. The two recent acquisitions, ADB Malmö and CRS, had not yet been integrated into this structure and so CRS would form a separate division. The data centres were integrated with Division Production. Division Private included the recently acquired CRS companies.

Thirdly, it streamlined the chain of commands in Dialog, sharply reducing the number of middle managers who were a natural victims of the rationalisation drive anyway.

Table 7.5 Number of managers at Dialog in 1993

Category	Number	No. of years
Management, level 1	15	12
Management, level 2	36	9
Management, level 3	45	11
Management, level 4	18	16
<b>Total</b>	<b>114</b>	

Fourthly, it introduced a subtle but complex economic system which aimed to directly make the performance of the company linked to the profitability of its products and satisfaction of its clients.

## 7.6 The Sale of Kommundata

No sooner had Kaj Green started his job than rumours ran wild about the possible sale of Dialog. Indeed the matter was raised on March 8, 1993 in a board meeting whereby it was recorded that "in view of the recurring rumours in the mass media about the sale of the company and its change of direction, the chairman of the board stated that having contacted the owners of the company they have informed him that there were no grounds for such speculations". Formally speaking, it was indeed at their meeting on October 26, 1993, when the board of directors of FKF decided to sell their entire holding in Dialog. The board was headed by Mr Joakim Ollén, chairman of the Swedish Federation of Local Authorities. But irrespective of the exact date when the actual decision on the sale of the company was decided, it was clear by early 1993 that Dialog would be sold. Indeed the idea about its possible listing had aired early on when Kaj Green took over. There were two major reasons behind FKF's decision to sell Dialog. During 1993, it had become apparent that there was a major trend towards outsourcing in the Swedish IT market. Well-known recent transactions were, among others: FörsvarsData/VM-data, Lantbruksdata/IBM, Apiron/EDS, PS-data/VM-data, SKDföretagen/Sema Group, Union Data/Cap Programmator, L-data/Dialog, and CRS/Dialog. In this situation, the facility management providers endeavoured to create economies of scale so that they could provide competitive prices to their customers. In order to preserve profitability in Dialog, the company desired to expand its activities by outsourcing transactions, especially in the private market. The financing of such expansion, mainly through Dialog's equity, was beyond the scope of FKF's business. Furthermore, FKF had reached the conclusion that there was no lack of competition in the computer industry. There was no need for the Swedish municipalities to own a computer company in order to get cost efficient computer

services. Two major municipalities had reached the same conclusion. The city of Malmö recently sold its computer company to Dialog and the city of Stockholm was seeking new owners for its computer company. Therefore, FKF had come to the conclusion that Dialog in the future would benefit from having an industrial owner and had entered into a process to sell its shares in Dialog as well as other assets related to the operations of Dialog. The option to list the company on the Stockholm stock market, though a feasible option, would have required further financing of the restructuring of the company and even once listed FKF would have obligations as majority share-holder towards Dialog for some time. And time was something which FKF or more correctly, its owner, the Swedish Association of Local Authorities did not have. Although, it was flatly rejected by a senior staff from the Association who was interviewed, every other senior person involved with Kommundata or Dialog confirmed the rumour that the haste with which Dialog was sold had everything to do with the major losses which K-konsult another subsidiary of FKF had suffered earlier. The Swedish Association of Local Authorities seemed to have the urgent need for cash in order to cover the losses and save K-konsult from impending bankruptcy. Indeed, in a letter dated 21 September 92, the head of SACO union, Sören Strandberg, warns the board of Dialog against any possible large transfer of capital from the company to cover losses in K-konsult.

By the time Dialog was handed over to Celsius Industries, a defence conglomerate itself recently privatised, it had hardly any similarity to the firm which had formed in 1968 to serve the local authorities. Its aims, vision, profile as well as the clients it was serving had changed. Both its own internal relations and cultures and its relations with its customers had severely commercialised. There was no longer anything left of the egalitarian culture and the security and stability of prime days of Kommun-Data. The company was set to act aggressively in a turbulent market which was beset by severe competition. As an organisation, Dialog was treated with little respect. The acquiring company, Celsius Industries, lacked the necessary culture or skills which say Sema Group had in its acquisition of SKDföretagen. Indeed, in the view of the new owners, those in charge earlier had failed to act properly to stop the



company from falling into its current desperate situation. For them everything had to be sacrificed to save what was left of Dialog. So rather than preserving it as an entity, they treated Dialog as it had treated those companies which it had acquired earlier. They broke it down into bits and assimilated the profitable parts in the Celsius Information System. What was left redundant was discarded. In an interview some year later with the weekly *Veckans Affärer* (1996.03.11) the chairman of the board of Enator, the IT division of Celsius Industries which later became an independent listed company, boasted that the purchase of Dialog was not a bad deal since for a price of 385 million SEK (minus the 70 million SEK compensation they received from FKF for overpricing Dialog) and the 200 million SEK restructuring expenses, they now had an operation which yielded 80 million SEK annually. However, the human toll of the privatisation of Dialog was colossal. None of those who were involved in this process took lightly this fact, however they regarded it as necessary at the time. So , a company which was set to serve the public, found in the end that there was a price to pay for wanting to serve profitably. It learned that the choice was as drastic as it could be: either become profitable or be doomed to perish.

## Chapter 8

# Comparative Analysis of SKDföretagen and Kommundata

*The schematic model described in Chapter 5 is applied here to the two cases, which we have already described in Chapters 6 & 7. Based on that model, the initiation, problem-solving, consensus-building and consolidation steps in the institutionalisation process of privatisation for each case are studied in turn and compared to each other. The influence of factors relevant to each step is also discussed. A summary of the effects of these factors is finally presented at the end of the current chapter.*

In Chapter 5, we said that “we view privatisation as a process of institutionalisation, in other words as the development over time of regulative, normative, or cognitive systems capable, to varying degrees, of providing meaning and stability to social behaviour.” As such, privatisation is an ensemble of various institutions whose sequence and ultimate combination give credence to privatisation and provide legitimacy and continuance for this process. Here we should like to examine and compare the two cases described earlier (Chapters 6 & 7) from this perspective.

Before starting on this long chapter, several points should be made clear. Firstly, the method I have used here is to reconstruct analytically the history of the two conglomerates, which are the subject of the current study in order to show how the process of privatisation was driven forward. I am not simply narrating history; I am putting together the pieces of a jigsaw in a fashion that I have tried to explain in my analytical

model. That is why Chapter 8 is different from Chapters 6 and 7 differ. In Chapters 6 and 7, I have simply amassed all the data that I was told or could unearth in my fact-finding mission. In Chapter 8, I am marshalling facts in order to write an episode, as it is conceptually coherent. The idea behind this analytical narration is to explain how various processes brought about the institutionalisation of privatisation. Here, we are concerned with the cumulative effects of apparently distant and even initially unrelated events and actions whose interplay has caused a certain process to be driven forward. Thus, temporal dispersion of these events is not important so long as we could show analytically that they have complemented the effects of one another in shaping the process of privatisation. Of course, there is an order to how these processes affect the privatisation process. As explained in Chapter 5 at the initiation and problem-solving steps, the regulatory processes are most influential. In the consensus-building, normative processes are essential in legitimating the solutions, which are sought by the organisation in its drive to become privatised. Finally, cognitive processes are instrumental in sealing the whole process so that values and norms are internalised and are reproduced in the long-term and the institutionalisation of the process of privatisation is completed. But, despite this analytical and logical order, which the regulatory, normative and cognitive processes follow, the events which influence them may not, and most probably have not, occurred in the same sequence. This may be confounding to a reader whose conception of change is linear or causal.

But, and this brings me to my second point, I have an evolutionary model of the process of privatisation. As in the evolution of life, events that might have occurred at random and even without reference to one other, could have cumulative effects at some stage. That is why for instance whilst the issue of salary grades belongs to the early period of Statskonsult and was considered in the first place simply to attract expert labour to this organisation, it gained another meaning once the issue of privatisation was raised, and it became part of the problem solving process. Thus, the course of events is as such: 1) External factors lead to initiation. 2) The organisation through its management then has to find solutions to the new problems that are raised. 3) But to do that there is a need for consensus-building and legitimacy. 4) Once, that issue has been

resolved and new values and rules have become internalised and accepted as part of the commonly-held beliefs in the organisation, then one can say that the process of privatisation has become institutionalised. Otherwise, the process will end half-way or become inconsistent. From this perspective, I have placed different events at different stages in the process of privatisation. So, they are not differentiated temporally but analytically depending on where they fit in my model.

Thirdly, at the end of each section, there is a summary of how the events and actions of each step in the privatisation process have influenced the different environments which surround a firm, and the marketisation of the relations of the firm with these environments bring about the ultimate conclusion of the privatisation process. However, it may well be that certain events affect more than one environment, or their effects unevenly influence the change in these environments. Of the four main environments mentioned earlier, i.e., the product market, the labour market, the managerial labour market and the credit market, the last one has played least effect in privatisation process of the two conglomerates studied here. This is because none of the conglomerates were floated on the stock market or external financial creditors were called in to facilitate their sales to the private bidders. Initial plans for the flotation of SKDföretagen were abandoned because of disadvantageous circumstances in Stockholm stock market and the conglomerate was later bought directly by a large international firm. The acquisition of Kommundata was also done by a single newly-privatised firm.

## 8.1 The Initiation Step

Of the three factors, which we have named in Chapter 5 as being responsible for the initiation of the drive towards privatisation, i.e. technology, market forces and legislation, the first stands aloof as the cause for the initiation of the process of privatisation in the two cases we have examined. Indeed, in understanding the regulatory, normative and cognitive processes, which shape the privatisation process and bring

about its institutionalisation, it is important to understand the technological context in which these were shaped and mediated.

**The Technological Factor:** IT sector is a highly innovative business area. The major thrust for change is the structural development in the industry. Since the mid 1970s, the market for IT was itself developing and becoming bigger thanks to more use of computers by the business and public at large. New strategies were needed to capture a segment of this growing market. More integrated services and more customer-friendly solutions were now in tune with what the customers wanted. Flexible rather than fixed solutions were needed. Technically, mainframe batch-running had to be complemented with client-server and networking facilities. This was in tune with the technical changes that were occurring in the IT branch.

The overall context of processes leading to the privatisation of both Kommundata and SKDföretagen was shaped by the changes that were essentially introduced in the technological background of the industry and, in turn, increased competition in the IT sector in Sweden.

These technological developments affected these firms in several ways. In the case of SKDföretagen, increased competition led the government to legislate changes, which had drastic effects on DAFA, one of the main subsidiaries of SKDföretagen. Later, the expansion of DAFA had, in turn, wider effects on the whole of SKDföretagen. In the case of Kommundata, the full effects of technological changes were not appreciated by the top management in time. However, their delayed response only intensified the impact of these changes on the company.

Of the three subsidiaries of SKDföretagen, the growth of DAFA in outsourcing was remarkable. It was this factor which was mainly responsible for the gigantic rise in the total turnover of SKDföretagen since late 1980s. An important reason for the rapid growth in the size of DAFA's turnover was rooted in developments from late 1970s and early 1980s. As the private sector became more computer-centred, it resorted to outside enterprises to take care of its computer facilities rather than

building or enlarging its own resources and expertise for taking care of this matter. This provided a golden opportunity for a company like DAFA which had already the personnel and equipment to deal with such demands. So, rather than developing their computer facilities along their core business as they became more dependent on computers, the private sector outsourced its needs to external contractors. The ex-managing director of the company, Håkan Kihlberg, believes that it was by making outsourcing the core business of SKDföretagen that the real momentum behind much of the changes gained strength.

Two factors were responsible for this success. Firstly, compared to other competitors in the market such as Volvo Data or Ericsson Data for which outsourcing was only a side venture, it was only SKDföretagen that had made outsourcing the cornerstone of its business strategy as early as 1986. Other more substantial competitors such as VM Data, which were quoted on Stockholm stock exchange and had financial muscles, came to appreciate the significance of this growing market only by the end of 1980s. Secondly, SKDföretagen was the main provider of information technology for government agencies and had co-workers who were in this branch since 1960s. In this sense, the firm had extremely qualified employees and its reputation for excellence was well respected. Furthermore, the technical changes in the IT area as well as the greater reliance of firms and companies to have their own computer facilities rather than using some central facilities, meant that there was now a growing demand for having and maintaining local access to computers and data technology. In this respect, there was a need for non-standard and decentralised routines and more flexible computer software for the customers.

A shrinking demand for mainframe solutions in the state sector and the existence of a whole new set of competitors which could rival SKDföretagen in its provision of non-mainframe solutions to its traditional clients had forced the company to rapidly adopt itself to the effects of an ongoing technological revolution in the IT industry.

But as far as Kommundata was concerned, it reigned supreme in the local authorities market for IT services, which was to a large extent secured. The central demand for local authorities revolved around a distinctive accounting system, which, thanks to previous legislations, had made any entry for a new competitor too costly. This retarded the full impact of technological change on Kommundata and the initiation of its privatisation process. It also accounted for much of the reluctance on the side of the top management to fully appreciate the significance of the technological changes that were shaping the future of the IT industry. For instance, when county councils became part of the customers of the company, a study by the board for technological development (STU) had revealed that Unix-based solutions were best suited to medium-sized health facilities, which had their own independent budgets. The details for this study are already described in Chapter 7. The top management, which was content with the assured stream of cash accruing to the firm as a result of its mainframe solutions, was unhappy to respond to Unix-based solutions whose chances of success seemed at the time uncertain and were destined for strong competition from other providers. Failure to act in time, led to a failure for the first DASIS-based program produced by Kommundata for the health-care. Since, by the time Kommundata developed with some delay a DASIS-based program for the health care, named EIRA, it was dealing with a market already set for competition. Partly because of bad launching and marketing and lack of support for Unix-based solutions in the company's top management who were adhered to mainframe solutions, and partly due to competing products such as BEDA (Värmlandsdata) and ADAPT (Östgötadata) and VAS (Cap Gemini) and Swedstar (SMC), Eira failed to gain dominance in the health care market. Likewise, the company was slow to respond to the growing demands on the part of commercially-inclined local authorities which were opting more and more for Unix-based accounting software. Failure to act in time and disadvantaged by legislative changes which removed important barriers for entry for the competitors, Kommundata failed to provide adequate and user-friendly accounting systems for its customers.

Only when legislative changes removed the last hurdle in the entry of new rivals to the local authorities market for IT services and products, did the full impact of technological changes felt throughout Kommundata. So, whilst SKDföretagen and its constituent subsidiaries had close to two decades to adopt to these changes, and, hence, could manage a rather smooth development, the suddenness of changes brought onto Kommundata sent shock-waves throughout the company with considerable loss of revenues and competence. Consequently, legislation and not technology was the real initiator of the privatisation process in the case of Kommundata although the latter was the very reason why the former was enacted.

**The Legal Factor:** The role of legislation on DAFA was influential right from the very beginning. It was governmental directives or acts of Parliament, which shaped the destiny of the firm, as could be seen in the following table.



Table 8.1 The role of legislation on DAFA

1979	The monopoly commission suggested in its report on competition in the computer industry certain scaling down in the special position of DAFA whilst provided it with greater chance to work with system development. The report considered restrictions imposed on DAFA to develop new system designs, to purchase or decommission computer facilities only on the basis of funds available to it from the government and to strictly observe statutory salary grades to be serious hindrance to its freedom of action as a commercial entity, and, thus, in the long-term untenable. The report also suggested that the restriction on the right of DAFA's management to dispense with profits should either be lifted or eased.
September 1984	The Ministry of Public Administration initiated an inquiry whose final report was entitled: "DAFA - Myndighet eller Bolag?" (DAFA – Agency or Company?). The recommendations of the report were unequivocal. It suggested that DAFA should be placed in full competition, it should behave as a service bureau and not a state agency, and that it should be turned into a stock company.
Late spring 1985	A bill was presented to the Parliament, which passed into law. The bill recognised that that the general trend in IT market was a shift from mainframe solutions to more decentralised smaller units and that this trend was as much relevant for private companies as government agencies. The bill thus stressed that there was a need for DAFA to balance its current biased dependence on mainframe solution with a development towards this new emerging market.
Spring 1986	By an act of Parliament, DAFA was set to officially become a state-owned stock company from July 1, 1986. A week later, i.e. on 8 July 1986, the shares of DAFA were transferred from the Ministry of Public Administration to ESKA Statskonsult AB.

As for Statskonsult, the role of legislation had mitigating influence in how it developed towards becoming a fully profit-seeking enterprise. Despite its rapid expansion, Statskonsult was faced by one major predicament. The original legislation bill which had sanctioned the formation of Statskonsult had also stated that the company should not seek after profit as such, but only should have adequate proceeds to cover for its eventual losses arising from individual assignments or to finance its development costs. Since early 1980s, the management found a way to go round this legislative hindrance. The rapid expansion of Statskonsult and its

acquisition of new firm became a leeway for the re-investment of the revenues of the company without disturbing the sanctity of the law, which had made its existence a reality. The formation of the holding company ESKA Statskonsult in 1986 as the beholder of the shares of the government in Statskonsult, finally removed the last legislative barrier on the pursuit of profit as the driving force for the expansion of the latter. Consequently, by the second half of 1980s, Statskonsult had little resemblance to the organisation, which was formed by the act of Parliament in 1969.

Although the legal status of Kommundata as a joint-stock company made it well beyond the realm of public sector, its fate was eventually influenced by how the legal setting advantageous to it, changed in late 1980s. The effects of legislation came late on Kommundata. The earlier legislation provided essentially little flexibility to local authorities in their dealings and their organisational divisions. The law had stipulated that every local authority should have mandatory committees or boards each earmarked for a specific task. The contact between these committees and the outside world was prescribed to take place in a centralised way through the office of city council. No committee or board could have pursued ventures for profits or participated in an operation whose purpose was to seek profit. As such there was rigidity in how the proceedings and the economy of local authorities and county councils was supposed to be conducted and accounted for.

The advent of commercialism among local authorities, also implied that their old and highly esoteric accounting system was now outdated. This accounting system, known as K-plan was peculiar to communal authorities. Kommundata's accounting programs were specially designed for this particular type of accounting system. It was too costly for any new competitor to enter this terrain. However, the fortunes of Kommundata were reversed when a new movement among the local authorities and county councils broke out which demanded a revision of this highly technical accounting system to a more easily understood system. Since early 1980s revisions and modifications were introduced to the existing laws, each supported by parliamentary legislation until

finally, the 1991 Local Authority Act made it possible for local authorities to utilise essentially the same type of accounting system used by private companies in their bookkeeping. Once legal hindrance was removed and local authorities started using in an ever increasing number the more commonly utilised accounting system, known as Bas-plan, Kommundata's competitors easily entered the terrain and challenged its dominant position. Accounting system is a key to other administrative systems in the local authorities. Once the core software used by local authorities was a matter for competition, other areas were not left alone. The purchaser/supplier system working at local authorities made it possible for them to use the most customer-friendly and least costly software for their localised computer systems. There were aggressive competitors in this market, which could easily match any offer by Kommundata. Faced with such competition, Kommundata was forced to hasten its process of privatisation and adopt measures that would enable it to turn into a profitable venture on a par with its established commercial competitors.

**The Market Forces:** A number of market forces influenced the fate of Kommundata and SKDföretagen. These forces brought up by technological changes had caused a change in the nature of the product and services produced in the IT sector. These changes brought to an end the dominance of large service providers, which maintained and ran mainframe solutions for their clients. The introduction of fast processors, the prevalence of personal computers and the introduction of client-server and Unix-based networks, allowed the standardisation of products and services whilst providing a considerable degree of flexibility thanks to easily manageable interfaces between the operating systems and the immediate users.

The other aspect of the IT sector was the surge in acquisitions, which began in mid 1980s onwards. Indeed, this pattern was characteristics of an industry in which there were stable customer-supplier relationships and yet it was faced with a growing number of suppliers and a continuous drop in the profit margins. The stability enjoyed by suppliers in their relations with customers meant that there was a large asset specificity

between the partners. It would be costly and cumbersome for a customer to change its supplier and unless the financial gains resulting from such a change were not considerable (20% less than before), it was unlikely that a customer opted for a change in its supplier. Such a rigidity in the market, implied that a firm which was set to expand, could not reach out to the customers of its competitors by simply outbidding them in their prices, it had to buy out the competitor in order to win over its customers. Thus, economies of scale were essential for increasing the size of revenue despite a drop in profit margins. Even in the early 1990s this surge for acquisitions was still continuing. Well-known recent transactions were, among others: FörsvarsData/VM-data, Lantbruksdata/IBM, Apiron/EDS, PS-data/VM-data, Union Data/Cap Programmatör, L-data/Dialog, and CRS/Dialog. In this situation, the facility management providers endeavoured to create economies of scale so that they could provide competitive prices to their customers.

That is why, for an expanding conglomerate like SKDföretagen, it was only natural to acquire new companies. Both Statskonsult and DAFA did a lot of acquisitions in late 1980s and early 1990s. In the same vein, acquisitions became a major thrust in the expansion of Kommundata once a new managing director was instated in 1993. Kaj Green used the considerable size of Kommundata's free cash to do a number of acquisitions in order to make the former comparable in size to its major competitors. The expansion of both companies through acquisition made them prone to assimilating new commercial culture. The old core of these companies found itself diluted in an ever increasing number of "outsiders" whose values were more in tune with the new direction of the firms. Growth through acquisition was a normal practice in the case of SKDföretagen whilst for Kommundata it was a venture exercised very late in its development. Again in this respect, Kommundata had started late and found that it had little time to assimilate the changes.

Table 8.2 Factors influencing the initiation step - SKDföretagen vs. Kommundata

Factors	SKDföretagen	Kommundata
Technology	Responded to the impact of the new technology since mid 1980s.	Responded with considerable delay to the impact of new technology.
Type of products	Faced shrinking demand from the public sector.  Opted for Unix-based and networking solutions in mid 1980s.	Enjoyed stable demand from the local authorities.  Opted for mainframe solutions until the end of 1980s.
Prices of products	Prices were set competitively.	Prices were set non-competitively.
Action towards competitors	Acquired new subsidiaries since mid 1980s.	Acquired new subsidiaries only in early 1990s.
Legal setting	Legislation removed obstacles to competition as early as mid 1980s.	Legislation retained barriers to entry to the IT market for local authorities until early 1990s.

