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To corporatize or not to corporatize (and if so, how?)

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ABSTRACT

Governments around the world are increasingly turning to the use of stand-alone, state-owned utilities to deliver core services such as water and electricity. This article reviews the history of such 'corporatization' and argues that its recent resurgence has been heavily influenced by neoliberal theory and practice, raising important questions about whether it should be adopted as a public service model. Not all corporatizations promote commercialization, however. The article also discusses stand-alone utilities that have managed to stave off market pressures and develop in more equity-oriented directions. The scope for non-commercialized corporatization is narrow, but given the expansion of this organizational model it is important that we understand both its limitations and potentials, particularly in low-income countries in the South where service gaps are large and equity is a major challenge.

1. Introduction

Governments around the world are increasingly turning to the use of stand-alone, state-owned corporations to deliver core services. These 'corporatized' entities are fully owned and operated by the state but function at arm's length, with varying degrees of autonomy. Water and electricity utilities are common examples, but the practice extends to a much wider range of goods and services, including airports, child care, universities, forests, hospitals, transport and manufacturing (Aivazian et al., 2005; Bilodeau et al., 2007; Fink, 2008; Meyer, 2002; Nelson and Nikolakis 2012; Oum et al., 2006; Preker and Harding, 2003; Sumsion, 2006; Zatti, 2012).

Since the 1970s corporatization has been strongly influenced by neoliberal theory and practice, contributing to the creation of commercialized public sector cultures and ideologies, with public utilities being run increasingly on market-oriented operating principles such as financialized performance indicators, cost-reflexive pricing and competitive outsourcing (Hood, 1991; Moynihan, 2006; Osborne and Gaebler, 1992; Shirley, 1999).

Not all corporatizations have been carried out with this commercialization in mind however. Even within market economies there are widely differing motives at play. Some managers and policy-makers see corporatization as a first step toward privatization. Some see it as an opportunity to commercialize services without the political and economic risks of direct private sector participation. Others are committed to social democratic forms of welfarism, while others still see corporatization as a form of (autocratic) state capitalism.

None of this should come as a surprise given that corporatization is as old and diverse as the state itself. The Achaemenid Empire of Persia was dominated by state enterprises with autonomy from political rulers, run as "professional" entities renowned for their "efficiencies" (Farazmand, 1996, 2–3). Sweden began to "structurally disaggregate the provision and production of public services" as early as the seventeenth century, and has employed modified versions of this institutional arrangement ever since (Moynihan, 2006, 1034). So too did the Soviets experiment with the corporatization model, creating some 750,000 arm's length public enterprises while in power, many of which have since been sold or outsourced, but some of the largest and most strategic remain as stand-alone public agencies (Farazmand, 1996; Painter and Mok, 2010). Contemporary socialist states such as Cuba and Venezuela have created stand-alone public enterprises as well (Alvarez, 2006; Benzing, 2005; Bremmer, 2009; Chavez and Goldfrank, 2004), and China is arguably the most active of all (Aivazian et al., 2005; Ocko and Campo, 1994; Ramesh and Araral, 2010). Even fascist states employed the corporatization model. In Italy, Mussolini created the *Istituto per la Ricostruzione Industriale* (Institute for Industrial Reconstruction) which, "as of the late 1930s … led to the Italian state owning a bigger share in the economy than in any other country except the USSR" (Baker, 2006, 229).

In other words, the creation of autonomous state-owned service entities is neither historically specific nor ideologically pre-determined, with the rationale and operation of such public

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enterprises having differed dramatically across place and time. Their only common feature is a quasi-independent cadre of professional bureaucrats tasked with managing and producing a delineated set of goods or services, buffered to some degree from direct political intervention. Whether the aim is to sustain a monarchial elite, advance a racist agenda, build a socialist society, or promote market ideologies, the creation of an arm's length public enterprise can lend itself to radically different political projects.

This elasticity may help to explain its popularity today. Corporatized entities currently "make up the bulk of the public sphere in many Western European countries," and the practice is widespread in North America (Kickert, 2001, 135; see also Dan et al., 2012; Florio, 2013; Clifton et al., 2007). The literature on corporatization in Asia, Africa and Latin America is not as extensive, making it difficult to estimate its uptake with certainty, but it would appear to be a significant – if not dominant – organizational trend in these regions as well (Chavez and Torres, 2014; Cheung, 2013; Herrera and Post, 2014; McDonald, 2014; Uwizeyimana and Maphunye, 2014; Wong and Chan, 1999).

The question of whether (and how) to corporatize core services is therefore a pertinent and pressing one, for both policy makers and activists alike. This is particularly true in cities and countries in the South, where infrastructure and service delivery gaps are enormous, where the capacity of governments to monitor semi-autonomous utilities varies dramatically, and where commercialization may have pronounced effects on inequality.

