



New development: Are the holding companies as a hybrid governance model reinforcing the control on municipal corporations?

Giuseppe Grossi & Anna Thomasson

To cite this article: Giuseppe Grossi & Anna Thomasson (2022): New development: Are the holding companies as a hybrid governance model reinforcing the control on municipal corporations?, *Public Money & Management*, DOI: [10.1080/09540962.2022.2101269](https://doi.org/10.1080/09540962.2022.2101269)

To link to this article: <https://doi.org/10.1080/09540962.2022.2101269>



© 2022 The Author(s). Published by Informa UK Limited, trading as Taylor & Francis Group



Published online: 21 Jul 2022.



Submit your article to this journal [↗](#)



Article views: 119



View related articles [↗](#)



View Crossmark data [↗](#)

New development: Are the holding companies as a hybrid governance model reinforcing the control on municipal corporations?

Giuseppe Grossi ^{a,b} and Anna Thomasson^c

^aDepartment of Business Administration, Kristianstad University, Kristianstad, Sweden; ^bEconomic Analysis and Accounting Division, Nord University, Bodø, Norway; ^cSchool of Economics and Management, Lund University, Lund, Sweden

IMPACT

The authors recommend that politicians and public managers consider the possible benefits and critical issues connected to the creation of holding companies at the local government level. On the one hand, municipal holding companies can be useful for steering and controlling municipal corporations; on the other hand, they can have the downside of adding another level of governance.

ABSTRACT

Corporatizing municipal services is a widespread reform adopted by municipalities around the world. To fully understand the types of corporations that are being set up, we need to investigate the strategies behind corporatization and how municipalities govern and control their corporations through the creation of municipal holding companies. In this new development article, the authors argue that it is high time to explore the political side of the municipal corporation. Scholars should explore the possible benefits and drawbacks related to the creation of holding companies at the local level. The authors' assumptions are backed up by empirical observations from the Swedish context.

KEYWORDS

Control; corporatization; governance; holding companies; hybrid organizations; municipalities; politicians; Sweden

Introduction to municipal corporations

The traditional concept of 'corporatization' relates to the transformation of government agencies into separate corporations (Clifton & Díaz Fuentes, 2018). Corporatization is generally viewed as a reform that has its roots in the marketization of public services. Until now, municipal corporations (MCs) have predominantly been regarded as a way to marketize and, by extension, de-politicize public services. Extant research on corporatization reflects this, as it has mainly focused on the effects of the increased autonomy of incorporated services (Andrews et al., 2020; Berge & Torsteinsen, 2021; Grossi & Thomasson, 2015).

Even though an upsurge in the use of MCs can be seen in the wake of New Public Management (NPM), MCs have a long history in the UK (Ferry et al., 2018), the Nordic countries (Argento et al., 2010; Berge & Torsteinsen, 2021; Thomasson, 2020) and continental countries (Grossi & Reichard, 2008). Despite the widespread use of MCs around the world, the extant research on MCs has predominantly focused on corporatization as one of several market reforms and an alternative way to deliver public services (Ferry et al., 2018). In striving to find other public service delivery methods, corporatization has been considered a viable alternative. While creating autonomy for service provision, corporatization still allows for some political control (Andrews et al., 2020; Berge & Torsteinsen, 2021; Grossi & Thomasson, 2015).

Previous research has focused on the potential effects of autonomy on organizational performance and efficiency in service provision (Voorn et al., 2017; Voorn et al., 2020; Berge & Torsteinsen, 2021), as well as other potential benefits of corporatization, including increased managerial flexibility (Tavares, 2017), tax advantages, and opportunities for trading to generate alternative revenue streams (Ferry et al., 2018;

Andrews et al., 2020). A few studies have focused explicitly on the unintended effects of corporatization. For example, Grossi and Thomasson (2015) discuss the implications of corporatization when it comes to securing accountability. Similarly, Erlingsson et al. (2018) address the problems of securing transparency and control when public services are corporatized. Others, like Berge and Torsteinsen (2021), address how corporatization leads to an increased fragmentation of public service delivery. Yet others, like Grossi and Thomasson (2015) and Andrews et al. (2020), address the implications of corporatization leading to a hybridization of service-providing entities. Hybridity of MCs can be related to their objectives, finance, ownership structure, governance and control and accountability systems (Grossi et al., 2017).