A summary of our comparison of the two conglomerates is shown in Table 8.2. Whilst the initiating factors did play essential roles in shaping the destiny of these firms, their impacts were different. Kommundata lagged behind SKDföretagen in every respect. For instance, whilst technological change was imperative in setting in motion the sequence of events that eventually led to the privatisation of these firms, Kommundata responded with some delay to it. Indeed, only when new legislation removed the last hurdle in the entry of new rivals to the local authorities market for IT services and products, did the full impact of technological changes felt throughout Kommundata. In other words, it is not a question of how fast the technology changes but how susceptible is the company to these changes. These changes influence the product market through setting in motion the regulatory processes, which bring pressure onto the firm to undertake change. By influencing the demand structure, the setting of prices and increasing the number of competitors, the firm is forced to adapt in order to survive. If these effects have been dampened or prevented from making the position of the firm untenable then the regulatory processes, which reflect the movement of the firm towards

adopting new ways to cope with these new circumstances, may not set in motion.

In the case of SKDföretagen, a shrinking demand in the state sector forced the company to enter the IT market for private companies, a terrain already replete with competition. In the case of Kommundata legislation changed the demand of local authorities for IT solutions and in effect made them in parity with those offered in the IT market for private companies. This enabled private companies to enter the market for local authorities. Kommundata faced competition not because it had entered the terrain of private companies, as indeed it was the case for SKDföretagen, but because the private companies had entered a terrain long belonged to it. In the case of SKDföretagen, the fact that it was the company itself, which had entered a new terrain, its response was active, in the case of Kommundata the action taken by the company was reactive and delayed. Thus, whilst SKDföretagen was prepared for changes to come, Kommundata was to a large extent caught by events. This explains why changes in SKDföretagen were driven smoothly whilst they were abrupt for Kommundata. In the former case regulatory processes were set in motion gradually and allowed the organisation to assimilate them into its workings, in the latter case regulatory processes were forced onto the organisation without much time for it to assimilate them.

## 8.2 The Problem Solving Step

Once the initiation step is set in motion, the firm tries to imitate their competitors in order to liken itself to their settings. A number of imitations were particularly followed. The first imitation was in how the firms related to the labour market. There was a move from collective bargaining to individually-based salaries with Statskonsult being in the lead, followed by DAFA and last Kommundata. There was also a move to change the budget-based fiscal control systems to a profit-oriented system of control. Lastly, there was a move from functional organisations with rigid divisions of labour to a more flexible and financially controllable M-

form and later a matrix organisation. Here we shall now examine each of these isomorphic events.

**Removing Salary Grades:** In view of the sensitive nature of most of the works entrusted to Statskontoret a permanent liaison with computer consultants and a guaranteed inflow of their expertise was a necessity. So, in line with Williamsonian notion of high asset specificity, it was only natural that Statskontoret attempted to turn market supply of competence into a hierarchical organisation. And so it happened. By mid 1960s, there were ongoing discussions within Statskontoret to set up a state-owned consultancy stock company. Now, the preference for stock company should not be understood as a step by the government to compete with private firms in its sale of services and products. By a large margin, government's own demand for services and products outstripped any possible supply of such services and products by the would-be company. However, this company had to compete with private firms in the labour market for attracting competent personnel. At the time, there were statutory salary grades in governmental agencies and departments, which were not necessarily competitive with those, offered by the private sector for corresponding jobs. Being a stock company and not a state agency, would have removed any legal sanctions on the discretion of the management to set the salaries and hence they could attract the right personnel for their operations. The establishment of Statskonsult during 1970-72 took the government agencies with surprise. They now had to face the fact that this new enterprise, was operating on the basis of market-based prices. Although, its primary market was their demands and it had priority to serve them, it had no obligation to charge them with prices other than those offered on the market for similar activities. So, the need to make a stock-company in order to free it from the restrictions of state salary grades had its first impact on the orientation of the firm.

Incorporation of DAFA and its transformation into a stock-company had similar effects on it. Before this event, DAFA as a state agency had strict salary grades, which it had to observe. At the time, there were up to 31 salary grades in the Swedish state bureaucracy. DAFA's management like most state agencies was allowed to raise salary grades up to level 20 for

its employees. Government's consent was needed for any salary grades above that level. Although, in practice this meant that up to 96% of wages were set by DAFA's management itself, it however implied that salaries for top management could only be set by the consent of the government and then these salaries were by no means competitive to what the private sector was paying for comparable positions. This had two consequences for DAFA. Firstly, it would be hard for it to attract or keep its current employees since a rising number of newly-founded private IT companies were offering more attractive salaries. Secondly, so long as its salary grades for the top management were low, any recruitment for these positions would have been internal as outside qualified persons would not have been interested to take on the position. The incorporation of DAFA released it from the constraints of observing the salary grades, which were imposed on it previously. It could now set the salaries as it saw fit to do.

In case of Kommundata, there were no legislative pressures on the company to set any fixed salary grades on its employees. Although the company was legally independent from the world of local authorities, it resembled them in so many ways that one could claim that Kommundata was essentially the IT department of local authorities. In this sense, the company was in reality an extension of the world of local authorities and its values and practices mirrored what was common in local authorities. As such, salaries were set in comparison to what the local authorities were paying for positions of similar severity and responsibility. The salaries were set within fixed grades and were decided in collective bargaining. They were not at all individually-based or performance related. There were not any individual perks, bonuses or special remunerations. Up to 1989, the over-budgeted profits were partly returned to the firm as fresh capital and were partly evenly divided among all co-workers irrespective of their ranks or seniority. Since then and until the sale of the company, it was decided to dispense the share of the personnel to a personnel foundation, which would take care of their shares until their retirements. So, for a considerable time, the way that Kommundata regulated its relation with the labour market, be it in recruitment or in setting wages, was markedly different from what IT private firms were practising. Hence, when the time came and the company was eventually forced to



adopt itself to the standards of the private sector, the impact of changes were dramatic to Kommundata and many employees saw them as a direct violation of values long held sacrosanct in the company.

**Changing the Control System:** The control system is usually associated with two complementary but different functions. It could be used to affect how a firm sets its prices or it could be used to determine how the costs incurred to a firm are reckoned. In case of the former, the control system is forward-looking, in the case of the latter it is historical. The control system in government agencies is one, which is essentially based on presenting fairly and safely an historical account of transactions. This is rooted in the fact that these agencies spend in essence the amounts, which have already been granted to them. So, their control system is one, which accounts for the expenses that have incurred on them. In a commercial enterprise, which is dependent on its revenues, the control system should account for how the incomes have been generated and to what extent the expenses incurred are within the bounds of current and future revenues. Such a control system is by definition forward-looking and thus should be able to take account of strategic decisions on investment and acquisitions. Different control systems have direct impact on how prices are set in turn. As the privatisation process progresses in an organisation, there comes a need to adjust the control system and the setting of prices accordingly. The changes that occurred in DAFA for instance confirm this necessity.

Indeed, one clear and conspicuous effect of the incorporation of DAFA was what Statskonsult had experienced before when it took over the assignments of Statskontoret in early 1970s. The relation between DAFA and its customers most of which belonged to the public sector at the time began to be formalised. In place of an open account between these customers and DAFA, detailed contracts, which stipulated every aspect and duration of the services and delivery of DAFA were drawn out. Under the scrutiny of such detailed contracts, the pressure was on DAFA to outbid its new emerging and soon to be powerful competitors. This led to an improvement in the quality of services and a drop in the prices. Since, DAFA had the expertise to match its competitors in this challenge, it managed to keep most of its public sector customers.

The fact that DAFA was from start dependent on its revenues had already instilled in the organisation a certain commercial culture as indicated in a shift towards opting for performance-related salaries and competitively setting prices. But that is not to say that its transition to a commercial firm upon its incorporation was problem-free. The personnel in DAFA had for long considered themselves to be a division of labour in the government hierarchy. They were not just serving their clients; they were providing a service that relied on their expertise and experience. They were not just a cog in the government machinery, but captains of a division in the state bureaucracy. So, it was only natural for them to consider themselves the best ones who could design and supply a solution to the particular needs of their clients as they envisioned them. This organisational culture was in contrast to a commercial view, which sets the customer at the centre of its consideration. According to this view, it is the customer and not the supplier who should define and demand the features of the final products or services. This meant that the personnel of DAFA who were reared in a government agency culture now had to accept that they should listen to their customers and do as they fit best. Furthermore, as the number of competitors was rising, they should not only produce a high-quality product but one that sells. They should turn from engineers and system designers and programmers into salesmen.

Introduction of a new control system in Kommundata was bound to meet stiff resistance. Since those categories, which are the basis of such a control system were alien to the company. The word profit was blasphemous and it was only in late 1980s that the idea was introduced in a rather esoteric language. Likewise, the pricing system was not based on profitability targets but on meeting the costs of operations. An egalitarian system ensured that all the products needed were produced even if that meant that more saleable ones had to subsidise the less profitable ones. So it was natural that when Kaj Green introduced his subtle but complex economic system, which was aimed to ensure that only profitable products were produced, it hardly went far. This new economic system aimed to directly make the performance of the company linked to the profitability of its products and satisfaction of its clients. The new system was supposed to measure the performance of the company along two

axes: the customers and the products. The essence of this control system was simple, once you have profitable products and satisfied customers, you have a profitable company. Thus, in place of traditional profit centres with each having their own expenses and revenues, the new system wanted to directly measure the profitability of each product. There were obvious difficulties with this approach. Each product was the result of a number of divisions within the company and each division was serving different segments of the customers. Whilst measuring the end result was easy, a break-down of expenses to each relevant section was extremely difficult if not subjective. But the whole purpose was not to disregard this difficulty but to point out that a reasonable cost for each product is the one, which the customers were ready to pay for. So rather than each division setting its own cost of production and hence determining the scale and assortment of its production, the new system intended, though most of those interviewed disagreed, to enforce on the firm a regime set by profitability of products. Hence, it was hoped that unprofitable products would be quickly marked and their attributes were either improved to make them more saleable or their production was stopped. True, there were structural difficulties associated with this system but more importantly it was aimed to shift the power to make decisions on what products to produce from regional chiefs and especially the technical division of the company to the top management and the marketing division. The economic system was, as it is expected, a control system and as any such system the issue, which had to be settled, first was who should have relinquished the control and who should have acquired it. The formal solution to this issue, namely firing the old chiefs and hiring new ones, did settle some of the problem but it did not dislodge the long traditions, which had reared the company at large. Draconian measures forced onto the firm at the end were a direct response to this in-built resistance to change.

**Organisational Restructuring:** Changing the control system can only be materialised in changing the organisational setting of the firm concerned. Indeed, as a public-sector organisation begins to imitate the private sector firms, it becomes imperative that they have the necessary structural resilience to compete with their private counterparts. Moving from a

budget-based to a profit-oriented organisation implies that resources can be more easily allocated throughout the firm. A hierarchical organisation with multi-layers of command structure is too rigid to allow speedy transfer of resources since each layer of command implies a line of resistance to such a transfer. A multi-divisional structure, or one where financial instruments are applied to enforce different sections of the organisation to comply with the strategic decisions of the top management, is more in tune with changes, which are necessary to bring about a public-sector organisation on a par with the firms in the private sector. Structural changes are part of the imitation that a public sector organisation undertakes in order to raise its survival chances in a competitive environment where agility in resource-allocation is among the essential factors for outdoing the competitors. The history of DAFA, Statskonsult and Kommundata all confirm this necessity although in varying degrees.

DAFA underwent a number of organisational changes, which drastically reshaped its structure. These changes were followed up even after the privatisation of SKDföretagen. Initially, DAFA had a typical functional organisation where functions were separated into different departments, each controlled by one manager and co-ordinated with other functions through a chain of commands. Each function was directly linked to the main office through a line. Such an organisational arrangement was advantageous to the old DAFA as it allowed for its activities, mostly of technical nature, to be easily co-ordinated without undue costs. The stable work routines of the organisation and its centralised functions and locality easily made it possible. Indeed, the specificity of these functions was such that a H-form organisation was best suited to accommodate for their interdependence. Furthermore, there was no need for the old DAFA to separate individual performance, and its centralised locality and well-established routines made it difficult for any tendency to shirk, and, thus, for any need to construct a function specialised in monitoring. The head office of DAFA was where the lines of command crossed due to the exigencies of mutual co-ordination of different functions. As such, the co-ordination by the head office offered also the necessary co-ordination between different functions.

As DAFA grew prior to becoming part of SKDföretagen, there was a need for it to control its subsidiaries through a more accommodating M-form organisation. Statskonsult had taken such an organisational form much earlier. Its growth and acquisition of related but different enterprises had brought upon it the need to exert control in a more sophisticated manner i.e. through financial restraints rather than direct operational control. The sheer size of the complexity of the organisation had surpassed the capacity of the F-form organisation to tackle it. There was a need to separate and delineate operations. To tackle the rising complexity of the corporation, a multi-divisional form had evolved in Statskonsult initially and in DAFA subsequently. The formation of smaller units, each with a quasi-firm character and self-supporting as far as it concerned many functional areas, was supposed to lessen the overload on the top management. It was hoped that the creation of these small quasi-firms would enhance the monitoring capacity of the conglomerate whilst separation of their activities would make it possible for the top management to measure performance of each division through tight budgetary targets.

However, the sheer size of the corporation and the multitude of firms which were being acquired in the late 1980s imposed on SKDföretagen to take its M-form to its extremes and develop it into a holding company where there were almost no co-ordinating links between different divisions except that which exerted by the flow of capital and managerial labour. Although, this organisational form, especially for the large firms, is quite common in Europe and in particular in Sweden, it deprived the conglomerate of the necessary synergical effects of its different divisions. As outsourcing had to move from standard solutions to tailor-made recipes, there was a growing need to integrate consultancy and outsourcing where the former furnished the basis for the technical aspects that were to be met by the outsourcing divisions. Likewise, the expansion of internet and interactivity brought out the need for the use of databases in connection with whatever solution the outsourcing and consultancy divisions could offer the clients. Furthermore, the development of workgroup networks which could be managed by sophisticated PC

servers or mainframes instead of expensive mainframes meant that there was a need for service strategies which could provide help and expertise in a decentralised fashion to more numerous but smaller customers. Lastly, outsourcing mainly relies on definite contract length (generally between four and nine years), steady income stream, more hardware and less labour-intensive operations. As the setting for the profitability of the conglomerate changed, more effective organisational structure had to be devised and the position of the company with respect to its competing rivals had to be strengthened. Thus, the rather unplanned structural mayhem of SKDföretagen had to be harnessed in way that a vertical integration of its functions could be achieved. This process started prior to the privatisation of SKDföretagen. The actual sale process of SKDföretagen where the so-called non-strategic firms were excluded, the later centralisation of technical division of the new Sema Group Sweden, the formation of matrix organisation in the latter and the ongoing work in Sema Group Sweden to remove the long-lasting barriers between its main divisions, are different steps to remedy the problem. However, privatisation was the single most important blow against the old organisational structure and provided a platform for the new organisational policy to take-off.

The emerging matrix form (X-form) offers for Sema Group in Sweden multiple chains of commands and combines different functions with different divisions. The fact that the multiplicity of the X-form with its layers of profit-centre accountability, cross-divisional responsibility and geographical dispersion, exposes the organisation to an information overload from its diverse functional arrangements has failed to be, at least according to some of the employees and key personnel, a successful organisational solution for the conglomerate which badly needs to bridge the gap between its sales division and its production and servicing parts.

However, one strong advantage of SKDföretagen was that it maintained a decentralised structure of many independent organisations, and one strong advantage of Sema Group conglomerate was its development through acquisitions, which made it ready to accept different cultures and

practices for the acquired firm. This tradition helped the firm to have a different approach to SKDföretagen's firms after sell-out.

Kommundata's organisational changes were slow steps towards regulating the structure of the company to the growing needs of its commercialism. From late 1960s onto early 1980s the rising stream of customers from the local authority and the total monopoly, which Kommundata enjoyed in this market, as well as the well-established routines of mainframe solutions made the whole structure of the organisation too stable to be in need of any change. The addition of county councils to the range of customers served by Kommundata, the greater sophistication of these clients and their more particular demands made it necessary for the company to bring itself closer to its customers. Indeed, even earlier, lack of proper quality on delivery, installation and maintenance of products and services had tarnished the image of the company. Just as Statskonsult had between 1974 and 1977 experienced a surge of regionalisation, Kommundata attempted to follow suit. Regionalisation was not an attempt to bring to an end the functional structure of the company, it was merely extending the arms of this organisation closer to the customers. There was hardly any decisive distinction between the production and sales departments. The headquarters had grown in size and division of labour, but it was not to supervise a multitude of economically independent subsidiaries, which were governed by financial restraints and targets from the centre. Even the final acquisition of NorrData was an attempt to squash the incursion of the former into the more secure markets of southern Sweden. As late as 1984, the company did not even have a special division for the country councils. In a sense, Kommundata was more akin to a governmental agency with its own sub-departments but not a holding company, which reigns its growing portfolio of companies by means of financial checks and controls.

Economies of scale bring about the need for reorganisation. When in mid 1980s Kommundata began acquiring new firms to expand and when its portfolio of products were too diverse to be simply allowed to be produced, then concepts such as profitability targets began cropping up.

This was no less because of the Swedish Association of Local Authorities, which was the majority shareholder of the company, had started asking for a return on its investment in the company. The move by Kommundata to acquire a multi-tasking structure was soon stifled by the arrival of the new management team. The new management under the auspices of Kaj Green had in mind to establish a process-driven organisation. So, rather than breaking the organisation into freely-run entities governed by financial discipline imposed from the centre, Kaj Green believed that pooling resources together was a better way for Kommundata to build on its strengths and service its customers. In effect, Kommundata was transferred from a functional organisation into a matrix one without having experienced the full benefits of a full-blown multi-divisional organisation. To bring order to this new arrangement which had grown more complex as a result of a host of acquisitions in early 1990s, a rather intricate economic system was introduced whose aim was to replace direct financial restraints for each division by setting strict accountability guidelines for each line of products. This whole endeavour was quashed before it had time to vindicate itself and by the end the entire structure of Kommundata was axed into bits and assimilated into the larger conglomerate of Celsius Industries, which had acquired it.



Table 8.3 Factors influencing the problem-solving step - SKDföretagen vs. Kommundata

Factors	SKDföretagen	Kommundata
Setting of wages	Market-based and performance-related wages for Statskonsult since its formation and for DAFA since mid 1980s.	Collective bargaining. Wages set within definite levels. Egalitarian distribution of over-budgeted profits.
Recruitment	Recruitment predominantly from private sector especially since mid 1980s.	Recruitment mainly from local authorities domain.
Control System	Since mid 1980s it was essentially profit-oriented.	Until early 1990s it was cost-based.
Structure	Predominantly controlled through financial targets. Functional organisation replaced by M-form and later matrix structure in mid 1980s. Distinctive sales and production divisions with the former having upper hand in dealing with customers.	Functional organisation only changed in early 1990s with matrix organisation. Distinction between sales and production blurred and the former having secondary role in dealing with customers until early 1990s.

A summary of our comparison of the two conglomerates is shown in Table 8.3. Both companies did comply with new conditions by imitating long established practices in the private sector. But again the more evolutionary vs. delayed response for SKDföretagen and Kommundata could be observed. SKDföretagen had adopted by late 1980s market-based and mostly individually-based wage setting, recruited mostly from the private sector and had a profit-oriented control system which was used to control its diverse subsidiaries through financial strings. In contrast, Komundata had even in early 1990s an egalitarian system of profit-sharing, recruited often from the local authorities domain, kept its functional organisation intact and had a rather undeveloped sales division. It was very much unaffected by changes in its environment and was, thus, not prepared for changes it had to experience shortly afterwards.

So, a change in the way that wages were set and recruitment policy was conducted was necessary to influence the relation of these two conglomerates with the labour market. Likewise, whilst a profit-oriented control system could influence the labour and the product market surrounding these conglomerates, a cost-based control system helped maintain the status quo and hence protect the existing relations between them and the labour and product markets. Furthermore, a change in control system could also affect expectations from the management and hence influence the selection or promotion of new members to the management team. However, the cosy relation which existed between Kommundata and local authorities ensured that policy of recruiting from the domain of local authorities remained the established norm. In case of SKDföretagen, the conditions were set for recruiting from the private sector and on the basis of terms comparable to what was offered by its private competitors. Acquisition of private firms ensured a gradual flow of new talents from the private sector. However, the top echelon of management, spared for a few, was still tightly held by insiders from the old time. So, during the problem-solving step the changes in the relation between Kommundata and the managerial labour market were insignificant whilst SKDföretagen had made considerable progress in adopting a more open approach to the managerial labour market. Indeed, this difference played an important role in how these two firms faced the issue of legitimating changes that they had to adopt for their survival.

### 8.3 The Consensus-Building Step

The regulatory processes which are set in motion as a result of environmental constraints and pressures bring to the fore the confrontation between the old norms and values and that ones which are needed to sustain and support the imitations being made by the organisation. Such a confrontation inevitably leads to a crisis of identity for the organisation, and, thus, there is a need to legitimate the changes which are made necessary. We have argued before in Chapter 5 that there

is a need for an institutional leadership which goes beyond operational necessities of the organisation and imparts on it a new identity.

Of course, the consensus-building step and the problem-solving step are intractably related and may even occur in tandem. However, analytically speaking, one could differentiate between the two. During the problem-solving step, solutions are tried and imitated. Still, the full consequence of changes are not known, the existing power configuration might not have been influenced and the old values might not have been severely undermined. In the consensus-building step, the organisation is faced with stark choices. The full significance of new changes are beginning to be felt and the existing domains of power in the firm may now realise that their positions have been severely jeopardised. For instance, making a product saleable or adopting a multi-tasking organisation might seem to be a good decision to improve the profitability or management of the firm. But once, the production section of the organisation realises that its long-established sway over deciding what to produce and how to produce it, is being undermined by the sales department which has acquired immense discretion in determining the assortment of products and their attributes, the conflicts are brought to the fore and each side attempts to discredit the legitimacy of the other side. Bringing about consensus becomes a fundamental task if the whole firm is to move forward and save itself from infighting or prevent the loss of any of its core employees because of discontent and dissatisfaction.