Not surprisingly, the literature on corporatization is highly polarized. Writings in favour of corporatization tend to celebrate it as an effective way to depoliticize public services and to improve efficiency using market-like operating principles (OECD, 2005; Osborne and Gaebler, 1992; Preker and Harding, 2003; Shirley, 1999). Those opposed often see corporatization as a vehicle for the introduction of neoliberal forms of 'new public management', offering a façade of public ownership while propagating market ideology, pointing to the particularly pernicious effects of corporatization in low-income countries (Blum and Ullman, 2012; Gentle 2009; Magdahl, 2012; van Rooyen and Hall, 2007). These experiences have persuaded many that corporatization is little more than a ruse for commercializing service delivery while deceiving people into thinking that the crisis of privatization has been averted.

I want to argue a middle-ground of sorts in this paper – one that takes concerns with the commercialization of public services seriously while at the same time acknowledging the potential for corporatization to be done in more progressive, equity-oriented ways – even within neoliberal settings. On the critical side I highlight the organizational barriers to broad-based planning brought about by corporatization, with its inherently disaggregated nature. I also underscore the structural influences of the market in shaping the material and ideological character of corporatized services in a neoliberal era, and how this serves to deepen the commodification of public goods, transforming the ways we think about the very meaning of publicness.

But corporatization is not inherently market-oriented. The final section of this paper points to ways that the most negative effects of commercialized forms of corporatization may be avoided, drawing on 'actually existing' examples from countries in the South where corporatized services have operated in the broader public interest. The scope for such action may be narrow – and narrowing – but given that corporatization is not going away any time soon it is imperative that we understand both its limitations and potentials in contemporary market economies.

I also argue that 'traditional' forms of state service delivery have their own problems, some of which might benefit from the more direct forms of accountability that can be generated by corporatization. Amalgamated welfare-era services should be fought for and preserved where appropriate, but we must not wax nostalgically about integrated management models that have at times been exclusionary, opaque and blindly productivist in their orientation, particularly in post-colonial states in the South where they have tended to be highly differentiated along race and class lines, and where state-owned service delivery has often been poor or non-existent (Bértola, 2015; Newman and Clarke, 2009). As Ferguson (2009, 169) notes in the African context, "calls for reinstating old-style developmental states … are understandable in the wake of neoliberal restructuring … but I am skeptical that this is an adequate response – partly because the supposedly developmental states I know from the 1970s in Africa were pretty awful."

In the end there are no 'perfect' public service delivery models. Water, electricity, health care and other services are far too complex in their social, political, technical, environmental and economic make up to permit any single, universal archetype. We can, however, identify strengths and weaknesses in the corporatization model, and discuss the structural constraints imposed on it by market forces, as we seek possible ways of harnessing it for the delivery of badly-needed essential services and shaping it in more progressive directions.

2. What is corporatization?

Corporatization refers to service agencies that are owned and operated by the state (local or national) but which function at arm's length from government. They typically have separate legal status and an independent board of directors, with all resources being financially ringfenced from government and other state agencies. Where resources continue to be shared by more than one agency (for example, centralized IT services) each ringfenced entity pays a full-cost fee for the use of those assets (Shirley, 1999; Whincop, 2003).

The intent of financial ringfencing is to create a more transparent form of accounting, where all costs and revenues directly related to a service can be clearly identified, along with subsidies in and out of a particular unit. This is designed to identify areas of financial loss or gain that may otherwise be hidden in the intricate accounting and cross-subsidization mechanisms of an integrated, centralized service delivery system. Ringfencing can also serve to insulate revenue-generating utilities from being used as 'petty cash boxes' by elected officials or managers from other government units (sometimes for corrupt purposes), serving to protect a utility's financial integrity. And finally, it can allow corporatized agencies to obtain an independent credit rating and borrow money on the open market.

Ringfencing takes on managerial functions as well, with employees working only for the corporatized entity they are attached to, often physically separated from other government units. The intent is to create a merit-based cadre of service-specific experts shielded from the (potential) nepotism of elected officials, the short-term vagaries of election cycles, and demands from other government agencies. The hope is that with corporatization, "managerial autonomy would increase, thereby ensuring that utility revenues would not be squandered through patronage employment and other wasteful expenditures" (Herrera and Post, 2014, 629). This is not to say that corporatization can eliminate conflicts of interest between administrative and executive branches of the state (a tension that goes back at least 2000 years with disputes between 'legalists' and 'Confucianists' in China (Kamenka, 1989)) but it can create a buffer zone of relative independence for bureaucrats, while at the same time exposing managers to closer public scrutiny.

Finally, corporatization is designed to allow performance