Although recognized as a common solution, and despite the attention given to MC in more recent research, the phenomenon of municipal corporatization is under-researched (Voorn et al., 2017). Extant literature on MCs therefore calls for more research into various themes, including why municipalities corporatize, what type of corporations they set up (Andrews et al., 2020) and the political and managerial implications of the hybridization of public service provision (Berge & Torsteinsen, 2021; Grossi & Thomasson, 2015; Grossi et al., 2017).

Empirical observations on municipal holding companies in Sweden

Also supporting the need for more research are empirical observations from Sweden, which show a growing interest among municipalities in focusing on issues related to corporate governance, including how to use MCs for strategic purposes. By 'holding company', we mean a

company whose primary business is to hold shares in other companies, so-called 'subsidiaries'. The holding company thus generally does not produce goods or services itself. Together, the holding company—or the 'mother', as it is also called—and the subsidiaries form a group of companies.

In a municipal context, this means that a holding company (the mother) is created and assigned the responsibility of governing the other companies owned by a municipality. The owner (the municipal council) decides on directives for the mother company, based on the overall strategic goals of the municipality. In short, this means that, instead of communicating with several different companies, the municipal board only interacts with the holding company. It is then the board and chief executive officer (CEO) of the mother company that are responsible for the governance of the subsidiaries and for transforming the strategic goals of the municipality into directives for the subsidiaries. The mother company is also responsible for the financial control of the subsidiaries.

For example, in 1991, Stockholm City created Stockholm Stadshus AB, which, since then, has acted as the holding or parent company of a corporate group of 17 subsidiaries and one associated entity. Stockholm City's MCs are active in providing several services to the city's residents, ranging from homes, school buildings, care homes, exhibition properties, arenas, culture, port facilities, parking, district heating, fiber networks, water and waste disposal. The city council has delegated the operational owner dialogue to Stockholm Stadshus AB's board of directors, the group board. The city council holds the power to directly appoint all members of the board of directors of the subsidiaries and also identifies the object of the municipal purpose for the companies' operations. The holding company, Stockholm Stadshus AB, has a cohesive function for the majority of Stockholm City's MCs. The holding company is responsible for overall group strategic planning, governance and monitoring, in terms of both financial and non-financial control and interaction between the owner (the city) and the MCs.

A survey shows that, of the 290 municipalities in Sweden, as many as 91 have chosen to create a holding company, through which they govern all corporatized services. Looking more closely at these 91 municipalities, it is not only larger municipalities or municipalities with many corporations that create holding companies. Smaller municipalities and those with fewer corporations have adopted the holding company solution. These findings support a more recent study, stating that the creation of holding companies is an increasing trend among Swedish municipalities (Carlsson et al., 2020).

In those cases, the municipalities stated the purpose of the holding company, with increased control and improved governance being common arguments. This shows an increasing interest among Swedish municipalities to not only mitigate the risk of corporatization leading to a fragmentation of public service provision (Berge & Torsteinsen, 2021) but also to increase political control over the development of corporatized services, through the creation of holding companies.

One possible explanation for the increasing trend among Swedish municipalities to create holding companies could be more recent changes in the Municipal Act (SFS 2017:725), which were spurred by several cases of corporate

scandals, including fraudulent behaviour and charges of corruption, as municipalities failed to control their corporations (Amnå et al., 2013). These changes in regulation have resulted in increasing pressure on municipalities to improve how they govern and control their municipally-owned corporations. One way for municipalities to decrease fragmentation and increase control over the companies they own is to create a holding company with the main purpose of better controlling the subsidiaries.