In studying the two cases which we have examined, it became clear that there are certain factors which are important about this leadership. Its strength, its continuity and its ability to create a crisis situation in order to convey the message home that the survivability of the firm is wholly dependent on its renewal i.e. its adoption of new norms and values. However, without the regulatory processes set in motion, the attempts made by such a leadership are semantic and lack the objective grounds on which any change of norms would find sustenance and support. Here we shall now study the cases in more details whilst comparing their particulars.

The incorporation of DAFA was not only a change in the legal settings of the firm. It was the first attempt in the Swedish public sector to turn a governmental agency into a customer-oriented, profit-seeking enterprise. To do that, DAFA's organisation was forced to successively adopt itself so that it could better present its business activities, create a result-based responsibility and provide clear-cut channels of communication and contact with its clients.

This task was given to Håkan Kihlberg the new chief executive officer of DAFA who had many years of experience in the computer branch and was well aware of the situation of DAFA through his early business contacts. He had also experience of working in a government agency back at the time when he was employed at Rymdbolaget (Space company, a state-owned stock company acting as the national space agency). The board of directors experienced no major change in its number or composition since mid 1980s. So, it could be said that the leadership and board of DAFA benefited from stability, continuity and to a large extent harmony. This had its effect on DAFA and its ensuing development. There were several explanations for this state of affairs, among others:

- DAFA was a young organisation which, even when it was established, was given more of a company identity than a government agency identity. The organisation was never given any real official duties of the type normally performed by government agencies and, from the very start, it was wholly financed by fees it charged for its services.
- Making DAFA a government agency was questioned from the very start and the issue of turning the organisation into a limited company was taken up and given support on several occasions. This had the effect that the mental preparedness for a transformation into a limited company was built up within the organisation. It is possible to see DAFA's period as a government agency as a gradual change of identity which was realised in full by the decision to turn the organisation into a company.
- DAFA's professional identity was and is neutral in relation to the concept of private sector-public sector. The skills possessed by its staff are thus equally of use in the public sector as in the private sector. The

employees associate themselves more with the data processing sector - which is dominated by private companies - than with the government administration.

- The leadership of DAFA was given the mandate to turn the company into a profit-seeking enterprise from the very start. It remained resolved and consistent in pursuing this aim and it made it clear to the workforce that without undertaking change the survival of the firm was in peril.

The initial expansion of Statskonsult and its attempts to imitate the private sector also brought the need for a fundamental thinking in the organisation. In order to carry out this matter, the management installed a committee, called SMOG for short. It was a committee that represented both the management and the employees' union branch and as such its decisions had considerable weight in convincing the employees that these decisions were taken impartially and were not management-biased. By the end of 1977, SMOG was ready to deliver its verdict. SMOG proposed that each part of the organisation which could be organised as an independent business entity with its own profitability targets and with its own responsibility for the marketing and sale of its products and services, should be organised as such. These business entities would be subsidiaries to the parent company which should then be mainly in charge of strategy, planning and supervision. So, we can now see a clear pattern of development for Statskonsult. A modest-sized stock-company which had started as a single organisation, then developed into a hierarchical organisation with its divisions and subsidiaries, to be ready for taking up a multitask-form where the headquarters would supervise independent profit-centres. The decision to incorporate subsidiaries was a way to impose strict financial restraints on them and obliged them to meet certain profit targets. This decision was taken at a time when the whole IT market was experiencing a new surge of changes caused by the sidelining of mainframes and the fast introduction of mini-computers and personal computers. To meet this new challenge, Statskonsult turned its four major operational divisions into four independent stock-companies. Furthermore, in order to gain access to new customers, it resorted to the customary practice of buying out its competitors. These new measures

caused turbulence and a sense of insecurity in the company. However, with the benefit of hindsight, without this sense of crisis, and the turbulence it had created it is hard to imagine if the management could have indeed carried out their drastic policy of restructuring the company. Its primary market was no longer the public sector. Nor was its recruitment based on personnel from the public sector. The internal relations between different divisions inside the company were now fully commercialised and its subsidiaries had developed an aggressive market-oriented profile. Its overall operations were now considerably streamlined and it was set to make use of the new and growing market for PCs. The new Statskonsult was ready for a new phase of expansion and it was natural for it to assume that the first chunk of acquisitions which it was entitled to get was DAFA, an agency which it had time and again asked the government to hand it over. According to a plan drawn up by Matz Hentzel, the chairperson of ESKA Statskonsult, this holding company was to be turned into a conglomerate governed by a strong and active leadership. The core activities of the conglomerate were to be organised in five business areas: consultancy, training, software, computer sales and facility management. Each business area was not simply a profit centre, which had to meet a particular financial target, but it was an instrument to develop and further the overall plans of the conglomerate for a certain part of the core activities. For better communication and co-ordination, the chief executive officers of the subsidiaries of each business area and the area manager were to form a leadership group for that particular business area and they were supposed to meet regularly. Likewise, the business area managers and the chief executive officer of the corporation were to form a corporate leadership group due to meet at regular intervals.

Even after the union of Statskonsult and DAFA, the management of the conglomerate continued to promote the idea that only by growing bigger can the whole organisation survive, which in effect meant that the conglomerate should have enlarged its ownership structure. In pursuing this argument, the management reiterated what has been said in the literature on privatisation, i.e., that a change of ownership has a direct influence on the profitability of the enterprise and its chances of attracting outside investments. The management won this argument, as it was said

time after time by a host of people who were interviewed for this study. The internal documents of the firm are also filled with such claims.

Of course, a closer examination of SKDföretagen's financial track shows that such claims were irrelevant (see Chapter 7 for details). Despite such discrepancies, the management convinced the rest of the organisation that its future depends on changing its ownership structure and eventually becoming privatised. It was the continuity of the leadership, its persistence to link the survivability of the organisation to its continued growth and change of ownership, and the strength of the leadership which made it possible for it to impose its own agenda on the organisation and gain legitimacy for its new values and norms.

In the case of Kommundata, the matter was different, although by early 1980s the growth in the size of Kommundata had necessitated more sophisticated forms of control, and the board of directors recommended a new organisational shake-up to correspond with the transfer of headquarters to Älvsjö. These included the following measures:

1. Customer-oriented organisation
2. Result-based divisions
3. Strengthening of top management

It was clear that Kommundata had started a new stage in its development. It required a new leadership. An attitude survey among the customers had revealed that they were dissatisfied with the way the company was treating them. An internal document had described the problem in details and recommended a higher service quality. There was a steady but rising competition from such giants as IBM, and Kommundata had failed to attract large clients to its products and services. To remedy these problems, the company recruited a new managing director. He was Göte Jonsson and as expected came from the Swedish Association of Local Authorities domain.

The instatement of Göte Jonsson did not bring about a complete break with the traditional values in the company. The basic norms and values on which Kommundata was formed in late 1960s were still respected and held in high regards. As a matter of fact, it was only since late 1980s that

concepts such as profitability were raised and the management tried to promote the idea that only those products which could be sold profitably should be produced. Serving and selling which until then were considered to be synonymous in the vocabulary of the company began to mean two different issues. The emphasis was no longer on serving but on selling and that at a reasonable rate of profit.

The word profit was for Kommundata a blasphemy. True, since its formation, it was always expected of the company to produce a certain surplus in order to reinvest it for further expansion but it was only to provide for its current operations. Indeed, the company was not interested in any amount above the budgeted surplus. The over-budgeted profits were partly returned to the firm as fresh capital and partly were evenly divided among all co-workers irrespective of their ranks or seniority. By 1989, it was decided to dispense the share of the personnel to a personnel foundation which would later be used to cover the costs of their retirements. The culture in which most co-workers had been reared was to serve their local authorities. The pricing system was not based on profitability targets but on meeting the costs of operations. Even here an egalitarian system was in place. The company was serving numerous local authorities, some with large resources and some with meagre ones, it was also producing software and solutions for very common applications as well as the ones which were more exclusive, though necessary for a certain segment of the community. The pricing system was such that revenues from the more easily and widely sold applications served as subsidy to less saleable ones. The system did not make economic sense but it had every social sense attached to it. The organisation of Kommundata was one reared to view their products not as goods for sale but as fulfilling the needs of their local authorities. However, now they had to view their end-users as customers and to produce not what they wanted but what was profitable to make. This was a serious cultural revisionism for the company at large and one which was hard to swallow.

However, the problem with Kommundata was not lack of expertise but lack of resolve and this was supported not by superior technical arguments but by a culture entrenched among senior staff who saw their



future very much endangered by the coming changes. The managing director neither seemed to have had the resources or the will to impose a fundamentally new vision on his co-workers and associates in the company. Of the management style of Göte Jonsson too many commendable remarks have been made. It is hailed as democratic, non-authoritarian, humane and forgiving. However, it seems that he failed to have the force to bring to an end the ongoing power conflicts among different fiefdoms in the organisation, nor did he manage to bring unity and harmony in vision among his growing conglomerate. He was not a strong leader and the constellation of power that wielded much of the action behind the scene seemed to have survived. A study by a consultancy firm (1991-05-18) on how mainframe stations (IBM and Unisys) should be located or merged made the sharp observation (probably in a reference to the northern section of the organisation and its southern counterpart) that “in certain cases there are unfruitful competition among units” and that “the ongoing change in the line of responsibility between the local authorities and county councils follows that the existing division of operations between Kommundata and NorrData is no longer based on relevant reasons”. Still in 1992, writing his last business plan for Kommundata, Göte Jonsson set it as the organisation's aim (Mål L-26) that there should be co-operation between different organisational units, between different vocational groups and between different geographical areas.

The issue of survivability and the change in the norms of the firm were hardly ever related to each other by the management. Indeed, right to the very last days when real financial difficulties stroke Kommundata, the management was boosting about how successful the firm was and how abundant its liquidity reserves were.

Recognising the severity of the situation, Kaj Green started a project to establish Kommundata as "the best IT-partner". The name was changed to Dialogdata Informationssystem AB, or "Dialog" for short. He used the considerable size of Kommundata's free cash to do a number of acquisitions in order to make the former comparable in size to its major competitors. Secondly, it reorganised the top management team so that

they were more closely supervised by him. Thirdly, it streamlined the chain of commands in Dialog, sharply reducing the number of middle-managers who were the natural victims of the rationalisation drive anyway. Fourthly, it introduced a subtle but complex economic system which aimed to directly make the performance of the company linked to the profitability of its products and satisfaction of its clients. Only time would have shown if Kaj Green was right in his assumptions, but in the short period which this new economic system was in effect the economic gravity of the firm became more than obvious.

Indeed since June 1993, the firm was having a continuous negative balance exacerbating with time. Through the introduction of this new economic system and the work done by Stefan Olowsson on quality, Kaj Green hoped to turn Dialog from a truncated conglomerate into a process-driven enterprise where its diverse and separate units could work in harmony and unison so that the question was no longer where the revenues were coming from but what made the revenues and how they were made. The process-driven organisation also meant that a set of standard routines and procedures would direct the entire activities of the corporation. For the time being, the owners of Dialog and its board of directors seemed to be willing to give the new directing manager a free hand and there was even talk of listing the company on Stockholm stock exchange once the ongoing restructuring of Dialog had borne fruits. But this new course of events suddenly came to an end and with it turned the fortunes of Kaj Green into liabilities.

In Kommundata the issue of survival and change in ownership were linked at a later stage. In the whole 1980s, report after report by the management is indicative of the strength of the firm and its assured progress. It is only in early 1990s that the management who were besieged by hard facts began to confess to shrinking revenues and demanded immediate measures to be taken to stop a nose-dive. But at no time an improvement in the situation of the company was expressed in terms of changing the ownership of the company or going public. Thus, contrary to SKDföretagen, the issue of privatisation came as a surprise to most of the employees and even a large part of the management. Whilst

SKDföretagen was ready for a change in ownership, Kommundata was embarrassed by it. So, whilst, the former had already paved the way and prepared itself for a change, the latter was caught unprepared. As a result, the case of the former was a smooth transformation whilst the case of the latter was as turbulent as it could possibly have been.

However, it seems that new norms could not be instituted in a company like Kommundata with a strong tradition if they are not rooted in a new set of corresponding regulatory processes. This required a strong leadership which the company lacked at the time. Kaj Green tried to impose these new norms by initially changing the balance of power at the company. He brought with him a new team for the top management and replaced a considerable number of middle managers. He also introduced a new control system as a way of promoting these norms by means of strictly defined regulatory mechanisms. Whether these attempts might have succeeded is an open question. Since, prior to their completion the company was offered for sale. The new owners drastically took a different route. They broke down the company and assimilated its different parts into the acquiring company.

Table 8.4 Factors influencing the consensus-building step - SKDföretagen vs. Kommundata

Factors	SKDföretagen	Kommundata
Type of management	Entrepreneurial since mid 1980s	Lacked entrepreneurship
Style of leadership	Strong and centralised	Weak and dispersed
Approach of management	Aware of the long-term difficulties of the company	Occupied with the day-to-day routines
Argument for change	Linked survivability of the firm to a widening of its ownership structure	Remained content with the ongoing economic progress of the firm
Time-scale of leadership	Enjoyed continuity and stability over a long-time	Its continuity was broken precisely at a time when the organisation was undergoing major change.

A summary of our comparison of the two conglomerate is shown in Table 8.4. It was only natural that changes in the technological and commercial settings of these firms would bring about an identity crisis. It was the task of management to win the battle for the legitimacy of the new values, and help maintain regulatory processes which were essential for the firm to adopt itself to new conditions. Of the two conglomerates, the current study reveals that SKDföretagen's leadership had a better understanding of the changes that were needed. It was more prepared and had acted pre-emptively to forgo difficulties that laid ahead. Not only SKDföretagen had adopted a more entrepreneurial type of management after its first crisis of early 1980s but the first managing director of newly-incorporated DAFA was instated with the explicit task of making the company commercially viable and profitable. Entrepreneurship was thus close to the heart of SKDföretagen's management. For Kommundata, entrepreneurship was a vision never fulfilled. Entrenched in a community culture and bound by long established rules, the management never succeeded in making entrepreneurship taken for granted even in the upper echelon of the company. Part of the reason for this failure was because Kommundata lacked strong leadership during the very period when it was gradually experiencing its identity crisis. In contrast, SKDföretagen had

both a centralised leadership and one committed to change. For the management of SKDföretagen pursuing a long-term plan to prepare the company for an extended ownership was a given task. As far as Kommundata's management was concerned, it never entertained the idea until it was forced onto it. In this sense, SKDföretagen's management was somehow visionary and ready to undertake an institutional role, one needed for the time of crisis. In case of Kommundata, the management who were pleased by the continuous success of the company were more content to deal with operational issues. Thus, whilst the management of SKDföretagen never ceased to remind the employees of the need for the company to go at least partly private if it were to survive, their counterparts in Kommundata never ceased to commend the company of its ongoing economic success. Hence, when the time came it was the old management of SKDföretagen who were still in charge of preparing the company for privatisation whilst most of the old guard in Kommundata lost their positions. Stability and continuity of the management thus served as important factors for the transformation of SKDföretagen but they were the very traits that the management of Kommundata lacked and hence failed to rival its erstwhile competitors.

## 8.4 The Consolidation Step

With the regulatory processes well in place and the battle for the legitimacy of new values won, a consensus is built in the organisation, but there is no guarantee that the results may last beyond the existing generation. The process of institutionalisation is completed once it is consolidated. There are several factors which play a part in the completion of the process of privatisation as our study of SKDföretagen and Kommundata reveal.

**Positive Outcomes:** In an interview with the ex-managing director of Sema Group in Sweden, and the man behind much of the privatisation process of the SKDföretagen, he expressed the change in ownership as “grabbing an opportunity” and a “logical extrapolation of activities we

had achieved so far”. In other words, regardless of the timing of the privatisation of SKDföretagen, it is to be understood that it was an event long sought for. This change in business strategy meant, in Håkan Kihlberg’s words, that the company understood that “rather than telling the customers what to want, it should serve them what they want”. It was this change in the motto of the company that had to be absorbed and accepted by the employees. It appears that one of the main successes of SKDföretagen in late 1980s and early 1990s has been that the whole change has occurred without undue dissatisfaction on the part of the co-workers. The change in the organisation’s strategy was implemented through consensus, and by a change in the reward structure of the firm so that the benefits accrued to the firm in terms of a rise in the revenues did have an impact on the income of those conducting these changes. A mix of bonus, effort-based compensation schemes and fringe benefits seems to have done the trick.

Despite its progress, SKDföretagen lacked certain essentials for going further. For instance, in a study commissioned by the company’s management on comparing the extent of editorial coverage given to SKDföretagen with that of its competitors, it was found that the size of coverage for VM Data was disproportionately higher. The fact that the latter was quoted on the Stockholm stock market was concluded to have been one strong reason behind this advantage. To seize the lime-light and to become public-friendly, it was the opinion of the management that SKDföretagen had to change its legal form. Almost everyone whom I interviewed expressed the belief that the acquisition of SKDföretagen was an inevitable event, and that they shared the conviction that it provided a secured future for the company. This view was expressed both by the members of top management as well as the union activists. Although the latter complained that they had been kept in dark for a considerable time about the timing and details of such an acquisition.

As for Kommundata, the latter had no positive outcome to show by the time of its acquisition. It was overwhelmed by the sheer size of its economic problems. That is why, on its acquisition, the entire organisation was axed down to pieces and they were again assimilated in

the larger organisation of the acquiring firm. Kommundata did not survive the privatisation process as a whole, nor did it have any chance of doing so.

**Interest Group Resistance:** DAFA was one of the major constituents of SKDföretagen. It was made of a hard core of employees who had worked together for a long time and at the same location. However, since mid 1980s, that sense of belonging, that unique identity of being the major players in the high-technology arena of the government, was soon to lose importance. The old guards were now being diluted with newcomers who did not necessarily share their fellow-employees' traditions. They were not state-employees turned private. They were mostly employees of private enterprises which had been truncated into new joint-ventures. As DAFA grew bigger, so became looser the adhesion of the employees as a group. Furthermore, the union clubs at local level had kept their own independence. These clubs did co-operate but only to set the framework for dealing with the management. Thus, the growth of DAFA did not bring about a growth in the militancy of the employees. Indeed, the old militancy shown in 1985 was dissipating fast. The bigger DAFA had become, the looser had become employees' cohesion and sense of belonging. The management was not dealing with an enlarging mass of employees, but rather with a fragmented class of employees whose geographical dispersion and job differences had added little to their sense of class solidarity. This new turn-around was important for the management. As they could now undertake their agenda with less hassle from the employees' union. As far as Statskonsult was concerned this cultural change had initiated at a much earlier date, and since its growth as in the case of DAFA was secured by acquisitions, the same pattern of change was also relevant to it.

The change in ownership appeared not to have been met with any drastic reaction from the employees of SKDföretagen. It seems that by the time the firm was privatised it was already in all but name a private firm. Yet, immediately after the sale of the company, the management who relied on the disciplinarian pressures of the market remained oblivious of the concerns of the employees. Not much of a coup was staged by the employees but an attitude survey conducted by a human resources

consultancy firm revealed that many of them were dissatisfied with being left in the dark and not consulted. They were questioning management's way of steering the changes. This had its toll on quite a number of employees, including some from the top management team who left the company. This might have initiated the departure of the then chairman and managing director of the newly-named Sema Group. Although, he himself claimed that his leaving of the firm, was due to the fact that he now believed that his mission in the firm was accomplished and there was no longer any need for the task that he was initially employed to undertake. Some members of the senior managers are still in the firm. For instance, the managing directors of the two main business divisions of the old SKDföretagen, Statskonsult and IT Data & Information, are still very much in charge of the two new functional divisions of Sema Group Sweden: Sema Group InfoData and Sema Group Konsult. The new managing director for Sema Group Sweden, the old DAFA, is an outside recruiter which has taken charge of the division after Håkan Kihlberg since 1993, i.e. when he became the managing director of the newly formed Sema Group Sweden. The more conspicuous change seems to have happened in the board composition. Apart from two of the board members who come from the government side, the other members are all non-insiders and are now appointed by the international conglomerate.

Kommundata passed through a similar process. It was mainly made of people who had been recruited from the local authorities. Their background as well as their ties with the local authorities and the values which had been in the organisation for close to two decades had turned them into a very closely knit set of co-workers. The sense of solidarity and of serving their local authorities was indeed strong. So was the sense of loyalty towards the organisation which had embodied these values. It is true that Kommundata too acquired new subsidiaries since mid 1980s. But in contrast to DAFA, the new employees in these subsidiaries did not form separate union branches. They were all members of the same unified union structure. Furthermore, the number of newcomers was not in proportion to the old guard overwhelming and hence rather than influencing the existing culture they were consumed by it. The strength of this culture explains why the management, however vociferous in its



demands for change, made little impact. And likewise, it explains why ultimately, a considerable overhaul of the top management and the entire management structure in the company as well as considerable redundancies were needed to change the direction of the firm.

**Socialisation:** New beliefs are not so easily accepted if there are currently strong values in an organisation<sup>1</sup>. A cultural revisionism should be campaigned for, and the more defined and established the old culture is, the harder it will be to win this campaign.

Of the two main constituents of SKDföretagen, Statskonsult was best geared to this climatic change. As early as 1970s, i.e. at a time when it was just experiencing a change in the spectrum of customers it was serving, as the number of its private clients was on the rise, there was also a corresponding change in the recruitment policy of the firm. During the years 1973-1977, the number of personnel had steadily increased by 20% each year reaching to a total of 280 by the end of 1977. The average age for the personnel was 34 showing the youth of the company. However, what was now interesting was that only one fourth of the employees were being recruited from the state sector and the rest came with a background from the private sector. One eighth of all the consultants had already worked in a private consultancy firm and one quarter of all the employees were now women. Thus the grey-suited male consultants/officials from the state sector were being gradually replaced with a more mixed lot bred in the private sector environment.

