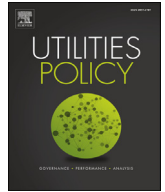




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Competing logics in the expansion of public service corporations

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ABSTRACT

This paper contributes to the current debate on the evolving nature and meaning of public service corporations. It draws upon notions of neo-institutional theory and adopts a case study methodology. The study focuses on the case of SMAT, an Italian water corporation, whose value has been recognized at home and internationally. Findings show how a public service corporation's priorities and activities, particularly commercialization and internationalization, are constrained by various factors. These include: the burden of regulatory frameworks, the public nature of the corporation and its governance, the expectations of users, and the need for infrastructural investment.

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1. Introduction

A growing body of research is focusing on the roles served by public service corporations and their public owners (Almqvist et al., 2013; Wettenhall and Thynne, 2005). Public service corporations are defined as public service providers with public ownership, that is, corporations owned by one or more governments. As such, public owners should implement coordination and controlling mechanisms to steer their corporations toward the fulfillment of the public interest (Peda et al., 2013). However, over time, public service corporations have become more commercially oriented (Reichard, 2006), diversifying their core activities and seeking territorial expansion beyond their national boundaries (Furlong, 2015). These developments lead people to question what the 'public ownership' of such corporations means, given that they adopt behaviors and follow life cycles that resemble those of private corporations whose aim is profitability (Thynne, 1994; Clifton et al., 2014).

It can be argued that the institutional context in which public service corporations operate is complex and capable of generating levels of ambiguity that may enable, but may also hamper their activities and agendas (Lounsbury, 2008). For example, in the context of Europe, various national laws and EU directives and regulations were endorsed to regulate the business and

geographical areas of corporations delivering public services (for example, Directives 2008/105/EC, 2004/35/CE, and 2000/60/EC). However, laws and regulations have not always been effective, especially when they generate an unstable scenario by continually changing the requirements with which public service corporations have to comply (Argento, 2008; Argento and van Helden, 2010; Clifton and Diaz-Fuentes, 2013). In addition to regulatory issues, financial constraints affect daily operations and investment opportunities, and costs and tariffs by consequence. As such, they are a continual concern and influence the strategies and operational choices of public service corporations (Grossi and Reichard, 2008). Finally, such choices do not go unnoticed as the affordability and quality of public services are under continual public scrutiny (Hartley and Skelcher, 2008). Thus, the behavior and response to institutional complexity of public service corporations can be understood as the outcome of the interplay between external and internal factors (Greenwood et al., 2011; Greenwood and Hinings, 1996).

This paper contributes to the current debate on the evolving nature and meaning of public service corporations by addressing two research questions. First: how do public service corporations deal with the complexities they face when making decisions? Second, and more specifically: which factors encourage or discourage the expansion of public service corporations beyond their core business and local geographic areas (such as commercialization and internationalization)?

To answer these questions, we present a theoretical framework drawing on the concepts of institutional logics, complexity, and

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organizational response. We adopt a case study methodology focusing on SMAT, the publicly owned water corporation operating in the northwest of Italy. It was recognized as the top Italian public utility in 2014 and is also widely recognized beyond national boundaries. This case study is relevant because SMAT is gaining recognition while showing a commercial orientation and a special concern toward internationalization. At the same time, the case shows how various factors may constrain a public service corporation's priorities and activities. The burden of regulatory frameworks, the public nature of the corporation and its governance, the expectations of users, and the need for infrastructural investment may all influence decisions to expand the business abroad.

The remainder of this paper is structured as follows. Section 2 presents the theoretical framework of this study and is followed in Section 3 by a description of the methods used to conduct the empirical research. Section 4 highlights the findings stemming from the case study. Section 5 closes the paper by discussing results and providing concluding remarks.

2. Theoretical framework

First, we assume that organizations and their environment are interdependent phenomena (Albu et al., 2014). Thus, it is suitable to draw upon neo-institutional theory to propose a theoretical framework for analyzing how external and internal factors, and their interplay, shape the strategies and operational choices of public service corporations. This paper builds upon the notions of institutional logics (Thornton et al., 2012) and complexity, focusing on how organizations respond to such complexity (Greenwood et al., 2011).