Another possible explanation for the increasing focus on corporate governance in Swedish municipalities is that, in Sweden, as in other countries (Tavares & Camões, 2007), the most common service to corporatize is and has been local infrastructure (Erlingsson & Thomasson, 2020). Traditionally, local infrastructure has been of little political interest. With the increasing effects of climate change and the pressure to focus more on sustainable urban development (Youm & Feiock, 2019; Guarini et al., 2021), local infrastructure is becoming highly relevant to local politicians. Local infrastructure has thus been transferred from what can be considered a technical sphere into the political sphere, and, as a result, local infrastructure has been politicized (Jessop, 2014; Zürn, 2016), along with the governance of the MCs providing local infrastructure. Through the creation of holding companies, the strategic development of the subsidiaries can be co-ordinated by the board and CEO of the holding company. When it comes to securing sustainable urban development, this co-ordination of units providing technical services might be the only way to manage wicked and complex issues like climate change and integration.

Conclusions

Regardless of the motives behind it, the increasing trend among Swedish municipalities to create holding companies is important, as it points to a movement away from the externalization and de-politization of public service to a more deliberate and strategic use of market-oriented solutions. Like the corporatization trend, the creation of holding companies was originally a private sector solution and can thus be categorized as hybrid governance because it combines governance characteristics and a model typical of private sector companies in public sector governance. Holding companies constitute intermediary ownership structures that are a practical manifestations of hybrid governance: while municipal holding companies as shareholders usually use standard corporate governance mechanisms, the municipality relies on administrative governance to exercise control over municipal holding companies (Okhmatovskiy et al., 2021). Contrary to the corporatization trend, however, the creation of holding companies seems to increase political control and can be a way to secure accountability.

If corporatization created hybridity by bringing private control mechanisms into the governance of public services, the creation of holding companies is a way to bring the public back in, by strengthening political influence. Through the creation of a holding company, the mother company becomes the vessel through which the strategic goals of the political majority are channelled and cascaded down to the subsidiaries. If corporatization of municipal

services led to fragmentation and contributed to the hollowing out of the state (Rhodes, 2005), the creation of the holding company, instead, decreases fragmentation and brings content back in. The creation of a holding company could also have the downside of adding another level of governance, in that agency problems may now appear not only in the relationships between the MC and the holding company but also in the relationships between the ultimate public owner (the city) and the MC (assuming that managers of the municipal companies may have goals and incentives that do not completely coincide with those of the city's public officials) (Okhmatovskiy et al., 2021).

Sweden has been considered one of the early adopters of NPM (Sundström, 2006); it would therefore not be too strange if Sweden were also one of the first countries to start moving in the other direction as the pendulum strikes back. Given our limited knowledge of MCs and the role they play in public service provision, we have little, if any, evidence of how municipalities use MCs for strategic purposes. In the light of the empirical evidence presented in this article, we therefore argue for the need to further explore the potential use of MCs for strategic purposes, and, in line with Van Genugten et al. (2020), we call for more research on municipal corporate governance.