As far as DAFA was concerned, its continuous acquisition of new firms, and most importantly its acquisition of Svenska Datacentralen in January 1993 had drastically changed the composition of its workforce who now

---

<sup>1</sup> It is evident that the overall social and political settings in the ambient of an organisation do play an important role in the legitimisation of changes that correspond to them. No less true is it in the case of privatisation. However, as we explained earlier in this thesis, our focus of attention is at the micro-level organisational changes, and, as such, whilst we do not deny the importance of social and political settings on the process of privatisation for the two cases studied here, we have considered them outside the scope of the current work.

mostly had a background in the private sector with least affiliation to the ideas of the original hard core of DAFA.

In the case of Kommundata, old values were well entrenched in the company. Even, the original name given to this company was Kommun-Data AB, the hyphen between the word Kommun and Data was to mark that this company was a part of the local authorities' domain. It was only in 1989 when the hyphen was removed in the name to turn Kommun-Data into Kommundata as a way of suggesting that the name is just a name and not some connotation to make the company a distinct part of the local authorities. Many of those whom I interviewed complained that in the old days their place of occupation reminded others that they were working for the local authorities and not doing a professional work as IT specialists or technicians. They complained that they were not being taken seriously as genuine professionals in the IT domain by others outside the domain of local authorities. Likewise, the board members and top management of Kommundata were all internal recruits with long-standing connections to local authorities. Their appointments were politically motivated. The first board was composed of Sven-Olof Dahlman, Sven Gunnar Karlström, and Sigurd Rune Herbert Skarström who was also the managing director. Mr Dahlman was the head of rationalisation division of Stadsförbundet and Rune Skarström was the head of the office organisation of the same division. Gunnar Karlström who was to become deputy general manager had served with Rune Skarström in Swedish Railways.

During the management of Göte Jonsson little was done to change the image or recruitment policy of the firm. Indeed, some internal documents by dissident ex-employees of the company suggest that new recruits with a background other than from the local authorities were treated as if they were not welcomed. That is why, the company had failed to attract new university graduates or people with entrepreneurial backgrounds to its ranks. It was only when Kaj Green took office as the new managing director that a drastic change in the recruitment policy began to take place. The new recruitment policy only lasted for a short time and not for adequate duration to have any long-term effect especially since a new generation of people had taken charge of the company.

Table 8.5 Factors influencing the consolidation step - SKDföretagen vs. Kommundata

Factors	SKDföretagen	Kommundata
Socialisation	<p>Acquisition of new subsidiaries had diluted the old core of employees and promoted a new sense of commercialism.</p> <p>Likewise, recruitment from outside the public domain had brought in people who were reared in the private-sector domain.</p>	<p>The company remained wholly in the local authorities' domain. Although it acquired new subsidiaries, their effects on the overall culture of the company were negligent.</p> <p>Management was mainly recruited from the public sector.</p>
Outcome	<p>Since DAFA was the driving force behind the change and its incorporation was claimed to have been behind its success, the outcome was seen positive.</p>	<p>Immediately before change in ownership, the management had started to streamline the company, and on change of ownership the new management axed further jobs. Such developments were seen as negative.</p>
Resistance/ Advocacy	<p>As the management had continuously linked change in the ownership with the survival of the firm, the privatisation of SKDföretagen was considered as a taken-for-granted event, and thus, there was hardly any resistance.</p>	<p>Since, there was no preparation in advance for the change in ownership and the outcome was already negative, there was a large discontent among the employees who were until the very last moments extremely loyal towards their company.</p>

A summary of our comparison of the two conglomerate is shown in Table 8.5. The management of Kommundata had indeed initiated a large scale program of dialogue with its employees in order to instil them with new ideas. However, it had tried to use the old human material who had clear stakes in keeping the status quo. Without new recruitment and without clearly demonstrating to the employees why there was a need for a change in ownership, and finally without relating positive outcomes to this necessity, the management's attempts to educate the employees were

bound to have limited impact. In contrast, SKDföretagen was greatly influenced by new recruits both at the top and among the employees, and the management had something to show for its claims that change in ownership would bring better opportunities for the survival of the firm. Regardless of how true such claims were, the success of the management of SKDföretagen in this endeavour led to a smooth privatisation.

## 8.5 Concluding Remarks

Our study of the two conglomerates of SKDföretagen and Kommundata reveals that there is a certain pattern for the institutionalisation of the privatisation process. The firm is forced by environmental constraints or opportunities to initiate certain necessary changes. These constraints or opportunities are promoted or hindered by the degree of competition in the market, degree of statutory restrictions imposed by legislation and by the degree of innovation in the technology. Once the organisation is motivated to undertake changes, it would opt to imitate those which are currently being experienced and tried by its private competitors. The organisation might imitate changes which encompass its relations with the labour market, product market, credit market or managerial market. In the two cases we have studied, imitation in relation to the labour market and product market are conspicuous. The gradual adaptation of these new changes would bring to a head the necessity for a renewal of values and hence a confrontation between the old norms and the new ones. To resolve this difficulty, the organisation needs a leadership which is competent to undertake the challenge. This leadership which has to be institutional, needs to show entrepreneurship, strength, continuity and manages to convince the organisation that its survival depends on the acceptance and internalisation of these new norms. Once the battle for legitimacy is won, the basis for the consolidation of these gains must be secured through socialisation, recruitment, neutralisation of the active resistance and the promotion of advocacy for the changes. This consolidation depends not least on the ability of the organisation to produce positive outcomes as a result of changes made. The table below

summarises what factors are responsible for the promotion or hindrance of each step of the privatisation process as envisioned in our schematic model in Chapter 5.

Table 8.6 Factors influencing different steps in the institutionalisation of privatisation

<b>Regulatory Processes</b>	<b>Promotive</b>	<b>Non-promotive</b>
Technology	Changing	Stable
Legal setting	Unrestrictive	Restrictive
Demand for products	Changing	Stable
Prices of products	Competitive pricing	Non-competitive pricing
Competitors	Not constrained	Constrained
Setting of wages	Performance-related	Collective bargaining
Recruitment	External	Internal
Control system	Profit-oriented	Budget-based
Structure	Hierarchical/ U-form	Flatter structure/ M-form
<b>Normative Processes</b>	<b>Promotive</b>	<b>Non-promotive</b>
Type of management	Entrepreneurial	Rule-bound
Style of Leadership	Strong	Weak
Approach of management	Institutional	Operational
Argument for change	Survival linked	Not survival linked
Time-scale of leadership	Continuous	Discontinuous
<b>Cognitive Processes</b>	<b>Promotive</b>	<b>Non-promotive</b>
Socialisation	Active	Passive
Outcome	Supportive	Non-supportive
Resistance	Low	High
Advocacy	High	Low

As can be seen from the above table, the three major processes which were conceptualised to affect the privatisation process in Chapter 5 are influenced by different factors. Regulatory processes are affected at the initiation and problems-solving stage by factors which influence the product market, the labour market and the managerial labour market. In the two cases which we have studied the credit market has played no role and hence it is absent from our results. However, had these conglomerate followed a different path to privatisation, credit market could have influenced the process in a substantial way.

The normative processes are set in full motion during the consensus-building step where the need to gain legitimacy becomes of utmost importance to the firm and the role of the management in shaping this consensus is essential. However, this role is dependent on a number of factors which have been listed in the above table. Entrepreneurial, strong and institutional leadership which enjoys continuity and succeeds in linking the survival of the firm with the proposed changes can win the day.

Lastly, the cognitive processes act as the seal to the whole process and ensure that changes made, norms and values introduced and the new power configuration formed can last and be reproduced over the years. These processes ensure that the new norms are internalised and passed on from one generation of the employees to the next through different forms of socialisation.

Although, every step in the institutionalisation of the privatisation process is necessary, it is not to be understood that the start and the termination of each step would follow in the exact sequence which we have outlined in our schematic model. That model is an ideal representation of the way the institutionalisation of the privatisation process might progress. It is a conceptual model which has been construed logically to express how the whole process of privatisation might be conceived. In real life, it is more likely that the initiation and termination of these steps might occur in parallel, or one step might be dormant whilst the other is active. However, our model suggests that the successful completion of each step is a requisite for the success of the next step. So, as in the case of Kommundata, the leadership's attempt to win the battle for legitimacy failed partly because regulatory processes were not in place as we have predicted in our model. However, in considering the two main constituents of SKDföretagen, we found out that Statskonsult's attempt to change its relation with the labour market preceded much earlier than DAFA. The former had initiated the changes in its relation with the labour market back in 1970s whilst the latter started this change in mid 1980s onwards. Samples of some of the major changes in the history of the two companies have been given in the Appendices 5 and 6.

## Chapter 9

# Conclusions

The debate on privatisation is indeed a very extensive one. It covers economic, political, social, cultural and organisational issues. In the current work we chose to have a modest ambition and thus knowingly limited the scope for our inquiry. We set out to study the organisational effects of privatisation at micro-level for an enterprise. In this effort we challenged two strands of theoretical traditions, which have heavily influenced the whole debate in this respect. By criticising the property rights literature, which is concerned with the incentive to monitor agents, and also by questioning the wisdom of the public choice theory, which is concerned, with the actual behaviour of agents in the public sector, we brought to the attention of the reader the limitations of the very issue of ownership to the topic of privatisation. We contested the notion that the role of ownership is pivotal to the organisational changes which a firm experiences as a result of privatisation and instead introduced a more gradual, processual and institutional view on privatisation where ownership does matter but only as one of the ingredients in the process of organisational change. As an illustration we examined the so-called cubic model and questioned the validity of its over-simplified assumptions and its lack of concern for external circumstances. Consequently, we brought forth an institutional framework for the study of the process of privatisation where four stages were delineated as a way of conceptually analysing the changes which an organisation undergoes as it proceeds towards privatisation. Furthermore, we described how three distinct processes (regulatory, normative and cognitive) drive forward and consolidate the changes, which ultimately lead to the full institutionalisation of the process of privatisation for a concerned enterprise. Thus, this thesis has been in essence a critique of the bulk of existing research on the topic of privatisation.

It is true that the colossal sale of state or publicly owned enterprises, agencies and organisations at an international level has aroused great academic interest in the subject of privatisation. However, it is fair to claim that theoretical works on privatisation have lagged far behind the practical experience amassing from this phenomenon. Such a discrepancy became evident to me when I started this project. I soon realised that despite all the controversies and discrepancies, which exist about this issue, not only the definition of privatisation but also what constitutes the relevant questions on this subject were already decided. The paradigm in which the definition, significance, theoretical premises and even methodology required to study the phenomenon of privatisation were developed, appeared to be a well-established one. I soon found out that I have to disagree with almost every part of this paradigmatic mayhem.

As explained in Chapter 2, I realised that the legalistic definition of privatisation as an act which transfers at least 51% of the ownership rights of a formerly state-owned enterprise to private individuals or institutions may be too narrow to fit the reality. Whilst full privatisation is becoming a less frequent event, semi- or quasi-privatisation is occurring in abundance. It is no surprise nowadays to find organisations which whilst are still legally public, act more and more like private firms. So, it seemed to me that such changes in the behaviour of an organisation could not have been triggered by a change in its ownership. Thus, how could we theoretically explain the consequence of an event before it has occurred? Legalistic definition of privatisation thus seemed to me to be ill fit and only explained this phenomenon from the narrow perspective of financiers and shareholders who are preoccupied with who gets the residual profits of a firm. A matter, which can of course be solely decided by who owns the firm in the first place. However, as a researcher interested in organisations, I felt the need to grasp a more comprehensive definition of what constitutes privatisation. It appeared to me that the emphasis should be shifted from the outcome to the organisation itself. The question should no longer be whether efficiency is enhanced but what is that happens to an organisation, which might also result in a rise in efficiency – however controversial the definition of such a concept may be.



There are of course notable researchers in the field who have made valuable contributions to this topic by suggesting that privatisation should be understood as a transformatory change in the organisation (Ferlie *et al.*, 1996). But what constitutes transformation, and what is it which is being transformed. Those who are rooted in the strategic management have considered privatisation as a series of changes at different structural layers of an organisation or a sector of an industry. Here, I have differed with them. Because, in my view such structures are themselves the result of ongoing processes in an organisation. Thus, I found out that breaking down an organisation into different institutions and charting the course of development of these institutions over time may provide us with some inkling into how they have been transformed. In other words, not only an organisation is not a static entity but its constituent parts are also changing. Thus, we need to have theoretical premises and a methodology, which is capable of explaining such a fluid state of affairs. I realised that there was a need for an institutional conceptual model, which could account for such a transformatory change in an organisation.

In examining the theoretical legacy of much of the existing research on privatisation, I found out that they suffered from serious shortcomings. As I have explained in Chapter 3, property rights and public choice theory are essentially based on abstractions, which are ahistorical, and acontextual. The property rights literature focuses on the incentives facing owners to seek cost reductions. Public choice theories focus on the incentives facing politicians and the bureau charged with running a public enterprise to minimise costs. In both traditions, those involved are rational actors who seek to minimise their costs and maximise their benefits. But whilst, the property rights literature is concerned with the *incentives* to monitor agent behaviour effectively under public and private ownership, the public choice theory is concerned more directly with actual *behaviour* in the public sector. What is absent from both theories is the context or conditions in which such monitoring or behaviour occurs and the way in which they are maintained and reproduced by social actors.

Of course, it is intriguing to find out how a change in ownership can affect the performance of an organisation. The debate itself is very

archaic. The controversy about the relation between ownership and performance has a long history and precedes all the hue and cry of the 1980s about the virtues of privatisation. However, the equation of privatisation with efficiency seemed to me theoretically untenable. Least of all because owners provide only one resource to the operation of the firm and there are other resource providers who without their contributions the firm would not even begin to operate. So, why should we consider such a pivotal role for the issue of ownership change in the debate over privatisation? Indeed, some scholars have already suggested that ownership does not matter (Fama, 1980). In finance theory, too, Modigliani and Miller (1958) have long ago proposed that under equilibrium conditions, a firm's survival chances should not be affected by the extent to which it finances its operations with debt rather than with equity, except where increased debt will increase the expected cost of bankruptcy. In other words the creditor and the owner could well have the same effect on the firm whilst each receives its own rent. So, why is it that there is a resurgence in the belief that ownership does matter? Below I shall explain where this issue fits in my conceptual model on privatisation.

## 9.1 Theoretical Contributions and Implications

It was against this background that the current research has contributed to the issue of privatisation in a number of ways:

### 9.1.1 Introducing a New Definition of Privatisation

In this thesis we have viewed a firm as an entity whose survival is based on maintaining its relations with a number of environments. These include 1) the labour market 2) the product market 3) the managerial labour market 4) the credit market. We have further presumed that the relations of a firm with these environments are based on economic rationality, i.e., that of economising, and not necessarily maximising. Thus, we have put forward the view that privatisation implies

transforming these relations in tune with market. Hence, we view privatisation as a process of institutionalisation, in other words as the development over time of regulative, normative and cognitive systems capable, to varying degrees, of providing meaning and stability to social behaviour befitting the change in the ownership of the firm. Such a definition has shifted the emphasis from the outcome to the organisation itself and hence the focus of research is no longer measuring and comparing some indicators for efficiency for different time intervals. The core of the research consists of understanding those processes whose interplay ultimately leads to the institutionalisation of the process of privatisation.

### 9.1.2 Viewing Privatisation as a Gradual Transformatory Process

Until 1980s, a sizeable amount of research on organisational development was reared in a tradition which saw change taking place incrementally, and being dependent for its success on consensus, collaboration and participation (Quinn, 1980). For this theoretical tradition, change had to be “owned” by the employees or its chances of success would have faltered. However, corporate reorganisations which commenced in 1980s led to a corresponding change to the attitude towards change. To the extent that consensus-building was replaced by the apparent rise of “coercive” reorganisation, a corresponding switch in the focus also occurred from incremental change to transformatory change (Levy, 1986). As the 1980s wore on, the established view that attempts at large-scale change had only superficial effects came under increasing scrutiny as writers explored the possibility of radical or strategic change. There is currently increased interest in examining the circumstances in which such transformatory change may occur. At the same time, empirical assessment criteria for judging whether this form of change has occurred remain undeveloped. The current research has contributed to this ongoing interest. Whilst we have considered privatisation as a radical transformation of an organisation, we have also tried to explain how such an event could take place gradually and continuously over a long period of time. Our institutional view of privatisation has not contradicted

radical change with incrementalism but instead explained how the cumulative effects of incremental changes eventually lead to such a radical change. This work in a sense has vindicated the earlier conceptions in the organisational development tradition amid continuous criticism about its relevance since 1980s.

### 9.1.3 Arguing for a Processual, Historical and Contextual Methodology

We needed to have a methodology, which could conceptually enable us to study the gradual evolution of institutions leading to the ultimate change of ownership. Since, an analytical model which is based on snapshot views of the firm is no longer a useful tool in understanding the process of privatisation, the institutional model conceptualised here is the contribution which this thesis makes to the methodology of studying privatisation. Based on concepts borrowed from neo-institutional theory three distinct and complementary processes were discerned and considered to be responsible for the initiation, continuance and completion of the process of privatisation. Using this analytical methodology we were able to explain how the cumulative effects of apparently distant and even initially unrelated events and actions have caused these processes to be driven forward. Thus, temporal dispersion of these events is not important so long as we could show analytically that they have complemented the effects of one another in shaping the process of privatisation.

### 9.1.4 Building a Theoretical Framework to Study Privatisation

This thesis presents a conceptual model to account for the complex process of privatisation. The model is based on premises from a number of different theoretical schools. Concepts such as imitation, institutional leadership, political configuration, product market each comes from a different theoretical trend. However, the model moulds together these concepts in order to account for the intricacies of the privatisation process. Similarly, whilst the role of symbols and cognitive values are

recognised, as indeed it is the case in critical management literature, the thesis seeks to explain how they are reproduced not only as inter-subjective perceptions or interpretations but as reflections of an ideology which is based on the way that the new labour organisation is formed between the employees in the privatised firms. In other words, catchwords such as empowerment, customer satisfaction, active ownership and so on are not simply ideological fads coined to polish the image of privatisation but they are reflection of a much deeper change in how services and products are now produced and delivered in the privatised industry.

Based on categories and theoretical tools from a number of established traditions, we were able to argue for four different stages in the organisational development of an enterprise as it pursues a course towards privatisation. We were also able to explain for three influential processes, which shape and consolidate these stages. As such, we were able to account for the complexity of the process of privatisation and attempted tentatively to introduce a conceptual framework for operationalising the organisational study of privatisation.

#### 9.1.5 Emphasis on the Role of Human Agency

Our conceptual model has taken into account the role of human agency in explaining how the process of privatisation is driven forward. Thus, this model has not only distanced itself in its premises from the individualistic methodology of organisational economics, but it has also marked its differences with the prevalent views in neo-institutional theory where “oversocialised” individuals are assumed to accept and follow social norms unquestioningly, without any real reflection or behavioural resistance based on their own particular personal interests.

This thesis has thus brought in the role of human agency in the study of the process of privatisation at two levels. Firstly, by emphasising the importance of institutional leadership at the consensus-building step in the process of privatisation. This is the stage where the battle for norms and legitimacy are fought and it is the task of the management to act as a

leadership which is capable of steering the organisation out of the storm. Without such a leadership, the organisation facing privatisation is bound to face difficulties. Market pressures are not on their own adequate to rectify the situation. An organisation failing to enjoy such a leadership could easily lose its core employees and if it manages to keep them, they would have less interest in maintaining an organisation, which they see as being based on illegitimate norms. Secondly, this thesis has emphasised the role of political configuration in the organisation facing privatisation. In organisational economics whether in Agency Theory or in Transaction Cost Economics, the opposition between power and efficiency is problematic in the sense that such theories assume that effects of incentives or the transaction costs derive solely from the transaction itself, and fail to consider the effects of the wider economic, social and political context in which the transaction takes place. Likewise, they fail to take notice of the fact that the nature of relationships between firms and the governance structures used to regulate those relationships are also affected by factors external to the transaction itself. Of course, an advocate of such theories may claim that they are only valid on a *ceteris paribus* basis. However, in the real world, all things are not equal, and this is the key weakness of these theories. It is true that Transaction Cost Economics challenges neo-classical economic theory by substituting a detailed analysis of the inner workings of firms for black box model. But this detailed analysis is then located in the black box model of political economy. Thus, whilst the proponents of Transaction Cost Economics recognise the incompleteness of formal contracts which create the need for governance, they have yet to discuss how power differentials impact on the way in which parties deal with these non-contractual elements of their relationships. The current thesis has moved to fill this gap. It has explained how the political configuration of the organisation does matter, and why it is not affected solely by economic considerations or incentive mechanisms. As an illustration, our case study of Kommundata suggests how the top management of this firm refused for a long time to accede to the widespread application of technological changes to its range of products and services, which were necessary for the survival of the firm and made economic sense, in order to preserve its own hold on the political configuration of the organisation.

### 9.1.6 Dealing with the Issue of Ownership

Our approach to the issue of ownership has been developmental. In other words, for us change in ownership is not a constant variable, which can be given a rank on a nominal scale for a regression model. We have explained how the attributes of a change in ownership from public to private are developed as the organisation undergoes a series of institutional adjustments. Thus, a change in ownership for us is not a legal issue, but an event, which is tantamount to different institutional settings in which an organisation operates and survives. Just as the separation between owning and controlling have long been recognised, we have pursued here a conceptual model, which explains how the new settings lead to a new type of control being implemented. Central to this new control mechanism is the way that the labour organisation in an organisation is built and maintained. Thus, privatisation is above all a redress in the balance at the workplace between the management and the employees in such a manner that the latter is also convinced that they too have a stake in this change. The issue of survivability long preached by the management of the SKDföretagen was a way to bring about consensus among different stakeholders in the organisation. However, the catchword, which largely symbolised the significance of privatisation, was efficiency. Indeed, a foremost researcher on the topic of privatisation has this to say: “At the micro-economic level, however, the most important of the programme’s goals has been the promotion of increased economic efficiency” (Yarrow, 1989: 52). The same theme has been echoed time after time by a wide spectrum of political and academic circles. The drive for economic efficiency involved implementing changes, which were disallowed or culturally prohibitive under the circumstances where the organisations were still in the public domain. Imitating the private sector in efficiency meant imitating the changes that were required in the organisation of labour. Without such a legitimacy, these changes could not have been carried out. Thus, the issue of ownership has a wider impact on the organisation than simply who owns the firm. In a sense, ownership does matter because without believing in the necessity for a change in its composition, the firm could not have initiated organisational changes, which were seen to be necessary to raise the financial efficiency of the firm. Thus, the consequences of an event

have in a sense preceded its occurrence. However odd it may seem, but it does not belong to the temporal quantum mechanics of the science fiction. It is a regular phenomenon in the real world of business. Thus, we could see how as the number of textbook privatisation of the 1980s recedes there is an increase in the number of semi- or quasi-privatisation in the 1990s and beyond.