According to Albu et al. (2014), an organization's structures and systems are influenced by its environment. Applying this idea to public service corporations, it follows that the legal, regulatory, financing and taxation systems generate multiple institutional logics that affect the public service corporation's behavior. Institutional logics 'represent frames of reference that condition actors' choices for sense-making, the vocabulary they use to motivate action, and their sense of self and identity' (Thornton et al., 2012, p. 2). This means that, when making strategic decisions and operational choices, public service corporations are influenced by the institutional logics they are exposed to because those logics may define expectations, legitimate activity and become embodied in organizational structures and practices (McPherson and Sauder, 2013). However, when the prescriptions and proscriptions of different logics are incompatible, they generate challenges and tensions for the organizations exposed to them (Greenwood et al., 2011, p. 318). It follows that public service corporations operate in a context characterized by ambiguity when they face multiple logics that are not always aligned.

In line with the managerial principles instilled by New Public Management reforms (Osborne and Brown, 2005; Van Dooren et al., 2010), public service corporations are expected to comply with a *business logic*, which requires them to adopt business-like behaviors and to seek operational effectiveness and efficiency. In other words, this logic encourages management to seek opportunities that guarantee economic growth and expansion (including cost cutting, profit orientation, partnerships, commercialization, and internationalization) as major goals (McPherson and Sauder, 2013).

Given that public service corporations operate in a network of different actors, including regulators with coercive powers (such as the European Union, national legislators, and regulatory agencies), they also deal with a *logic of compliance* with a variety of rules and requirements. These include the stipulations in concession contracts, privatization and merger programs, governance settings

and/or the opportunities allowed by the law and regulations, such as commercialization and internationalization (Boscheck, 2013; Clifton and Diaz-Fuentes, 2013).

Public service corporations also face a *community logic* (Thornton et al., 2012) stemming from their mandate to serve the public interest by delivering services with a certain degree of quality and affordability. This impels management to prioritize local citizens/consumers and to be accountable to them. The expectations and demands for accountability of citizens with respect to service quality are increasing, raising the standards by which public services (and their respective providers) are judged by the public and by the media (Hartley and Skelcher, 2008).

Being simultaneously exposed to different logics implies that public service corporations may have multiple and discrepant goals (Thornton et al., 2012). For example, pursuing the delivery of quality services often requires (infrastructural) investments, which in times of financial constraint result in the need to increase the tariffs paid by citizens/consumers. Situations like this create tensions because even if a tariff increase can potentially increase quality, it negatively affects affordability and shows how logics can 'provide inconsistent expectations' (Greenwood et al., 2011).

Considering the business logic, public service corporations strive for financial independence from their owners, meaning that a tariff increase may constitute a rational choice. The ultimate goal of improving quality may be to meet the expectations of the compliance logic, unless specific laws regulate/limit tariff increases. In connection with the community logic, citizens/consumers may not expect the quality improvements to be completely funded via tariffs. This example shows how public service corporations face complexity and have to make trade-offs between diverging goals and activities (Greenwood et al., 2011). This is reflected in strategic and operational planning and, consequently, in the operations carried out by public service corporations.

In order to understand how organizations react to the pressures generated by different institutional logics, Lounsbury (2008) suggests that an analysis of both the broader logics and the activities of people and organizations is desirable. That is, the interplay between external and internal factors (Greenwood and Hinings, 1996) may explain specific responses. Responses are important as they can have implications for the legitimacy and survival of an organization (DiMaggio and Powell, 1983). Organizations may enact an array of strategic responses that range from the most passive acquiescence, to the most active manipulation of institutional pressures, via compromise, avoidance, and defiance (Oliver, 1991). This means that public service corporations may be more or less sensitive to certain logics and thus react in different ways by exerting discretion over how the logic is incorporated into organizational structure and practice.

Greenwood et al. (2011) suggest that such sensitivity depends on four organizational characteristics, namely field position, organizational structure, ownership and governance, and identity. In line with the arguments of these authors, *field position* can influence how public service corporations experience complexity. A peripheral organization may be less exposed to contradictory logics, experience less complexity, and exert more discretion. Central organizations (that is, large, high-status organizations) can have different degrees of discretion at their disposal. On the one hand, because of their size and status, public service corporations could perceive high complexity as they are visible in the field and attract varying levels of media attention (hence, having less discretion at their disposal). On the other hand, large, high-status public service corporations may be able to deviate from the prevailing cultural expectations because they are immune to institutional pressure (hence, having more discretion at their disposal).

Reflecting on the second characteristic identified by Greenwood

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