ORCID

Giuseppe Grossi  <http://orcid.org/0000-0002-9540-2285>

References

- Amnå, E., Czarniawska, B., & Marcusson, L. (2013). Tillitens gränser: Granskningskommissionens slutbetänkande [The borders of trust: Final comments from the audit commission]. Granskningskommissionen i Göteborgs stad.
- Andrews, R., Ferry, L., Skelcher, C., & Wegerowski, P. (2020). Corporatization in the public sector: Explaining the growth of local government companies. *Public Administration Review*, 80(3), 482–493. <https://doi.org/10.1111/puar.13052>
- Argento, D., Grossi, G., Tagesson, T., & Collin, S. O. (2010). The externalisation of local public service delivery: Experience in Italy and Sweden. *International Journal of Public Policy*, 5(1), 41–56.
- Berge, D. M., & Torsteinsen, H. (2021). Governance challenges of different institutional logics and modes of organising: A Norwegian case study of municipal water supply. *Local Government Studies*. <https://doi.org/10.1080/03003930.2021.1942853>
- Carlsson, J., Haraldsson, M., & Sandell, N. (2020). Kommunala koncerner: En studie av bolagsstrukturer, budgetar och ägardirektiv, KEFU skriftserie 2020:1, Lund University School of Economics and Management.
- Clifton, J., & Diaz Fuentes, D. (2018). The state and public corporations. In A. Nolke & C. May (Eds.), *Handbook of the international political economy of the corporation*. Edward Elgar.
- Erlingsson, G., & Thomasson, A. (2020). *Kommunala bolag* [Municipally owned corporations]. Studentlitteratur.
- Erlingsson, G., Thomasson, A., & Öhrvall, R. (2018). Issues on transparency, accountability, and control in hybrid organizations: The case of enterprises owned by local government. In A. Bonovi Savignon, L. Gnan, A. Hinna, & F. Monteduro, F. (Eds.), *Hybridity in the governance and delivery of public services*, Emerald Publishing (pp. 31–52).
- Ferry, L., Andrews, R., Skelcher, C., & Wegerowski, P. (2018). New development: Corporatization of local authorities in England in the wake of austerity 2010–2016. *Public Money & Management*, 38(6), 477–480.
- Grossi, G., & Reichard, C. (2008). Municipal corporatization in Germany and Italy. *Public Management Review*, 10(5), 597–617.
- Grossi, G., Reichard, C., Thomasson, A., & Vakkuri, J. (2017). Theme: Performance measurement of hybrid—emerging issues and future research perspectives. *Public Money and Management*, 37(6), 379–386.
- Grossi, G., & Thomasson, A. (2015). Bridging the accountability gap in hybrid organizations: The case of Malmö-Copenhagen port. *International Review of Administrative Science*, 81(3), 604–620.
- Guarini, E., Mori, E., & Zuffada, E. (2021). Localizing the sustainable development goals: A managerial perspective. *Journal of Public Budgeting Accounting & Financial Management*. <https://www.emerald.com/insight/content/doi/10.1108/JPBAFM-02-2021-0031/full/pdf?title=localizing-the-sustainable-development-goals-a-managerial-perspective>
- Jessop, B. (2014). Repoliticising depoliticisation: Theoretical preliminaries on some responses to the American fiscal and Eurozone debt crisis. *Policy & Politics*, 42, 207–223. <https://doi.org/10.1332/030557312X655864>
- Municipal Act. (SFS 2017:25).
- Okhmatovskiy, I., Grosman, A., & Sun, P. (2021). Hybrid governance of state-owned enterprises. In M. Wright, G. Wood, A. Cuervo-Cazurra, P. Sun, I. Okhmatovskiy, & A. Grosman (Eds.), *Oxford handbook of state capitalism and the IRM*. Oxford University Press.
- Rhodes, R. A. W. (2005). The hollowing out of the state: The changing nature of the public service in Britain. *The Political Quarterly*, 65(2), 138–151.
- Sundström, G. (2006). Management by results: Its origin and development in the case of the Swedish state. *International Public Management Journal*, 9, 399–427.
- Tavares, A. F. (2017). Ten years after: Revisiting the determinants of the adoption of municipal corporations for local service delivery. *Local Government Studies*, 43(5), 697–706. <https://doi.org/10.1080/03003930.2017.1356723>
- Tavares, A. F., & Camões, P. J. (2007). Local service delivery choices in Portugal: A political transaction costs framework. *Local Government Studies*, 33(4), 535–553.
- Thomasson, A. (2020). The Swedish corporate model. In D. Billis & C. Rochester (Eds.), *The handbook of hybrid organizations*. Springer.
- Van Genugten, M., Van Thiel, S., & Voorn, B. (2020). Local governments and their relationship with arm's length bodies. *Local Government Studies*, 46(1), 1–21.
- Voorn, B., van Genugten, M. L., & van Thiel, S. (2017). The efficiency and effectiveness of municipally owned corporations: A systematic review. *Local Government Studies*, 43(5), 820–841.
- Voorn, B., van Genugten, M., & Van Thiel, S. (2020). Performance of municipally owned corporations: Determinants and mechanisms. *Annals of Public Cooperative and Economics*, 91(2), 191–212.
- Youm, J., & Feiock, R. C. (2019). Interlocal collaboration and local climate protection. *Local Government Studies*, 45(6), 777–802.
- Zürn, M. (2016). Opening up Europe: Next steps in politicization research. *West European Politics*, 38, 164–182.