## 9.2 Limitations of the Current Study

Despite the strength of our conceptual model, we should add that there are two shortcomings, which need to be addressed and hopefully pursued by further research:

1. Firstly, there is a strong emphasis on the need for building consensus in the organisation as the process of privatisation is developed. However, as already pointed out by Fudge and Gustavsson (1989) Sweden is seen as retaining a social responsibility model, which is different from market-led models with their stress on efficiency. Our model may be criticised for having a Scandinavian bias in favour of emphasising humanistic concerns and greater stress on such themes as participation. This may be the case. However, even in the Anglo-Saxon contexts, there has now occurred a shift to new public management where similar emphases are being laid. (Ferlie *et al.*, 1996: 9-20). Furthermore, the matter in question is not about building consensus on issues, which are more humanistic, but about imparting on the organisation a set of values, which could be commonly accepted if not necessarily held in high regards. But it is interesting to find out how in different contexts, the process of privatisation has differed. In other words it is research-worthy to determine empirically whether different social contexts, in which the three constituent processes of privatisation take form and develop have varying influence on the overall course of events and if so, what are the factors or variables, which are important in this regard. It was my understanding that the current management of Sema Group plc. has now appreciated the fact that it would be best if their subsidiary in



Sweden is run by the Swedish models of management rather than by dictates from their headquarters. In other words, a management, which is alien to the social context of Swedish firms, was recognised to be unhelpful to the creativity of the employees and thus, in turn, to the profitability of the company concerned.

2. Secondly, neither in the case of SKDföretagen nor in the case of Kommundata have we had any experience regarding the flotation of these firms on the stock market. The impact of private creditors, let alone shareholders, on the formative years of the privatisation of these firms was almost nil. It may be argued by the proponents of economic theories that we have not had an empirical case, which could test the validity or relevance of their predictions. This is true that the effect of credit market on the development of these firms was negligent. However, one should bear in mind that our criticism of the dominant economic theories on privatisation was by no means empirical. Where we dealt with empirical observations, we showed rather early on how the evidence is by no means convincing and why there are serious controversies about the myth of efficiency. But our criticism of these theories was essentially theoretical as expounded in Chapter 3 in details. However, we have considered the issue of privatisation from the perspective of the organisation, which is to be, acquired i.e. the would-be case for privatisation. The thrust of our arguments and the gist of our conceptual model are about how the issue of ownership is developed for such an organisation. Thus, from such a perspective the status of the acquiring firm is not directly relevant. As far as our model is concerned whether there is a single or a host of buyers (as in the case of public subscription), it plays no significant role. Of course, it should be added that both of the buyers of the two cases in our study were indeed public stock companies whose shares were traded openly in Stockholm and other stock markets in Europe. Thus whilst the act of buying was conducted by individual buyers, those were in turn owned by a multitude of owners. In other words, the credit market did have an influence on the two privatised companies although its effects were indirect. Indeed, in the case of the privatisation of Kommundata, the acquiring firm, Celsius Information System (CIS), which was itself a subsidiary of newly privatised Celsius Industries, broke off from the

main conglomerate and formed a legally separate stock company. This occurred two years after the initial sale of Kommundata by CIS and by that time the bulk of Kommundata had been axed and reabsorbed in the acquiring firm. In other words, it was hard to find out the fate of Kommundata by the time when shares of CIS were being publicly traded, since it was no longer an independent entity. Hence, we have not dealt with this issues here in this thesis although it might have provided a good instance to examine how the enlargement of ownership has influenced a privatised firm.

### 9.3 Policy Implications

In recent months, it seems as if the Social-Democratic government in Sweden is retracting on its earlier promises to halt the pace of privatisation of the state sector industry and enterprises. Although, the approach taken by the current government may be pragmatic and not ideological as it was with the Bildt's Conservative government, from the standpoint of research on privatisation there seems to be more likely candidates for study. Recent privatisation of part of the Swedish Railways and strong rumours about the eventual privatisation of the Swedish national telecommunication giant, Telecom, is a testimony to this prediction. Even at this preliminary stage the results of this study shows to have relevance for these two most recent cases. Chaos, unsatisfied customers and disgruntled employees are the picture that one gets from the formation of new companies as a result of the privatisation of part of the Swedish Railways. Here, there was no previous competitive product market. The rules of competition are being made as the new companies have formed. As a result, there have not been any genuine regulatory processes to set the conditions for the imitation of these firms. Nor has there been any time for normative processes to set in motion the consensus-building in these enterprise, lest any time for the working of cognitive processes to consolidate the whole process of privatisation. Whether this particular privatisation will succeed or not is a matter for speculation. But even in this the case, the question to be rightly asked is at

what costs to the society, to the customers and most importantly to the employees this success has been won. Our conceptual model provides the reason why one should be wary about such hasty course of privatisation and why one should anticipate certain problems from cropping up inevitably. In contrast, the way that the issue of privatisation of Telecom has been approached is different. This giant has now had long years of experience to behave as a privatised organisation. During this time, not only the product market has been re-shaped to allow competition but also the constituent processes, which develop the full attributes of a change in ownership, have been in existence for a considerable time. Whilst the case of Swedish Railways resembles the case of Kommundata, it is the case of Telecom, which most reasonably matches the case of SKDföretagen. It would come as no surprise if the effects of these privatisations are different just as much as the privatisation of Kommundata and SKDföretagen differed.

One major lesson to be learnt for this thesis is the dangers of over-trusting the market mechanisms as the means to push forward the course of privatisation. It should be borne in mind, as we have made it abundantly clear here, that what is a theoretical necessity may not necessarily become an inevitability. It is the role of human agency, which can ultimately determine the course of events. It is a lesson, which should equally be considered both by those in the field of theory and those dealing with the practical aspects of privatisation.

## References

- Abbot, A., 1992. 'From causes to events: Notes on narrative positivism', *Sociological Methods and Research*, 20: 428-455.
- Aharoni, Y., 1982. 'State-Owned Enterprise: an Agent without a Principal', in L.P. Jones (ed.) *Public Enterprise in Less-Developed Countries*, Cambridge: Cambridge University Press, 67-76.
- Ahlinder, A. & Mattsson, H., 1997. *Kvalitetsresan* (Quality Voyag).
- Alchian, A.A., 1965. 'Some Economics of Property Rights', *Il politico* 30 (December): 816-829, reprinted in: A.A. Alchian (1977), *Economic Forces at Work*, Indianapolis: Liberty Press, 127-149.
- Alchian, A. A., 1977. *Economic Forces at Work*, Indianapolis: Liberty Press.
- Alchian, A.A. & Demsetz, H., 1972. 'Production, Information Costs and Economic Organization', *American Economic Review*, 62: 777-795.
- Alvesson, M. & Berg, P., 1992. *Corporate Culture and Organisational Symbolism*, Berlin: Walter de Gruyter.
- Amihud, Y & Lev, B., 1981. 'Risk reduction as a managerial motive for conglomerate mergers', *Bell Journal of Economics*, 12: 605-616.
- Andic, F. M., 1990. 'The Case for Privatization: Some Methodological Issues' in Gayle,-Dennis-J.; Goodrich,-Jonathan-N., eds (1990), *Privatization and deregulation in global perspective*, Quorum Books, 35-47.
- Aoki, M., 1984. *The Corporate Game Theory of the Firm*, Oxford: Oxford University Press.
- Aranson, P.H., 1990. 'Theories of Economic Regulation: from Clarity to Confusion', *Journal of Law and Politics*, 6: 247-287.
- Arbetet Nyheterna, 28/12/1995.
- Arbomeit, H., 1986. 'Privatisation in Great Britain', *Annals of Public and Cooperative Economy*, 57: 153-179.
- Armour, H. & Teece, D., 1978. 'Organizational Structure and Economic Performance', *Bell Journal of Economics*, 9: 196-122.
- Arndt, J. 1985. 'Om Making Marketing Science More Scientific: Role of Orientations, Paradigms, Metaphors, and Puzzle Solving', *Journal of Marketing*, 49: 11-23.
- Arrow, K.J., 1974. *The Limits of Organization*, New York: Norton.
- Arrow, K.J., 1985. 'The Economics of Agency', in J.W. Pratt & R.J. Zeckhauser (eds) *Principals and Agents: the Structure of Business*, Boston, Mass: Harvard University Press, 37-51.
- Arrow, K. J., 1987. 'Reflections on the Essays' in G. Feiwel (ed.) *Arrow and the Foundation of the Theory of Economic Policy*, New York: NYU Press, 727-734.
- Ashworth, M. & Forsyth, P. 1984. *Civil Aviation Policy and the Privatisation of British Airways*, IFS Report 12, London: Institute for Fiscal Studies.

- Averch, H. & Johnson, L.L., 1962. 'Behaviour of the Firm under Regulatory Constraint', *American Economic Review*, 52: 1052-1069.
- Bailey, E., 1986. 'Price and productivity change following deregulation: The US experience', *Economic Journal*, 96: 96-117.
- Ball, J. Sir, 1991. 'Short Termism – Myth or Reality?', *National Westminster Bank Quarterly Review*, August, 20-30.
- Barnard, C., 1938. *Functions of the Executive*, Cambridge, MA: Harvard University Press.
- Bartunek, J. M., 1993. 'The Multiple Cognitions and Conflicts Associated with Second Order Organisational Change' in J. K. Murningham (ed.), *Social Psychology in Organisations: Advances in Theory and Research*, Englewood Cliffs, NJ: Prentice Hall, 322-349.
- Bartunek, J. M., Lacey, C. A. & Wood, D. R., 1992. 'Social Cognition in Organisational Change: An Insider-Outsider Approach', *Journal of Applied Behavioural Science*, 282 (June): 204-23.
- Baumol, W.J., 1959. *Business Behaviour, Value and Growth*, London: Macmillan.
- Beckhard, R. and Pritchard, W., 1992. *Changing the Essence: The Art of Creating and Leading Fundamental Change in Organisations*. San Fransisco: Jossey Bass.
- Beer, M, Eisenstat, R.A. & Spector, B., 1993. 'Why Change Progammes Don't Produce Change', in C. Mabey & B. Mayon-White (eds.): *Managing Change* (2<sup>nd</sup> edn), London: The Open University/Paul Chapman Publishing, 99-107.
- Berger, P. & Luckmann, T., 1967. *Social Construction of Reality*, New York: Anchor Books.
- Berglof, E., 1990. 'Capital Structure as a Mechanism of Control: a Comparison of Financial Systems', in M. Aoki, B. Gustafsson & O.E. Williamson (eds) *The Firm as a Nexus of Treaties*, London: Sage, 237-62.
- Berle, A.A. & Means, G.C., 1932. *The Modern Corporation and Private Property*, New York: Macmillan.
- Bhagwati, J., 1982. 'Directly Unproductive Profit-Seeking Activities', *Journal of Political Economy*, 90: 1069-1087.
- Bishop M. & Kay, J., 1988. 'Does Privatization Work? Lessons from the UK', London: Center for Business Strategy, London Business School.
- Blankart, C.B., 1983. 'The Contribution of Public Choice to Public Utility Economics: a Survery', in J. Fisninger (ed.) *Public Sector Economics*, London: Macmillan, 151-70.
- Blau, P., 1970. *The Dynamics of Bureaucracy*, Chicago: University of Chicago Press.
- Blumenthal, B. & Haspeslagh, P., 1994. 'Toward a Definition of Corporate Transformation', *Sloan Management Review* (Spring), 101-6.
- Boardman, A. E. & Vining, A. R., 1989. 'Ownership and performance in competitive enviornments: A comparison of the performance of private, mixed and state-owned enterprises', *Journal of Law and Economics*, 32: 1-33.

- Boardman, A. E. & Vining, A. R. 1992. 'Ownership versus competition: Efficiency in public enterprise', *Public Choice*, 73: 205-239.
- Borcherding, T. E., Pommerehne, W. W. & Schneider, W. W., 1982. 'Comparing the efficiency of private and public production: evidence from five countries', *Zeitschrift für Nationalökonomie*, Supplementum 2, 127-56.
- Bös, D., 1991. *Privatization a Theoretical Treatment*, Oxford: Clarendon Press.
- Bös, D., 1993. 'Privatisation in Europe: A Comparison of Approaches', *Oxford Review of Economic Policy*, 9(1): 95-111.
- Bös, D. & Peters, W., 1989. 'A Principal-Agent Approach on Manager Effort and Control in Privatized and Public Firms', University of Bonn, Discussion Paper A-252.
- Bös D. & Peters W., 1991. 'A Principal-Agent Approach on Manager Effort and Control in Privatized and Public Firms', in A. F. Ott & H. Keith, *Privatization and Economic Efficiency, A Comparative Analysis of Developed and Developing Countries*, Edward Elgar, 26-52.
- Boycko, M., Shleifer, A. & Vishney, R.W., 1996. 'A Theory of Privatization', *Economic Journal*, 106: 309-319.
- Boyd, B. K., Carroll, W. O. & Howard, M., 1996. 'International Governace Research: A Review and an Agenda for Future Research', in S. B. Prasad, (ed.), *Advances in International Comparative Management*, Vol 16, Greenwich, CT: JAI Press, 191-215.
- Bradley, M., Desai, A. & Kim, E.H., 1988. 'Synergistic Gains from Corporate Acquisitions and their Division Between the Stockholders of Target and Acquiring Firms', *Journal of Financial Economics*, 21: 3-40.
- Breton, A., 1974. *The Economic Theory of Representative Government*, London: Macmillan.
- Breton, A. & Wintrobe, R., 1975. *The Logic of Bureaucratic Control: an Economic Analysis of Competition. Exchange and Efficiency in Private and Public Organizations*, Cambridge: Cambridge University Press.
- Bruggink, T.H., 1982. 'Public versus Regulated Private Enterprise in the Municipal Water Industry: a Comparison of Operating Costs', *Quarterly Review of Economics and Business*, 22 (3): 34-44.
- Brunsson, N., 1982. 'The Irrationality of Action and Action Rationality: Decisions, Ideologies and Organisational Action', *Journal of Management Studies*, 19/1: 29-44.
- Buchanan, J.M., 1968. *The Demand and Supply of Public Goods*, Chicago: Rand McNally.
- Buchanan, J.M., 1972. *Theory of Public Choice*, Michigan: University of Michigan Press.
- Buchanan, J.M., 1978. *The Economics of Politics*, IEA Readings 18, London: Institute of Economic Affairs.

- Buchanan, J.M., 1986. *Liberty, Market and State: Political Economy in the 1980s*, Brighton: Wheatsheaf.
- Buchanan, J.M. & Tullock, G., 1962. *The Calculus of Consent: Logical Foundations of Constitutional Democracy*, Ann Arbor: University of Michigan Press.
- Burgelman, R., 1983. 'A process model of internal corporate venturing in a major diversified firm', *Administration Science Quarterly*, 28: 223-244.
- Button, K. & Weyman-Jones, T., 1992. 'Ownership, Institutional Organization and Measured X-inefficiency', *American Economic Review*, 82(2): 439-445.
- Button, K. & Weyman-Jones, T., 1994. 'Impacts of privatization Policy in Europe', *Contemporary-Economic-Policy*, 12(4): 23-33.
- Casale, G., 1992. 'Trade Union Action and Privatisation in Western Europe: Recent Dilemmas', *Labour*, 6(3): 107-125.
- Caves, D. W. & Christensen, L. R., 1980. 'The Relative Efficiency of Public and Private Firms in a Competitive Environment: the case of Canadian Railroads', *Journal of Political Economy*, 8: 958-976.
- Caves, R.E., 1989. 'Mergers, Takeovers and Economic Efficiencies: Foresight vs. Hindsight', *International Journal of Industrial Organization*, 7 (1): 151-174.
- Caves, R.E., 1990. 'Lessons from Privatization in Britain: State Enterprise Behaviour, Public Choice and Corporate Governance', *Journal of Economic Behaviour and Organization*, 13 (2): 145-169.
- Child, J. & Smith, C., 1987. 'The Context and Process of Organisational Transformation – Cadbury Limited in its Sector', *Journal of Management Studies*, 24(6), 565-93.
- Coase, R.H., 1937. 'The Nature of the Firm', *Economica*, 4: 386-405.
- Coffee, J. Jr., 1986. 'Shareholders versus Managers: the Strain in the Corporate Web', *Michigan Law Review*, 85: 1-109.
- Coleman, J., 1990. *Power and the Structure of Society*, New York: Norton.
- Collin, S-O. & Bengtsson, Lars, 1994. 'Diversification and Corporate Governance', *Institute of Economic Research at Lund University*, Working Paper 1994/14.
- Collins, J. & Downes, B., 1977. 'The Effects of Size on the Provision of Public Services: The Case of Solid Waste Collection in Smaller Cities', *Urban Affairs Quarterly*, 12: 333-347.
- Computer Sweden, 1996, no. 15.
- Cooper, R. 1986. 'Organization/Disorganization', *Social Science Information*, 25(2): 299-335.
- Covaleski, M. & Dirsmith M., 1988. 'An institutional perspective on the rise, social transformation, and fall of a university budget category', *Administrative Science Quarterly*, 33: 562-587.
- Crain, M. & Zardkoohi, A., 1978. 'A Test of the Property Rights Theory of the Firm: Water Utilities in the United States', *Journal of Law and Economics*, 40: 395-408.

- Cullis, J.G. & Jones, P.R., 1987. *Microeconomics and the Public Economy: a Defence of Leviathan*, Oxford: Basil Blackwell.
- Czarniawska-Joerges, B., 1989. 'The Wonderland of Public Administration Reforms', *Organization Studies* 10/4: 531-48.
- Daun, H., 1993, *Omstrukturering av skolsystemen : decentralisering, valfrihet och privatisering : en internationell översikt* (Re-structuring of the school system: decentralisation, freedom of choice and privatisation – an international overview), Stockholm Skolverket 1993
- De Alessi, L., 1969. 'Implications of property rights for government investment choice', *American Economic Review*, 59: 13.
- De Alessi, L., 1974. 'An Economic Analysis of Government Ownership and Regulation: Theory and Evidence from the Electric Power Industry', *Public Choice*, Fall: 1-42.
- De Alessi, L., 1977. 'Ownership and Peak Loading Pricing in the Electric Power Industry', *Quarterly Review of Economics and Business*, 17, (Winter 1977): 7-26.
- De Alessi, L., 1980. 'The Economics of Property Rights: a Review of the Evidence', *Research in Law and Economics*, 2: 1-47.
- De Fraja, G., 1991. 'Efficiency and privatization in imperfectly competitive industries', *The Journal of Industrial Economics*, 39(3): 311-321.
- De Fraja, G., 1993. 'Productive Efficiency in Public and Private Firms', *Journal of Public Economics*, 50: 15-30.
- Della Fave, L. R., 1986. 'Toward an explication of the legitimate process', *Social Forces*, 66: 476-500.
- Demsetz, H., 1967. 'Toward a theory of property rights', *American Economic Review*, 7: 347.
- Demsetz, H., 1969. 'Information and efficiency: another viewpoint', *Journal of Law and Economics*, 12: 1-22.
- Demsetz, H., 1983. 'The structure of ownership and the theory of the firm', *Journal of Law and Economics*, 26: 375-390.
- Demsetz, H. & Lehn, K., 1985. 'The Structure of Corporate Ownership: Causes and Consequences', *Journal of Political Economy*, 93: 1155-1177.
- Dertouzos, M.L., Lester, R.K. & Solow, R.M. (the MIT Commission on Industrial Productivity), 1989. *Made in America: Regaining the Productive Edge*, Cambridge, Mass.: MIT Press.
- Di Lorenzo, T.J. & Robinson, R., 1982. 'Managerial Objectives Subject to Political Market Constraints: Electric Utilities in the US', *Quarterly Review of Economics and Business*, 22(2): 113-125.
- DiMaggio, P., 1988. 'Interest and agency in institutional theory', in Zucker L. (ed.), *Institutional patterns and organizations: Culture and environment*: 3-21. Cambridge, MA: Ballinger.
- DiMaggio, P & Powell, W., 1983. 'The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality', *American Sociological Review*, 38: 147-160.



- DiMaggio, P. & Powell, W., 1991. *The New Institutionalism in Organizational Analysis*, Chicago: University of Chicago Press.
- Domberger, S. & Piggott, J., 1986. 'Privatization policies and public enterprise: a survey', *The Economic Record*, 62: 145-62.
- Donahue, J. 1989. *The Privatization Decision: Public Ends, Private Means*, New York: Basic Books.
- Donaldson, G. & Lorsch, J., 1983. *Decision Making at the Top*. New York: Basic Books.
- Downs, A., 1957. *An Economic Theory of Democracy*, New York: Harper & Row.
- Downs, A., 1967. *Inside Bureaucracy*, Boston, Mass.: Little Brown.
- Du Gay, P., 1991. 'Enterprise culture and the ideology of excellence', *New Formations*, Spring 3: 45-61.
- Duch, R. M., 1991. *Privatizing the Economy: Telecommunications Policy in Comparative Perspective*, Ann Arbor: University of Michigan Press.
- Dunleavy, P., 1991. *Democracy, Bureaucracy and Public Choice: Economic Explanations in Political Science*, London: Harvester Wheatsheaf.
- Dunphy, D. C. & Stace, D. A., 1988. 'Transformational and Coercive Strategies for Planned Organisational Change: Beyond the OD Model', *Organizational Studies*, 9/3: 317-34.
- Dunsire, A., Hartley, K., Parker, D. & Dimitriou, B., 1988. 'Organisational Status and Performance: a Conceptual Framework for Testing Public Choice Theories', *Public Administration*, 66: 363-388.
- Eisenhardt, K., 1988. 'Agency and institutional theory explanations: the case of retail sales competition', *Academy of Management Journal*, 30: 488-511.
- Eisenhardt, K., 1989. 'Building Theories from Case Study Research', *Academy of Management Review*, 14(4): 532-550.
- Elsbach, K. & Sutton, R., 1992. 'Acquiring organizational legitimacy through illegitimate actions: A marriage of institutional and impression management theories', *Academy of Management Journal*, 35: 699-738.
- Estrin, S. & Perotin, V., 1987. 'The regulation of British and French nationalised industries', *European Economic Review*, 28: 361-367.
- Fama, E., 1980. 'Agency problems and the theory of the firm', *Journal of Political Economy*, 88: 288-307.
- Fama, E., 1991. 'Efficient Capital Markets: II', *Journal of Finance*, 46(5): 1575-1617.
- Fama, E., & Jensen, M., 1983. 'Separation of ownership and control', *Journal of Law and Economics*, 26: 301-325.
- Feigenbaum, S. & Teeple, R., 1983. 'Public versus Private Water Delivery: a Hedonic Cost Approach', *Review of Economics and Statistics*, 65: 672-678.
- Ferlie, E., Ashburner, L., Fitzgerald, L. & Pettigrew, A., 1996. *The New Public Management in Action*, Oxford: Oxford University Press.

- Fiorina, M.P. & Noll, R.G., 1978. 'Voters, Bureaucrats and Legislators: a Rational Choice Perspective on the Growth of Bureaucracy', *Journal of Public Economics*, 9: 239-254.
- Firth, M., 1979. 'The Profitability of Takeovers and Mergers', *Economic Journal*, 89: 316-328.
- Firth, M., 1980. 'Takeovers, Shareholders Returns and the Theory of the Firm', *Quarterly Journal of Economics*, 94: 235-260.
- Fölster, S., Barkman, C., Meyerson, E. & Pyddoke, R., 1993. *Sveriges systemskifte i fara? Erfarenheter av privatisering, avreglering och decentralisering* (Is Sweden's change of system in danger? Experiences from privatisation, deregulation and decentralisation), Stockholm: Industriens Utredningsinstitut.
- Foreman-Peck, J. & Waterson, M., 1984. 'The Comparative Efficiency of Public and Private Enterprise in Britain: Electricity Generation between the World Wars', *Economic Journal*, conference papers, supplement, 83-95.
- Forsell, A., 1992. *Moderna Tider i Sparbanken* (New Times at Sparbanken), Norstedts Tryckeri.
- Franks, J.R. & Mayer, C., 1990. 'Capital Market and Corporate Control: a Study of France, Germany and the UK', *Economic Policy*, 10: 189-231.
- Franks, J.R. & R.S. Harris, 1986. 'The Role of the Mergers and Monopolies Commission in Merger Policy: Costs and Alternatives', *Oxford Review of Economic Policy*, 2(4): 58-76.
- Franks, J.R. & Harris, R.S., 1989. 'Shareholder Wealth Effects of Corporate Takeovers: the UK Experience 1955-1985', *Journal of Financial Economics*, 23: 225-249.
- Frech III, H.E., 1980. 'Property Rights, the Theory of the Firm and Competitive Markets for Top Decision-Makers', *Research in Law and Economic*, 2: 49-63.
- Friedman, M., 1962. *Capitalism and Freedom*, University of Chicago Press.
- Fudge, C., & Gustafsson, L., 1989. 'Administrative Reform and Public Management in Sweden and the United Kingdom', *Public Money and Management*, 9 (Summer): 29-34.
- Furubotn, E.G. & Pejovich, S., 1972. 'Property Rights and Economic Theory: a Survey of the Recent Literature', *Journal of Economic Literature*, 10: 1137-1162.
- Furubotn, E.G. & Pejovich, S., 1974. *The Economics of Property Rights*, Cambridge, Mass: Ballinger.
- Galal, A., Jones, L., Tandon, P. & Vogelsang, I., 1992. *Welfare Consequences of Selling Public Enterprises*, Washington, DC.: World Bank.
- Gedajlovic, E. R. & Shapiro, D. M., 1995. *Management and ownership effects: evidence from five countries*, Rutgers University, New Brunswick, New Jersey.
- Geertz, C., 1973. *The Interpretation of Cultures*, New York: Basic Books.

- Gersick, C. J. G., 1991. 'Revolutionary change theories: A multilevel exploration of the punctuated equilibrium paradigm', *Academy of Management Review*, 16: 10-36.
- Gibbard, A. & Varian, H., 1978. 'Economic Models', *Journal of Philosophy*, 75: 665-667.
- Giddens, A., 1979. *Central Problems in Social Theory: Action, Structure, and Contradiction in Social Analysis*, Berkeley, CA: University of California Press.
- Giola, D. A., and Chittipeddi, K., 1991. 'SenseMaking and Sensegiving in Strategic Change Initiation', *Strategic Management Journal*, 12: 433-48.
- Goldthorpe, J. (1987). 'Problems of political economy after the postwar period', in C. Maier (ed.) *Changing Boundaries of the Political: Essays on the evolving balance between the state and society, public and private in Europe*, Cambridge: Cambridge University Press, 363-407.
- Goodman, P. & Dean J., 1984. 'Creating Long-Term Organisational Change', in Goodman & Associates, *Change in Organizations*, Jossey-Bass Publishers, 226-279.
- Gormley, W. (ed.), 1991. *Privatization and its Alternatives*, Madison: University of Wisconsin Press.
- Gould, S. J. 1989. 'Punctuated equilibrium theory in fact and theory', *Journal of Social Biological Structures*, 12: 117-136.
- Gravelle, H.S., 1984. 'Bargaining and Efficiency in Public and Private Sector Firms', in M. Marchand, P. Pestiau & H. Tulken (eds.), *The Performance of Public Enterprises*, Amsterdam: North-Holland, 193-220.
- Green, D.P. & Shapiro, I., 1994. *Pathologies of Rational Choice Theory: a Critique of Applications in Political Science*, Yale: Yale University Press.
- Grossman, S. & Hart, O., 1980. 'Take-over bids, the free-rider problem and the theory of corporation', *Bell Journal of Economics*, 11: 42-64.
- Grossman, S. & Hart, O., 1986. 'The Costs and Benefits of Ownership: a Theory of Vertical and Lateral Integration', *Journal of Political Economy* 94: 691-719.
- Grout, P., 1994. 'Popular Capitalism', in Matthew Bishop, John Key & Colin Meyer (eds.), *Privatization and Economic Performance*, Oxford University Press, 299-312.
- Hall, R., 1987. *Organizations*. Englewood Cliffs, NJ: Prentice-Hall.
- Hall, S., 1988. *The Hard Road to Renewal*, London: Verso Press.
- Handler, J. 1996. *Down from Bureaucracy: The Ambiguity of Privatization and Empowerment*, Princeton: Princeton University Press.
- Hannan, M.T., & Freeman, J., 1988. *Organizational Ecology*, Cambridge, Mass: Harvard University Press.
- Hart, O. D., 1993. 'Incomplete Contracts and the Theory of the Firm', in O.E. Williamson and S.G. Winter (eds), *The Nature of the Firm: Origins, Evolution and Development*, Oxford: Oxford University Press, 138-58.

- Hart, O. D., 1995. *Firms, Contracts and Financial Structure*. Oxford: Oxford University Press.
- Hart, O.D. & Holmstrom, B., 1987. 'The Theory of Contracts', in T.F. Bewley (ed.) *Advances in Economic Theory*, Cambridge: Cambridge University Press.
- Haskel J. & Szymanski, S., 1992. 'Privatization and the Labour Market: Facts, Theory, and Evidence, published in M. Bishop, J. Kay, C. Mayer, & D. Thompson (eds.), *Privatization and Regulation: The UK Experience*, 2<sup>nd</sup> edn., Oxford: Oxford University Press, 336-51.
- Hechter, M., 1990. *Social Institutions: their Emergence, Maintenance, and Effects*, New York: Aldine de Gruyter.
- Hemming, R. & Mansoor, A., 1988. 'Is Privatization the Answer?', *Finance and Development*, 25(3): 31-33.
- Herzberg, F., 1966. *Work and the Nature of Man*, New York: World Publishing.
- Hill, C. & Snell, S., 1989. 'Effects of ownership structure and control on corporate productivity', *Academy of Management Journal*, 32: 25-46.
- Hinings, C., & Greenwood, R., 1988. *The Dynamics of Strategic Change*, Oxford: Basil Blackwell.
- Hirsch, P., & Friedman, R., 1986. 'Collaboration or paradigm shift? Economic vs. behavioral thinking about policy?', in J. Pearce & R. Robinson (eds.), *Best Papers proceedings* Chicago: Academy of Management, 31-35.
- Hirschman, A. 1970. *Exit, Voice and Loyalty: Responses to Decline in Firms, Organizations and States*, Harvard University Press.
- Hitt M. & Tyler B., 1991. 'Strategic decision models: Integrating different perspectives', *Strategic Management Journal*, 12: 327-351.
- Hjalmarsson, L. & Veiderpass, A., 1992. 'Productivity in Swedish Electricity Retail Distribution', *Scandinavian Journal of Economics*, Special Issue, October: 193-206.
- Holmstrom, B. & Triole, J., 1989. 'The Theory of the Firm', in R. Schmalensee & R. Willig (eds) *Handbook of Industrial Organization*, Amsterdam: North-Holland.
- Hood, C., Huby, M. & Dunsire, A., 1984. 'Bureaucrats and Budgeting Benefits: How Do British Central Departments Measure Up?', *Journal of Public Policy*, 4 (3): 163-179.
- Hoskisson, R. E. & Turk, T. A., 1990. 'Corporate restructuring: Governance and control limits of the internal capital market', *Academy of Management Review*, 15(3): 459-477.
- House, E. R., 1991. 'Realism in research', *Educational Researcher*, 20(6): 2-9.
- Huberman, A. M. & Miles, M. B., 1985. 'Assessing local causality in qualitative research', in D. N. Berg & K. K. Smith (Eds.), *Exploring clinical methods for social research*, Newbury Park, CA: Sage, 351-81.
- Hughes, A., 1989. 'The Impact of Merger: a Survey of Empirical Evidence for the UK', in J. Fairburn & J.A. Kay (eds) *Mergers and Merger Policy*, Oxford: Oxford University Press, 30-98.

- Hughes, A. & Singh, A., 1987. 'Takeovers and the Stock Market', *Contributions to Political Economy*, 6: 73-85.
- Hult, Jörgen; Nilsson, Lars, 1994. *Statligt kontra privat ägande av företag* (State vs. private ownership of companies), Master dissertation presented at Lund University.
- Isabella, L. A., 1990. 'Evolving Interpretations as Change Unfolds: How Managers Construe Key Organisational Events', *Academy of Management Journal*, 33(1): 7-41.
- Jackson, P.M., 1985. 'Economy, Democracy and Bureaucracy', in R.C.O. Matthews (ed.) *Economy and Democracy*, London: Macmillan.
- Jacobs, M.T., 1991. *Short-term America: the Causes and Cures of our Business Myopia*, Harvard, Mass.: Harvard Business School.
- Jarrel, G., Brickley, J. & Netter, J., 1988. 'The Market for Corporate Control: the Empirical Evidence since 1980', *Journal of Economic Perspectives*, 2: 49-68.
- Jenkinson, T. & Meyer, C., 1994. *Hostile Takeovers: Defence, Attack and Corporate Governance*, London: McGraw-Hill.
- Jensen, M., & Meckling, W., 1976. 'Theory of the firm: Managerial behavior, agency costs and ownership structure', *Journal of Financial Economics*, 3: 305-360.
- Jensen, M.C. & Ruback, R., 1983. 'The Market for Corporate Control: the Scientific Evidence', *Journal of Financial Economics*, 11: 5-50.
- Jones, L.P., Tandon, P. & Vogelsan, I., 1991. 'Net Benefits from Privatization of Public Enterprises', in K. Hartley and A.F. Ott (eds) *Privatization and Economic Efficiency: a Comparative Analysis of Developed and Developing Countries*, Aldershot: Edward Elgar, 53-70.
- Kay, J. A. & Thompson, D. J., 1986. 'Privatization: A policy in search of a rationale', *Economic Journal*, 96: 18-38.
- Kemper, P. & Quigley, J., 1976. *The Economics of Refuse Collection*, Cambridge Mass.: Ballinger Publishing Company.
- Keswick, T., 1997. 'Privatization Pays off', *The Wall Street Journal*, Feb. 12.
- Kikeri, S., Nellis, J. & Shirley, M., 1992. *Privatization: The Lesson of Experience*, Washington DC: The World Bank.
- Knights D. & Willmott H., 1989. 'Power and subjectivity at work', *Sociology* 23(4): 535-558.
- Knutsson, N. & Forsman, K., 1992. *Kommunal förnyelse* (Renewal of local authorities), Älvsjö: Kommentus Förlag AB.
- Knutsson, N. & Haglund, A., 1993. *Våra nya kommuner* (Our new local authorities), Älvsjö: Kommentus Förlag AB.
- Krietz, P., 1990. *Privatisering och privat läkarvård: en jämförelse studie mellan privat läkarvård i Finland och Sverige* (Privatisation and private medical care: a comparative study of medical care in Finland and Sweden). Åbo: Åbo akademi.

- Kristensen, O. P., 1980. 'The Logic of Political-bureaucratic Decision Making as a Cause of Government Growth', *European Journal of Political Research*, 8: 249-264.
- Kutner, R. 1999. *Everything for Sale*, Chicago: University of Chicago Press.
- Laffont, J.J., 1989. *The Economics of Uncertainty and Information*, Cambridge, Mass: MIT Press.
- Lagnevik, M., 1989. *Ledning och ledarskap i olika företagsformer* (Management and leadership in different business organisations), Stockholm: Rabén & Sjögren.
- Lane, J.E., 1990. 'The Swedish Privatization Debate', in D.J. Gayle & J.N. Goodrich (eds.), *Privatization and Deregulation in Global Perspective*. London: Pinter Publishers, 361-373.
- Lane, P. J., 1995. *Agency problems in mergers and diversification: Reconsidering large shareholder monitoring of corporate strategy*, University of Connecticut: CT.
- Lawrence, P. & Lorsch, J., 1967. *Organization and Environment*, Boston: Graduate School of Business Administration, Harvard University.
- Lawriwsky, M.L., 1984. *Corporate Structure and Performance: The Role of Owners, Managers and Markets*, Croom Helm.
- Leblebici, H., Salancik, G. Copay, A. & King, T., 1991. 'Institutional change and the transformation of interorganizational fields: an organizational history of U.S. radio broadcasting industry', *Administrative Science Quarterly*, 36: 333-63.
- Leech, D. & Leahy, J., 1991. 'Ownership Structure, Control Type Classifications and the Performance of Large Companies', *Economic Journal*, 101: 1418-1437.
- Levy, A., 1986. 'Second Order Planned Change: Definition and Conceptualisation', *Organisational Dynamics*, (Summer): 5-20.
- Lewin, K., 1951. *Field Theory in Social Science*, New York: Harpers
- Lindblom, C.E., 1977. *Politics and Market: The World's Political-Economic Systems*, New York: Basic Books.
- Lynk, E. L., 1993. 'Privatisation, Joint Production and the Comparative Efficiencies of Private and Public Ownership: the UK Water Industry Case', *Fiscal Studies*, 14(2): 98-116.
- MacInnes, J., 1987. *Thatcherism at Work*, Milton Keynes: Open University Press.
- Madden, G.P., 1981. 'Potential Corporate Takeovers and Market Efficiency: a Note', *Journal of Finance*, 36: 1191-1198.
- Mann, P. & Mikesell, J., 1976. 'Ownership and Water Systems Operation', *Water Resources Bulletin*, 12 (5): 995-1004.
- Manne, H.G., 1965. 'Mergers and the Market for Corporate Control', *Journal of Political Economy*, 73: 110-120.
- March, J. G. & Simon, H., 1957. *Organizations*. New York: Wiley.
- March, J. G. & Olsen, J. P., 1989. *Rediscovering Institutions: The Organisational Basis of Politics*, New York: Free Press.

- Marris, R., 1964. *The Economic Theory of 'Managerial' Capitalism*, New York: Free Press.
- Marschak, J. & Radner, R., 1972. *Economic Theory of Teams*, New Haven: Yale University Press.
- Martin, S. & Parker, D., 1997. *The Impact of Privatisation: Ownership and corporate performance in the UK*, London: Routledge.
- Maslow, A.H., 1964. *Motivation and Personality*, New York: Harper & Row.
- Mayer, C. & Meadowcroft, S., 1986. 'Selling Public Asset: Techniques and Financial Implications', in J. Kay, C. Mayer and D. Thompson (eds.), *Privatisation and Regulation: The UK Experience*, Oxford: Clarendon Press, 322-40.
- McCormick, R.E. & Meiners, R.E., 1988. 'University Governance: a Property Rights Perspective', *Journal of Law and Economics*, 31: 423-442.
- McDavid, J., 1985. 'The Canadian Experience with Privatizing Residential Solid Waste Collection Services', *Public Administration Review*, 45: 602-608.
- McGuire, J & Gedajlovic, E. R., 1995. *The myopic institutional investor: Fact or fiction?*, Montreal: Concordia University.
- Meeks, G., 1977. *Disappointing Marriage: a Study of the Gains from Mergers*, Occasional Paper 51, Cambridge: Cambridge University Press.
- Meggison, W. L., Nash, R. C., & Randenborgh M. V., 1994. 'The financial and operating performance of newly privatized firms: an international empirical analysis', *The Journal of Finance*, 49(2): 403-452.
- Meyer, J., 1986. 'Myths of Socialization and of Personality', in Heller, T., Sosna, M., Wellbery D. (eds.), *Reconstructing individualism : autonomy, individuality, and the self in Western thought*. Stanford University Press, 208-21.
- Meyer, J. & Rowan, B., 1977. 'Institutionalised Structures: Formal Structure as Myth and Ceremony', *American Journal of Sociology*, 83(2): 340-63.
- Meyer, J. & Zucker L., 1989. *Permanently Failing Organizations*, New York: Russel Sage.
- Meyer, M., 1979. 'Organizational Structure as signaling', *Pacific Sociological Review*, 22: 481-500.
- Meyerson, D. & Martin, J. 1987. 'Cultural Change: An Integration of Three Different Views', *Journal of Management Studies*, 24(6): 623-47.
- Migue, J. L. & Belanger, C., 1974. 'Towards a General Theory of Managerial Discretion', *Public Choice*, 17: 27-43.
- Miller, D. & Friesen, P.H. 1984. *Organisations: A quantum view*, Englewood Cliffs, NJ: Prentice-Hall.
- Miller, D., & Friesen, P.H. 1980. 'Momentum and revolution in organisational adaptation', *Academy of Management Journal*, 23: 591-299.
- Millward, R., 1982. 'The comparative performance of public and private ownership' in E. Rolls (ed.), *The Mixed Economy*, Macmillan, 58-93.

- Millward, R., 1986. 'The Comparative Performance of Public and Private Ownership', in J. Kay, C. Mayer and D. Thompson (eds.), *Privatisation and Regulation: The UK Experience*. Oxford: Clarendon Press, 119-144.
- Millward, R. 1990. 'Productivity in the UK Services Sector: Historical Trends 1956-1985', *Oxford Bulletin of Economics and Statistics*, 52(4): 423-435.
- Millward, R. 1991. 'The Nationalized Industries', in M. Artis & D. Cobham (eds.), *Labour's Economic Policies 1974-79*, Manchester: Manchester University Press.
- Millward, R. & Parker, D., 1983. 'Public and private enterprise: comparative behaviour and relative efficiency', in R. Millward, D. Parker, L. Rosenthal, M.T. Sumner & N. Tophan, *Public Sector Economics*, Longman, 199-274.
- Milne, S., 1994. *The Enemy Within, MI5, Maxwell and the Scargill Affair*, London: Verso.
- Mintzberg, H., 1983. *Power in and Around Organizations*, Englewood Cliffs, NJ: Prentice-Hall.
- Mitchell, W.C., 1988. *Government As It Is*, Hobart Paper 109, London: Institute of Economic Affairs.
- Mitnick, B., 1980. *The Political Economy of Regulation*, New York: Columbia University Press.
- Modigliani, F. & Miller, M.H., 1958. 'The cost of capital, corporation finance, and the theory of investment', *American Economic Review*, 48: 261-297.
- Molyneux, R. & Thompson, D.J., 1987. 'Nationalised Industry Performance: Still Third Rate?', *Fiscal Studies*, 7: 48-82.
- Monsen, R. J. & Walters, K. D., 1983. *Nationalized Companies: a Threat to American Business*, New York: McGraw-Hill.
- Montin, S., 1992. 'Privatiseringsprocesser i kommunerna – teoretiska utgångspunkter och empiriska exempel' (Privatisation processes in local authorities – theoretical premises and empirical examples), *Statsvetenskaplig Tidskrift*, 9(1): 31-57.
- Moore, J., 1986. 'The Success of Privatisation', in Kay, J.A., C. Meyer & D. Thompson (eds), *Privatisation and Regulation: The U.K. Experience*, Oxford: Oxford University Press, 94-97.
- Morck, R., Shleifer, A. & Vishny, R.W., 1990. 'Do Managerial Objectives Drive Bad Acquisitions?', *Journal of Finance*, 45 (1): 31-48.
- Morgan, G., 1986. *Images of Organizations, Beverly Hills, Calif.: Sage*.
- Morgan, G., Frost, J. & Pandy, L., 1983. 'Organisational Symbolism', in L. Pandy, J. Frost, G. Morgan & T. Dandridge (eds.), *Organisational Symbolism*, Greenwich, Conn: JAI Press, 3-35.
- Mueller, D.C., 1980. *The Determinants and Effects of Mergers: an International Comparative Study*, Cambridge, Mass.: Oclgeschlager Gunn & Hain.
- Mueller, D.C. (ed.), 1989. *Public Choice II*, Cambridge: Cambridge University Press.



- Murray, F., 1989. 'The Organizational Politics of Information Technology: Studies from the UK Financial Services Industry', *Technology Analysis & Strategic Management*, 1(30): 285-97.
- Neuberg, L. G., 1977. 'Two Issues in the Municipal Ownership of Electric Power Distribution Systems', *Bell Journal of Economic and Management Science*, 8: 303-323.
- Nilsson, K., 1993. 'For the public or for profit', paper presented at the research conference on 'Organisering och ekonomisk styrning av offentliga organisationer' (Organisational and economic control of public sector organisations), Stockholm, 27-28 May 1993.
- Niskanen, W.A. Jr., 1971. *Bureaucracy and Representative Government*, Chicago: Aldine.
- Niskanen, W.A. Jr., 1987. 'Bureaucracy', in C.K. Rowley (ed.) *Democracy and Public Choice*, Oxford: Basil Blackwell, 135-40.
- Norrving, B., 1996. *Privatisering i de skånska kommunerna* (Privatisation in Scanian local authorities), KEFUs skriftserie 17.
- O'Connell Davidson, J., 1993. *Privatization and Employment Relations: The case of the water industry*, London: Mansell.
- Ogden, S. 1990. 'Privatisation and industrial relations: the shock of the new?', University of Leeds, Discussion Paper, 90/12.
- Oliver, C., 1991. 'Strategic responses to institutinal processes', *Academcy of Management Review*, 16: 145-179.
- Olson, M., 1965. *The Logic of Collective Action*, Cambridge, Mass.: Harvard University Press.
- Olsson, S., 1993. *Äldreomsorg i en ny mix?: om besparingar, privatisering och ideella organisationer inom äldreomsorgen i Göteborgsregionen* (Care for elderly in a new mixture? About savings, privatisation and non-profit organisations caring for the elderly in the Gothenburg region), Göteborg Univ., Institutionen för socialt arbete.
- Orzechowski, W., 1977. 'Economic Models of Bureaucracy: Survey, Extensions and Evidence', in T. Borcharding (ed.) *Budgets and Bureaucrats: the Sources of Government Growth*, Durham, NC.: Duke University Press, 229-59.
- Ott, A. F. & Hartley K., 1991. *Privatization and Economic Efficiency, A Comparative Analysis of Developed and Developing Countries*, Edward Elgar.
- Parker, D. 1994. 'A Decade of privatization: The Effect of Ownership Change and Competition on British Telecom', *British Review of Economic Issues*, 16(40): 87-113.
- Parker, D. & Hartley, K., 1991. 'Organizational status and performance: the effects on employment', *Applied Economics*, 23: 403-416.
- Parker, D. & Martin, S., 1995. 'The Impact of UK privatization on Labour and Total Factor Productivity', *Scottish-Journal-of-Political-Economy*; 42(2): 201-20.

- Peltzman, S., 1971. 'Pricing in Public and Private Enterprises and Electric Utilities in the United States', *Journal of Law and Economics*, 14: 109-148.
- Perelman, S. & Pestieau, P., 1987. *The Performance of Public Enterprises: a Comparative Efficiency Study of Railways and Postal Services*, Sonderforschungsbereich 303, Bonn: Rheinische Friedrich-Wilhelms-Universität.
- Pescatrice, D.R. & Trapani, J.M. III, 1980. 'The Performance and Objectives of Public and Private Utilities Operating in the US', *Journal of Public Economics*, 13: 259-275.
- Peters, B.G., 1989. *Comparing Public Bureaucrats: Problems of Theories and Methods*, Tuscaloosa, Ala.: University of Alabama Press.
- Peters, T., 1993. *Liberation Management*, London: Pan.
- Pettigrew, A. M., 1985. *The Awakening Giant*, Oxford: Basil Blackwell.
- Pettigrew, A. M., 1987. 'Context and Action in the Transformation of the Firm', *Journal of Management Sciences*, 24(6): 649-70.
- Pettigrew, A. M., 1990a. 'Longitudinal field research on change: Theory and practice', *Organization Science*, 1(3): 267-292.
- Pettigrew, A. M., 1990b. 'Is Corporate Culture Manageable?' in D. Wilson, and R. Rosenfeld, *Managing Organisations*, London: McGraw Hill.
- Pettigrew, A. M. & Whipp, R., 1991. *Managing Change for Competitive Success*, Oxford: Blackwell.
- Pettigrew, A. M., and Ferlie, E. & McKee, L., 1992. *Shaping Strategic Change-Making Change in Large Organisations:: The Case of the NHS*, London: Sage.
- Pfeffer, J. & Salanick, G., 1978. *External Control of Organizations*, New York: Harper and Row.
- Pfeffer, J., 1981. *Power in Organizations*, Cambridge, Mass: Pitman.
- Picot, A. & Kaulman, T., 1989. 'Comparative Performance of Government-owned and Privately-owned Industrial Corporations – Empirical Results from Six Countries', *Journal of Industrial and Theoretical Economics*, 145: 298-316.
- Pirie, M., 1988. *Privatization*, Wildwood House.
- Polkinghorn, D. E., 1988. *Narrative knowing and the human science*, Albany: State University of New York Press.
- Pollitt, M., 1995. *Ownership and performance*, Oxford: Oxford University Press.
- Powell, W., 1991. 'Expanding the scope of institutional analysis', in DiMaggio P. & Powell W. (eds.), *The New Institutionalism in Organizational Analysis*, Chicago: University of Chicago Press, 183-203.
- Powell, W.W. & Di Maggio, P.J., 1991. *The New Institutionalism in Organizational Analysis*, London: University of Chicago Press.
- Pryke, R. 1971. *Public Enterprise in Practice*, London: MacGibbon & Kee.
- Pryke, R. 1981. *The Nationalised Industries: Policies and Performance since 1968*, Oxford: Martin Robertson.

- Pryke, R., 1982. 'The comparative performance of public and private enterprises', *Fiscal Studies*, 3: 68-81.
- Pugh, S.S., Hickson, D.J. & Hinings, C.R., 1969. 'An empirical taxonomy of structures of work organizations', *Administrative Science Quarterly*, 14: 115-26.
- Quinn, J.P., 1980. *Strategies for Change: Logical Incrementalism*, Homewood, Ill.: Irwin.
- Ragin, C. C., 1987. *The comparative method: Moving beyond qualitative and quantitative strategies*, Berkeley: University of California Press.
- Ramamurti, R. 1989. Book Review of Vickers, J.S. & Yarrow, G. K. (1988). *Privatisation: An Economic Analysis*, Cambridge, Massachusetts: MIT Press in *Journal of Economic Literature*, 27(December): 1713-1714.
- Ranson, S., & Stewart, J. 1994. *Management for the Public Domain*, New York: St. Martins Press.
- Ravenscraft, D. & Sherer, F., 1987. *Mergers, Sell-Offs and Economic Efficiency*, Washington, DC.: The Brookings Institution.
- Rees, R., 1984. 'A Positive Theory of Public Enterprises', in M. Marchand, P. Pestiau & H. Tulken (eds.) *The Performance of Public Enterprises: Concepts and Measurement*, Amsterdam: North-Holland, 179-91.
- Rees, R., 1985. 'The Theory of Principal and Agents: Parts 1 and 2', *Bulletin of Economic Research*, 37(1): 46-69 & 37(2): 70-90.
- Ricketts, M., 1994. *The Economics of Business Enterprise*, London: Harvester Wheatsheaf.
- Robbins, S.P., 1986. *Organizational Behavior: Concepts, Controversies, and Applications*, Englewood Cliffs, NJ: Prentice-Hall.
- Robbins, S. P., 1987. *Organization Theory: Structure, Design, and Applications*, Englewood Cliffs, NJ: Prentice-Hall.
- Roll, R., 1986. 'The Hubris Hypothesis of Corporate Takeovers', *Journal of Business*, 59: 197-216.
- Romanelli, E. & Tushman, M., 1986. 'Inertia, environment, and strategic choice: A quasi-experimental design for comparative-longitudinal research', *Management Science*, 32: 608-621.
- Romanelli, E. & Tushman, M. 1994. 'Organisational Transformation as Punctuated Equilibrium: an empirical test', *Academy of Management Journal*, 37: 1141-1166.
- Rosen, M., 1985. 'Breakfast at Spiro's: dramaturgy and dominance', *Journal of Management*, 11(2): 31-48.
- Ross, S., 1973. 'The economic theory of agency: The principal's problem', *American Economic Review*, 63: 134-139.
- Rowan, B., 1982. 'Organizational structure and the institutional environment: the case of public schools', *Administrative Science Quarterly*, 27: 259-79.
- Runge, C. F., 1984. 'The Fallacy of 'Privatization'', *Journal of Contemporary Studies* (Winter): 3-17.

- Ryming, J. & Boman, D., 1992. *Strategi för privatisering av landstingsverksamhet* (Strategy for the privatisation of landstingen's activities), Stockholm: Stockholms läns landsting.
- SAF-tidningen, 1990/11/06.
- Sawkins, J. W., 1992. 'Privatization: Review article', *Journal of Economic Survey*, 6 (3): 271-85.
- Schein, E., 1983. 'The Role of the Founder in Creating Organisational Culture', *Organisational Dynamics* (Summer): 13-28.
- Schott, K. 1983. 'The rise of Keynesian economics: Britain 1940-64', in D. Held (ed.) *States and Societies*, Oxford: Basil Blackwell, 338-362.
- Schwandt, T. 1994. 'Constructivist, Interpretivist Approaches to Human Inquiry'. In Denzin & Lincoln (eds.), *Handbook of Qualitative Research*, London: Sage, Chapter 7: 118-137.
- Scott, W., 1987. 'The Adolescence of Institutional Theory', *Administrative Science Quarterly*, 32: 493-511.
- Scott, W., 1991. 'Unpacking institutional arguments', in DiMaggio, P & Powell, W., *The New Institutionalism in Organizational Analysis*, Chicago: University of Chicago Press, 164-82.
- Scott, W., 1992. Managing Professional Work: Three Models of Control for Health Organizations. *Health Service Research*, 17(3): 213-240.
- Scott, W., 1995. *Institutions and Organizations*, London: Sage Publications.
- Selznick, P., 1957. *Leadership in Administration*. New York: Harper & Row.
- Shapiro, C. & Willig, R.D., 1990. 'Economic Rationales for the Scope of Privatization', in E.N. Suleiman & J. Waterbury (eds.), *The Political Economy of Public Sector Reform and Privatization*, Boulder: Westview Press, 55-87.
- Shleifer, A. & Vishny R.W., 1986. 'Large Shareholders and Corporate Control', *Journal of Political Economy*, 94: 461-488.
- Shleifer, A. & Summers, L., 1991. 'Breach of Trust in Hostile Takeovers', in A. Auerbach (ed.), *Corporate Takeovers: Causes and Consequences*, Chicago: Chicago University Press, 33-67.
- Silverman, D., 1993. *Interpreting Qualitative Data*, London: Sage.
- Simon, H., 1947. *Administrative Behavior*, New York: Free Press.
- Singh, A., 1971. *Takeovers: Their Relevance to the Stock Market and the Theory of the Firm*. Cambridge: Cambridge University Press.
- Singh, A., 1975. 'Takeovers, Economic Natural Selection and the Theory of the Firm', *Economic Journal*, 85: 497-515.
- Smirich, L., 1983. 'Organisations as Shared Meaning', in L. Pondy, P. Frost, G. Morgan & T. Dandridge (eds.), *Organisational Symbolism*, Greenwich, Conn: JAI Press, 55-65
- Smith, P., 1990. 'The Use of Performance Indicators in the Public Sector', *Journal of the Royal Statistical Society*, Series A 153 (1): 53-72.

- Smith, S. & Lipsky, M., 1992. *Nonprofits for Hire: The Welfare State in the Age of Contracting*, Cambridge, MA: Harvard University Press.
- Spence, A., 1975. 'The economics of internal organization: An introduction', *Bell Journal of Economics*, 6: 163-172.
- Starr, P., 1990. 'The Limits of Privatization' in D. J. Gayle. & J. N. Goodrich (eds), *Privatization and deregulation in global perspective*, Quorum Books, 109-25.
- Stevens, B., 1978. 'Scale, market structure and the cost of refuse collection', *The Review of Economics and Statistics*, 60: 438-448.
- Stiglitz, J.E., 1985. 'Information and economic analysis: a perspective', *Economic Journal*, Conference Papers, 95: 21-41.
- Stinchcombe, A., 1959. 'Bureaucratic and craft administration of production', *Administrative Science Quarterly*, 4: 168-87.
- Stryker, R., 1994. 'Rules, resources and legitimacy processes: some implications for social conflict, order and change', *American Journal of Sociology*, 99: 847-910.
- Svenska Dagbladet, 1990/11/05.
- Thiemeyer, T., 1986. 'Privatization: On the Many Senses in Which this Word is Used in an International Discussion on Economic Theory', in T. Thiemeyer & G. Quaden (eds.), *The Privatization of Public Enterprises: A European Debate*, *Annals of Public and Co-operative Economy*, Special Issue, 141-52.
- Thompson, J., 1967. *Organizations in Action*, New York: McGraw-Hill.
- Thompson, J. & McEwen, W., 1958. 'Organizational goals and environment: goal-setting as an interaction process', *American Sociological Review*, 23: 23-31.
- Thordarson, B., 1994. *Privatisering av kommunal verksamhet - en granskning av de teoretiska argumenten för privatisering och kommunernas val av verksamhetsform* (Privatisation of the activities of local authorities – an examination of the theoretical arguments for privatisation and the choice of local authorities for their forms of activities), KEFU, Arbetsrapportserie.
- Thunved, A., 1993. *Privatisering av socialtjänsten : om rättssäkerheten för den enskilde* (Privatisation of social services: legal safeguards for the individual), Stockholm Publica Fritze.
- Tichy, N., 1983. *Managing Strategic Change: Technical, Political and Cultural Dynamics*, Chichester: J. Wiley.
- Tolbert, P. S., 1985. 'Institutional environments and resource dependence: sources of administrative structure in institutions of higher education', *Administrative Science Quarterly*, 30: 1-13.
- Tolbart, P. & Zucker, L., 1996. 'The Institutionalization of Institutional Theory', in R.C. Stewart, C. Hardy and W.R. Nord (eds.), *Handbook of Organization Studies*, London: Sage Publications, 175-190.
- Tullock, G., 1965. *The Politics of Bureaucracy*, Washington, DC.: Public Affairs Press.
- Tullock, G., 1976. *The Vote Motive*, London: Institute of Economic Affairs.

- Tullock, G., 1979. 'Bureaucracy and the Growth of Government', in S. C. Littlechild, G. Tullock, A. P. Minford, A. Seldon, A. Budd & C.K. Rowley, *The Taming of Government*, London: Institute of Economic Affairs, 21-43.
- Tushman, M. L. & Romanelli, E., 1985. 'Organisational evolution: A metamorphosis model of convergence and reorientation', in L. L. Cummings & B. M. Staw (eds.), *Research in organisational behavior*, 7: 171-222, JAI Press.
- Veckans Affärer, 1996/03/11.
- Veljanovski, C., 1987. *Selling the State*, London: Weidenfeld & Nicolson.
- Vickers, J. & Yarrow, G., 1988. *Privatization: An Economic Analysis*, The MIT Press.
- Vining, A. R., & Boardman, A. E., 1992. 'Ownership versus competition: Efficiency in public enterprise', *Public Choice*, 205-239.
- Walker R., 1995. 'Privatization: A Re-assessment', *Journal of Australian Political Economy*, 0(34), 27-52.
- Walker, G. & Weber D., 1984. 'A Transaction Cost Approach to Make-or-Buy Decisions', *Administrative Science Quarterly*, 29: 373-391.
- Walker, H., Thomas, G. and Zelditch, M., .1986. 'Legitimation, endorsement and stability', *Social Forces*, 64: 620-43.
- Weick, K., 1969. *Social Psychology of Organizations*, Reading, MA: Addison-Wesley.
- Wilkinson, A., Allen, P. & Snape E., 1991. 'TQM and the Management of Labour', *Employee Relations*, 13(1): 24-31.
- Williamson, O., 1964. *The Economics of Discretionary Behaviour: Managerial Objectives in a Theory of the Firm*, Englewood Cliffs, NJ.: Prentice Hall.
- Williamson, O., 1975. *Markets and Hierarchies: Analysis and Antitrust Implications: a Study in the Economics of Internal Organization*, London: Free Press.
- Williamson, O., 1985. *Economic institutions of capitalism*, New York: Free Press.
- Williamson, O., 1991. 'The Firm as a Nexus of Treaties: an Introduction', in M. Aoki, M.B. Gustafsson & O.E. Williamson (eds.), *The Firm as a Nexus of Treaties*, London: Sage, 3-17.
- Williamson, O., 1993. 'The evolving science of organization', *Journal of Institutional and Theoretical Economics*, 149 (1): 36-63.
- Wilson, D. C., 1992. *A Strategy of Change*, London: Routledge.
- Windle, R. J., 1991. 'The World's Airlines: a Cost and Productivity Comparison', *Journal of Transport Economics and Policy*, 25: 31-49.
- Wortzel, H. V., & Wortzel L. H., 1989. 'Privatization: Not the only answer', *World Development*, 633-641.
- Wrong, D., 1961. 'The over-socialized conception of man in modern sociology', *American Sociological Review*, 26: 183-93.
- Yarrow G., 1985. 'Privatization in Theory and Practice', *Economic Policy*, 5: 324-377.

- Yarrow, G., 1989. 'Does Ownership Matter?' in Veljanovski, C. (ed.), *Privatisation and Competition – A Market Prospective*, London: Institute of Economic Affairs, 52-69.
- Yin, R. K., 1989. *Case study research. Design and methods* (2<sup>nd</sup> ed.), Newbury Park, CA: Sage.
- Zahra, S.A. & Pearce, J.A. II, 1989. 'Boards of Directors and Corporate Financial Performance: a Review and Integrative Model', *Journal of Management*, 15 (2): 291-334.
- Zucker L. G., 1977. 'The role of institutionalization in cultural persistence', *American Sociological Review*, 58: 536-52.
- Zucker, L. G. 1988. 'Where do institutional patterns come from? Organisations as actors in social system', in L. G. Zucker (ed.), *Institutional patterns and organisations*, Cambridge, MA: Ballinger, 23-49.
- Zucker, L. G. & Kreft, I. G. G., 1994. 'The evolution of socially contingent rational actions: effects of labor strikers on change in union founding in the 1880s', in J. Baum & J.V. Singh (eds.), *Evolutionary Dynamics of Organizations*. New York: Oxford University Press. pp. 294-313.
- Zucker, L. G., Darby, M. R. Brewer, M. B. & Peng, Y., 1995. 'Collaboration structure and information dilemmas in biotechnology: organisational boundaries as trust production', in R. Kramer & T. Tyler (eds.), *Trust in Organizations*. Thousand Oaks, CA: Sage, 90-113.

11 Largest state-owned firms earmarked for privatisation in 1992  
(Data in columns belong to 1992)

Firm	Branch	No. of employees		Income (Mkr)		State share %	Privatisation stage	Remarks
		1990	1991	1990	1991			
Ncb AB	Forestry & paper	4724	4734	115	-143	50,9		Almost 99 percent of its sales is done abroad of which 90 percent belongs to EC countries. In 1994 it was bought by the newly-merged Assi-Domän AB
Nordbanken	Banking	6804	6856	1	-8488	99,5	35% sold in Nov. 95 to private investors	The conglomerate lost 11 434 million SEK in credits in 1991.
Procordia AB	Pharmaceutical	45193	40673	2083	4197	34,2	Part of state's shares were sold in 1994	It is among the 20-25 biggest pharmaceutical firms in Europe. The state now has 14,1% of total shares.
Svenkst Stål AB (SSAB)	Steel	12014	11403	954	218	47,8	State's shares sold in spring 1994	It is the leading Scandinavian firm in steel production.
AB Aerotransport (ABA)	Air Transport	5	5	-33	-6	50		It has 3/7 of Scandinavian Airlines System (SAS); 50% of Linjeflyg AB since 1991; and 25% of Swedair AB.
ASSI AB	Paper and packaging	7633	7815	362	-145	100		One of leading paper and packaging firms in Europe. It merged with Domän AB in Dec. 1993. The new name became AssiDomän AB
Celsius Industrier AB	Military hardware	7082	14783	474	507	100	Shares floated on the Stockholm stock exchange in June 93	In the beginning of 1992 Bofors became a totally-owned syster company in Celsius.
Lusossavaara-Kirunavaara AB (LKAB)	Mining	3383	3439	339,5	190,9	100		LKAB is one of world's leading firms in producing high-quality iron ore.
OK Petroleum AB	Oil	1399	1624	925	665	24	State's shares sold to Corral Petroleum Holdings AB in 1994	The company has its own refineries and 50% of products from these refineries are exported.
Domän AB	Forestry	5239	4449	303,4	234,6	100		Following the merger with Assi AB and acquisition of Ncb AB, the new conglomerate was privatised in spring 1994.
Vattenfall AB	Hydraulic energy	10230	10105	3823	4239	100		It provides electricity to 12% of all households in Sweden.



## 24 smaller state-owned firms earmarked for privatisation in 1992

Firm	Branch	No. of employees		Income (Mkr)		State share %	Privatisation stage	Remarks
		1990	1991	1990	1991			
Bergslagens Teknik-utvecklings AB	Regional development							The firm operates in Ludvika, Smedjebacken, Borlänge, Ljusnarsberg and Hällefors municipalities.
Blekinge AB	Workshop industry	339	207	-61,3	-50,9	57,1		
Cementa AB	Cement			305	275	5%	It is effectively a private firm.	The firm is a syster company in Euroc conglomerate.
Företagskapital AB	Venture capital	4	4	2	10,5	59,5	Sold in November 1993.	Sold to Alte Förvaltnings AB. Current ownership AF(75%), HB (12,5%), SE(12,5%).
AB Industrikredit	Credit to small and medium-sized companies	55	54	147	-47,5	63,4		
AB Kurortsverk-samhet	Support services to health insurance institutions	347	351	0	-0,1	100		
Lantbrukskredit AB	Credit to farmers	0	3	2,5	0,5	50		
Nordiska Satellit-aktiebolaget	Telesatellites	-	-	-79,1	-43,2	0		State shares were handed over to FilmNet (85%) and Svenska rymdaktiebolaget (15%) in September 1992.
Norrlands Center AB	Regional development							Mainly in Northern Sweden
Rödkallen AB	Regional development						Sold in August 1993	Main task is to develop profitable activities around Luleå university college. State sold its shares to Frantec AB. It is now the sole owner.
SSC Satellitbild AB	Satellite photos							It is a syster company in Svenska rymdaktiebolaget.

SEMKO AB	Electrical safety & control licensing	223	235	4,6	13,4	51	State's shares transferred in 1994	Shares were transferred to Teknikbrostiftelserna.
Sveriges Geologiska AB (SGAB)	Geological consultancy	395	327	-0,3	-17	100		
SIB-invest AB	Banking	2	13	9,1	-9,4	100		The firm was a totally-owned syster company in the holding firm Förvaltningsaktiebolaget Fortia which was liquidated.
SKDföretagen AB	Information services	871	840	41	44	100	Privatised in 1992	One of our case studies in this thesis.
Sorbinvest AB	Industrial development							
SSPA Maritime Consulting AB	Marine technology	77	71	-4,1	1,7	100		
Statens Hundskola - Sveriges Hundcenter AB	Dog training							
Svalöf AB	Crops research					-	Sold in July 1992	In July 1992, Svenska Lantmännens Riksförbund (SLR) bought state's half of the company and became its sole owner.
Svensk Avfalls-konvertering AB (SAKAB)	Refuse inceneration	98	95	22,6	23,5		Sold in 1992	In August 1992, the state sold its shares for 9,9% of the firm to WMI Sellbegs AB which already had 90,1% of shares, thus WMI became the sole owner.
AB Svensk Bilprovning	Car inspection	2429	2357	28	89	52		
Troponor	Capital provision to regional industries							
Utvecklings AB Skeppsankaret	Regional development							The firm's main area of activity is Blekinge.

## Appendix 2

The following were interviewed in connection with the privatisation of SKDföretagen/Sema Group. Interviews were semi-structured and lasted from 1 to 2 hours.

Håkan Kihlberg	Ex-managing director of DAFA, the main subsidiary of SKDföretagen 1986-1992; Ex-managing director of SEMA Group Sweden 1993-1995
Matz Hentzel	Managing director of SKDföretagen 1986-1995
Ulf Göransson	Ex-chairman of the board of SKDföretagen
Tommy Boman	Current managing director of Sema Group Sweden AB
Valderman Svensson	Current managing director of Sema Group AB (formerly Sema Group Outsourcing)
Per Forsberg	Ex-head of Data & Information division in SKDföretagen; Currently head of Sema Group Infodata AB
Ingemar Walberg	Government appointee in charge of privatisation of SKDföretagen 1993-95
Börje Nilstam	Ex- managing director of Statskonsult, a main subsidiary of SKDföretagen Currently managing director of Sema Group Konsult AB
Börje Blomström	Current head of union branch in Sema Group AB
Björn Lärjebo	Ex-head of union branch in old DAFA
Per Tobiasson	Current head of union branch in Sema Group Konsult AB
Erik Ullasson	Ex-head of union branch in Statskonsult
Birger Rexed	Birger Rexed Human Resources AB

The following sources were also used:

- Protocols of board meetings from 1989 -- 1992
- Company's internal documents
- Newspaper articles about SKDföretagen and Sema Group Sweden 1989-1995
- Press review of IT branch 1985-1995
- Company's annual reports 1985-1996
- Parliamentary reports and documents from government inquiry commissions 1970-1992
- SKDföretagen's staff journal *Àjour*, 1989-1992
- Sema Group's staff journal *InternT*, 1996-1997

## Appendix 3

The following were interviewed in connection with the privatisation of Kommundata/Dialog. Interviews were semi-structured and lasted from 1 to 2 hours.

Kaj Green	Managing director in Dialog, Board member of Celsius Information System
Bjrön Attersved	Ex-managing director of FKF
Ulf Wetterberg	Managing director of the Federation of County Councils
Wincent Blomberg	Key person in FKF
Björn Nilsson	Deputy managing director in Kommundata, member of the top management in Dialog, and later head of production division of CIS
Nils Knutsson	Divisional head of IT-services in Dialog & Enator
Lennart Hellström	SKTF representative at the board of Kommundata, Dialog, Enator
Kenth-Åke Jönsson	Managing director of Dialog, CIS and deputy managing director of Enator
Lennart Olausson	Head of marketing division at Kommundata, Deputy managing director in Kommundata, member of the top management in Dialog and later Enator
Bengt Lundberg	Chief IT co-ordinator at the Federation of County Councils
Lars Östlund	Head of personnel at Kommundata and Dialog
Gert Schyborger	Member of the board of Kommundata and Dialog
Håkan Friberg	Head of Personnel at Dialog and Enator
Stefan Olowsson	Deputy managing director at Dialog and in charge of quality
Sören Strandberg	Head of SACO union and member of the board of Dialog
Peter Bjuvberg	Head of SACO union and member of the board of Dialog
Stig Davidsson	Chairman of the board of Kommundata from 1992
Sune Andreasson	Deputy head of the Kommundata's county council division

The following sources were also used:

- Protocols of board meetings from 1981 -- 1994
- Company's internal documents
- Newspaper articles about Kommundata, Dialog and Celsius Industries 1985-1995
- Press review of IT branch 1985-1995
- Company's annual reports 1981-1996
- Documents from Swedish Association of Local Authorities and Federation of County Councils
- Kommundata's staff journal *Datten*, 1976-1990
- Kommundata's landstingsdivision staff journal *Om-tanken*

Interview Guide

Appendix 4

(The interviewee concerned was Håkan Kihlberg)

## 1. Background to changes

- To what extent was the acquisition of SKDföretagen part of a long-term strategy of Sema Group plc.?
- To what extent the restructuring of SKDföretagen since 1989 was in response to the competition by SGFM Sweden AB and to what extent was it a step towards later merger with it?
- Why was its acquisition desirable and what problems would you have anticipated in the eventual merger of SKDföretagen with Sema Group plc.?
- Do you think your knowledge as an insider was crucial in the transition of SKDföretagen to Sema Group Sweden AB?
- Were there any impediments to your managerial discretion prior to privatisation? How do you think the situation changed and why?
- To what extent your own ambitions and characteristics were distinct from the old organisation you had managed before?
- How was the actual acquisition process implemented?
- What policy governed the buy-out of different parts of SKDföretagen?
- What were the priorities in this respect?
- Is there an official document which could contain details of this acquisition process. If so, was this drawn up jointly by Sema Group, SKDföretagen and the Ministry of Public Administration and what does it contain?
- From the various company annual reports, one could see that SKDföretagen was trying to change its image to a more customer-oriented firm in the past five years prior to its privatisation. Do you think that the firm was successful in this respect?
- Do you believe that the ultimate hand-over of ownership from the state to Sema Group plc. was crucial in finalising this change in image of the firm?
- In the two years after privatisation, and in particular in 1994, the newly-acquired firms by Sema Group underwent a number of drastic restructuring. Why do you think that these changes were essential and why do you believe that they were neglected in the past by SKDföretagen management?
- Why after restructuring, the new divisions were given a standard name? Was this change implemented to overcome their sense of independence or was it to take advantage of the brandname of the corporation?

## 2. The process of change

- How do you think that the recruitment policy of Sema Group differed from SKDföretagen, in what respects the change was discernible (for instance in defining job requirements, selection of applicants, appraisal system, etc.)?

- Compared with the past, did you introduce new incentive/reward schemes, promotion schemes? If so, how effective were they?
- Compared with the past, to what extent, did you try to de-bureaucratise the image of interpersonal relations in the firm. For instance, did you introduce special events to foster easier socialisation between management and the personnel?
- The number of independent divisions in Sema Group are now fewer than before. But to what extent have these changes affected job specialisation, task differentiation, and lines of formal authority in the firm?
- In your view, have you succeeded to establish a new decision style for the management, how and in what respects?
- How are board members of Sema Group Sweden appointed? How often do they meet? How effective have they been in influencing and shaping your decisions during these critical years for the organisation?
- How did the board composition and senior management change as a result of these restructuring?
- To what extent the old management was replaced by people coming from outside and to what extent were they previously in the service of SKDföretagen?
- How have these changes been perceived by the employees?
- Would you say that any particular group among employees has benefited more than others?
- What has been the turnover of the employees and management during the past few years?
- How large is the portion of those kept, those promoted and those who have voluntarily left the organisation?
- One of the major changes that a restructuring process could entail is a decrease in the number of middle management. Is this also true in the case of Sema Group Sweden?
- To what labour or employees' union do most of the co-workers in Sema Group Sweden belong?
- How have they reacted to changes so far?
- Did you see any major hindrance or opposition? If so, how were they overcome?
- Compared with the past, would you say that the employees of the firm have now a different set of values, norms and culture? How would you characterise them?

### 3. The consequences

- Would you say that the success of Sema Group Sweden is due to the synergetic effects of the merger between Sema Group plc. and SKDföretagen?
- What factors do you believe are responsible for this success? The reward/incentive system, expertise of the employees, successful advertising campaign, management style, economising of organisational structure, greater capital and investment resources, instilling of a new culture of excellence or what?

- Would you consider your mission accomplished in Sema Group Sweden? Would you believe that the transition period for the firm has now ended and a whole new system and set of norms are established?
- In your view, what are the major changes in the marketing strategy of the Sema Group as compared with the SKDföretagen? Does this difference indicate a fundamental shift in the marketing strategy of the firm and in what respects?
- What reflections do you have about these changes?

## Appendix 5

### Sequence of institutional processes at SKDföretagen

<b>Date</b>	<b>Company</b>	<b>Event</b>	<b>Type of process</b>
1968	Statskonsult	Formation of Statskonsult as a stock company in order to make it possible for the company to offer competitive salaries to limited number of skilled personnel in the labour market. This was legislated by an act of Parliament.	Regulative
1970-72	Statskonsult	Setting market-based prices for products and services.	Regulative
1970s	Statskonsult	Long working hours and complete devotions; we-culture.	Cognitive
1974-77	Statskonsult	Regionalisation, acquisitions and customer-orientation.	Regulative
Mid 70s	Statskonsult	New recruitment policy, three-fourth of new recruits came with a background from the private sector.	Cognitive
1977	Statskonsult	Reorganisation of administration division (AU) into four market-oriented subdivisions.	Regulative
1977	Statskonsult	SMOG's proposal: setting profitability targets for all business entities with their own responsibility for marketing and sale of their products and services.	Regulative
1979-85	Statskonsult	Incorporation of Statskonsult's four main divisions into independent stock companies.	Regulative
1979	DAFA	Monopoly Commission's report on the future state of DAFA suggesting the need for greater commercial freedom for the agency.	Normative
1981	DAFA	DAFA is reorganised. New entities were expected to be in an increasing degree more market-oriented.	Regulative
Early 1980s	Statskonsult	Meeting profitability targets became the aim of the company.	Normative



1984	DAFA	Ministry of Public Administration's inquiry suggesting that DAFA should be placed in full competition.	Normative
Mid 1980s	Statskonsult	Crisis of identity in the company leading to new standards being accepted and socialised.	Cognitive
1985	DAFA	Incorporation of DAFA into a stock company by an Act of Parliament. Agreement reached between the workforce and the new management on this change.	Regulative
1985	DAFA	Appointment of new managing director for DAFA from the private sector.	Normative
1985-90	DAFA	Acquisition of new private firms by DAFA eroded the old values in the firm and brought in a more diffuse culture akin to private companies.	Cognitive
1989	SKDföretagen	Formation of SKDföretagen (union of DAFA and Statskonsult) leading to a multi-task organisation with profitability targets set for each division.	Regulative
1993	SKDföretagen	Sale of SKDföretagen.	

## Appendix 6

### Sequence of institutional processes at Kommundata

<b>Date</b>	<b>Event</b>	<b>Type of Process</b>
1968	Formation of Kommun-Data as a stock company.	Regulative
mid 1960s	Introduction of K-plan book-keeping for local authorities.	Regulative
1960s-1980s	Recruitment was mainly from people with background in local authorities.	Cognitive
Early 80s	Organisational shake-up: customer-oriented organisation; result-based divisions & more effective top management.	Normative/Regulative
1983-85	Regionalisation.	Regulative
1984	Introduction of a program known as “the customer at the centre”.	Normative
1987	Introduction of a strategy referred to as “all should take a step nearer to the customer”.	Normative
1987	The use of profit as a measure of success in the company.	Normative
End of 80s	Campaign to promote the idea that Kommundata should “produce what is profitable”.	Normative
1989	Reorganisation leading to stronger role for the marketing division.	Regulative
End of 80s	Dialog with the employees known as Samspel (teamwork).	Normative
1990	Financial targets for the company set by The Swedish Association of Local Authorities.	Regulative
1991	Customers were referred to as financiers/payees, purchasers and/or producers of social services at local authorities.	Normative
1991	Enactment of new law on local authorities. Substitution of K-plan bookkeeping with Bas-plan bookkeeping by local authorities.	Regulative
1993	Change of top management.	Normative
1993	Introduction of a strategy referred to as “The best IT-partner”.	Normative
1993-94	New acquisitions and mergers.	Regulative
1993-94	Quality standards & process-driven organisation.	Cognitive
1993-94	New accounting system.	Regulative
1995	Sale of Kommundata.	

## Appendix 7

### List of abbreviations

DAFA	Datamaskincentralen för administrativ databehandling (Computer Centre for Administrative Data Processing)
DASK	Datasamordningskommittén (Data Co-ordinating Committee)
DB	Datakonkurrens Betänkande (Report on competition in the computer industry)
Ds	Departmentens utredningsserie (Ministerial investigatory reports series)
EDI	Electronic Data Integration
EDP	Electronic Data Processing
Fi	Finansdepartementet (Department of Finance)
FiU	Finansutskottet (Parliamentary subcommittee on finance)
Prop.	Proposition (Parliamentary bill)
rskr	Riksdagsskrivelse (Parliamentary writ)
SCB	Statistiska centralbyrån (Central Statistics Office)
SCB/DC	Statistiska centralbyråns datamaskincentral (Central Statistic Office / Computer Centre)
SEK	Swedish Krona
SOU	Statens offentliga utredningar (Royal Commission Report)
SPAR	Samordnat Person- och Address- Register (National Personal and Address Registration Office)
SU	Statsutskottet (Government Committee)
VAT	Value-Added Tax (moms)

59. Kent Springdal, 2001, Privatisation of the IT Sector in Sweden, 261 s.
58. Hans Knutsson, 2000, Process-Based Transaction Cost Analysis. A cost management exploration in SCA Packaging, 274 s.
57. Ola Mattisson, 2000, Kommunala huvudmannastrategier för kostnadspress och utveckling – en studie av kommunal teknik. 311 s.
56. Karin Bryntse, 2000, Kontraktsstyrning i teori och praktik, 317 s.
55. Thomas Kalling, 1999, Gaining Competitive Advantage through Information Technology. A Resource-Based Approach to the Creation and Employment of Strategic IT Resources, 336 s.
54. Matts Kärreman, 1999, Styrelseledamöters mandat – ansats till en teori om styrelsearbete i börsnoterade företag, 328 s.
53. Katarina Svensson Kling, 1999, Credit Intelligence in Banks – Managing Credit Relationships with Small Firms, 263 s,
52. Henrik Kristensen, 1999, En studie av pridförhandlingar vid företagsförvärv. 272 s.
51. Anders H. Adrem, 1999, Essays on Disclosure Practices in Sweden – Causes and Effects. 212 s.
50. Fredrik Ljungdahl, 1999, Utveckling av miljöredovisning i svenska börsbolag – praxis, begrepp, orsaker. 260 s.
49. Kristina Henriksson, 1999, The Collective Dynamics of Organizational Learning. On Plurality and Multi-Social Structuring. 256 s.
48. Stefan Sveningsson, 1999, Strategisk förändring, makt och kunskap. Om disciplinering och motstånd i tidningsföretag. 230 s.
47. Sten-Åke Carleheden, 1999, Telemonopolens strategier. En studie av telekommunikationsmonopolens strategiska beteende. 475 s.
46. Anette Risberg, 1999, Ambiguities Thereafter. An interpretive approach to acquisitions. 260 s.
45. Hans Wessblad, 1999, Omständigheter på ett kärnkraftverk. Organisering av risk och institutionalisering av säkerhet. 269 s.
44. Alexander Styhre, 1998, The Pleasure of Management Ideas. The discursive formation of Kaizen. 282 s.
43. Ulla Johansson, 1998, Om ansvar. Ansvarsföreställningar och deras betydelse för den organisatoriska verkligheten. 360 s.
42. Sven-Arne Nilsson, 1998, Redovisning av Goodwill – Utveckling av metoder i Storbritannien, Tyskland och USA. 254 s.
41. Johan Ekström, 1998, Foreign Direct Investment by Large Swedish Firms – The Role of Economic Integration and Exchange Rates. 254 s.
40. Stefan Yard, 1997, Beräkningar av kapitalkostnader – samlade effekter i bestånd särskilt vid byte av metod och avskrivningstid. 222 s.
39. Fredrik Link, 1997, Diffusion Dynamics and the Pricing of Innovations. 200 s.
38. Frans Melin, 1997, Varumärket som strategiskt konkurrensmedel. Om konsten att bygga upp starka varumärken. 310 s.
37. Kristina Eneroth, 1997, Strategi och kompetensdynamik – en studie av Axis Communications. 277 s.
36. Ulf Ramberg, 1997, Utformning och användning av kommunala verksamhetsmått. 336 s.
35. Sven-Olof Collin, 1997, Ägande och effektivitet. Wallenberggruppens och Svenska Handelsbanksgruppens struktur, funktion och effektivitet. 200 s.
34. Mats Urde, 1997, Märkesorientering och märkeskompetens – Utveckling av varumärken som strategiska resurser och skydd mot varumärkesdegeneration. 352 s.
33. Ola Alexanderson & Per Trossmark, 1997, Konstruktion av förnyelse i organisationer. 334 s.
32. Kristina Genell, 1997, Transforming management education: A Polish mixture. 314 s.

31. Kjell Mårtensson, 1997, Företagets agerande i förhållande till naturbelastningen. Hur företaget möter myndigheternas miljökrav. 310 s.
30. Erling Green, 1997, Kreditbedömning och intuition – Ett tolkningsförslag. 206 s.
29. Leif Holmberg, 1997, Health-care Processes. A Study of Medical Problem-solving in the Swedish Health-care Organisation. 228 s.
28. Samuel K. Buame, 1996, Entrepreneurship: A Contextual Perspective. Discourses and Praxis of Entrepreneurial Activities within the Institutional Context of Ghana. 256 s.
27. Hervé Corvellec, 1996, Stories of Achievement. Narrative Features of Organizational Performance. 245 s.
26. Kjell Tryggestad, 1995, Teknologistategier og postModerne Kapitalisme. Introduksjon av computerbasert produksjonsteknik. 432 s.
25. Christer Jonsson, 1995, Ledning i folkrörelseorganisationer – den interaktiva ledningslogiken. 210 s.
24. Lisbeth Svengren, 1995, Industriell design som strategisk resurs. En studie av designprocessens metoder och synsätt som del i företags strategiska utveckling. 312 s.
23. Jon Aarum Andersen, 1994, Ledelse og effektivitet. Teori og prøving, 354 s.
22. Sing Keow Hoon-Halbauer, 1994, Management of Sino-Foreign Joint Ventures, 405 s.
21. Rikard Larsson, Lars Bengtsson, Kristina Eneroth & Allan T. Malm (eds), 1993, Research in Strategic Change. 245 s.
20. Kristina Artsberg, Anne Loft & Stefan Yard (eds) 1993, Accounting Research in Lund, 248 s.
19. Gert Paulsson, 1993, Accounting Systems in Transition – A case study in the Swedish health care organization. 221 s.
18. Lars Bengtsson, 1993, Intern diversifiering som strategisk process. 292 s.
17. Kristina Artsberg, 1992, Normbildning och redovisningsförändring. Värderingar vid val av mätprinciper inom svensk redovisning. 252 s.
16. Ulf Elg & Ulf Johansson, 1992, Samspelet mellan struktur och agerande i dagligvarukedjan. En analys ur ett interorganisatoriskt nätverksperspektiv. 308 s.
15. Claes Svensson, 1992, Strategi i federativa organisationer – teori och fallstudier. 220 s.
14. Lars Edgren, 1991, Service management inom svensk hälso- och sjukvård – affärsutveckling och kundorganisation. 258 s.
13. Agneta Karlsson, 1991, Om strategi och legitimitet. En studie av legitimitetsproblematiken i förbindelse med strategisk förändring i organisationer. 345 s.
12. Anders Hytter, 1991, Den idémässiga dimensionen – decentralisering som struktur och idéförändring. 256 s.
11. Anders Anell, 1991, Från central planering till lokalt ansvar. Budgeteringens roll i landstingskommunal sjukvård. 246 s.
10. Rikard Larsson, 1990, Coordination of Action in Mergers and Acquisitions. Interpretive and Systems Approaches towards Synergy. 337 s.
9. Sven-Olof Collin, 1990, Aktiebolagets kontroll. Ett transaktionskostnadsteoretiskt inlägg i debatten om ägande och kontroll av aktiebolag och storföretag. 344 s.
8. John Ogbor, 1990, Organizational Change within a Cultural Context. The Interpretation of Cross-Culturally Transferred Organizational Practices. 402 s.
7. Rikard Larsson, 1989, Organizational Integration of Mergers and Acquisitions: A Case Survey of Realization of Synergy Potentials. 168 s.
6. Bertil Hultén, 1989, Från distributionskanaler till orkestrerade nätverk. En studie om fabrikanternas kanalval och samarbete med återförsäljare i svensk byggmaterialindustri. 240 s. Bilaga 240 s.
5. Olof Arwidi, 1989, Omräkning av utländska dotterföretags redovisning. Metodproblem och konsekvenser för svenska koncerner. 140 s.
4. Bengt Igelström, 1988, Resursskapande processer vid företagande i kris. 245 s.
3. Karin Jonnergård, 1988, Federativa processer och administrativ utveckling. En studie av federativa kooperativa organisationer. 359 s.

2. Lennart Jörberg, 1988, Svenska företagare under industrialismens genombrott 1870 - 1885. 169 s.
1. Stefan Yard, 1987, Kalkyllogik och kalkylkrav — samband mellan teori och praktik vid kravställandet på investeringar i företag. 368 s.