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Citation for final published version:

Andrews, Rhys 2022. Organizational publicness and mortality: explaining the dissolution of local authority companies. *Public Management Review* 24 (3) , pp. 350-371. 10.1080/14719037.2020.1825780

Publishers page: <http://dx.doi.org/10.1080/14719037.2020.1825780>

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# **Organizational Publicness and Mortality: Explaining the Dissolution of Local Authority Companies**

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## **Abstract**

Organizational publicness is likely to have important implications for the mortality or survival of local authority companies. Majority-owned companies and those experiencing more political control may be less prone to dissolution due to greater government commitment to their survival, than their minority-owned and more politically autonomous counterparts. Using survival analysis to test these ideas, this study finds that dissolved local authority companies in England are more likely to be minority-owned, but have more politicians on their board of directors. They also have fewer directors in total, and tend to take a not-for-profit rather than a profit-making form.

**Keywords:** Publicness; organizational mortality; corporatization; local government; quantitative analysis

Forthcoming in: *Public Management Review*

## Introduction

In the wake of an unprecedented reduction to their funding, local authorities across England are increasingly creating and operating companies to deliver services in diverse fields such as social care, museums, housing, property, educational support and leisure services (Ferry et al. 2018). This development, often described as ‘corporatization’, is occurring in many European countries (Torstenstein 2018; Voorn, van Genugten, and van Thiel 2018). However, despite rapidly growing interest in the phenomenon of corporatization, systematic research investigating corporatized services is only slowly emerging (Voorn, van Genugten, and van Thiel 2017; Voorn, van Genugten, and van Thiel 2020). In particular, to date, scant attention has been paid to what explains the mortality or survival of the local authority companies that are increasingly responsible for the provision of public services.

Like many other public sector reforms, corporatization, is related to wider New Public Management (NPM) and post-NPM trends in a variety of complex and context-dependent ways (Christensen and Laegrid, 2017; Van Genugten, Van Thiel and Voorn, 2020). In some cases, the use of companies to provide local public services may be more about organizational experimentation and learning than managerialism (Meyer, 2002). In England, it has been driven by pressures on local authorities to become more entrepreneurial in their approaches to service delivery (Sandford, 2016). Prior to the rise of NPM, local authority companies tended to take two main forms in the country: i) profit-making entities providing transportation services, such as airports, ports and buses; and, ii) not-for-profit trusts organising cultural activities or preserving historical buildings, parks and monuments. Then, during the 1990s and 2000s, housing companies and leisure trusts were created in response to policies requiring local authorities to market-test their services (Compulsory Competitive Tendering and Best Value). More recently, cuts to local government grants have resulted in the creation of new profit-

making companies in order to generate extra revenue to support service provision (see Andrews et al., 2020).

The growing corporatization of the local public sector in England has led to key services being provided through forms of service delivery, which require the development and application of ‘commercial acumen often seen in the private sector’ (Harrison 2018, 5). One particularly significant issue within this context is the sustainability of local authority companies, which often operate in competitive public service markets and combine a business orientation with a broader mission to create public value (Andrews et al. 2020). In England, local authority companies are subject to private company law, and therefore ‘trade’ in a regulatory environment that is lower in publicness than that in which ‘pure’ public organizations function. A specific concern for the on-going viability of local public services in these circumstances is therefore the organizational characteristics that may raise or lower the likelihood of organizational mortality. To better understand some of the dynamics of mortality and survival in the corporatized public sector, this paper investigates the relationship between organizational publicness and the dissolution of English local authority companies.

The conventional (or “core”) approach to understanding organizational publicness focuses on the legal form of ownership taken by an organisation i.e. whether its assets are controlled by private shareholders or public institutions (Bozeman and Bretschneider 1994). However, this approach pays too little attention to the political authority of the state and fails to adequately differentiate organizational hybridity: that organizations can be more or less public (Bozeman and Bretschneider 1994). To remedy both these weaknesses, Bozeman (1987) argued that it is important to incorporate multiple indicators of political authority within publicness research and that there are three main dimensions along which variations in organizational publicness can be plotted: ownership publicness (the degree to which the assets of an organization are owned by public institutions); funding publicness (the degree to which

an organization depends upon government grants and contracts); and, control publicness (the extent to which politicians influence an organization's priorities).

Much publicness research has focused on public ownership (e.g. Hodgkinson et al. 2017; Hodgkinson and Hughes 2019), but scholars are increasingly addressing the effects of multiple dimensions of organizational publicness within the same study (Andrews, Boyne and Walker 2011), especially ownership and funding publicness (e.g. Bozeman and Bretschneider 1994; Miller and Moulton 2014). However, researchers have rarely considered the relationship between publicness and the mortality of public service organizations. Moreover, the salience of 'control publicness' for the management and performance of public services remains under-analysed (for rare recent contributions see Menozzi, Guiterrez Urtiaga and Vannoni 2012; Xu 2017). Investigation of the connections between public ownership, political control and the dissolution of local authority companies can therefore cast much-needed light on the ways in which publicness influences the corporatizing local public sector.<sup>1</sup>

Across the world, companies are being set up by local authorities and used for the management of natural resources, the provision of utilities, such as gas and electricity, and increasingly the delivery of public services, such as social housing, elderly care and waste management (Voorn, van Genugten, and van Thiel 2018). This development gives rise to new principal-agent problems for local authorities, as they increasingly entrust service delivery to arms-length organizations. Such problems seem very likely to be influenced by the relative publicness of the companies that are created (Hoppe and Schmitz 2010).

Local authority companies can vary greatly in terms of organizational publicness, with many being wholly-owned and controlled by public organizations, while others are principally-owned by private sector partners and/or experience comparatively limited political oversight and bureaucratic monitoring (Bel and Fageda 2010; Boardman and Moore, 2020). About two-thirds of all the companies set up by English local authorities are majority-owned, but the

remaining one-third are principally owned by private firms or nonprofit organizations (see Table 1 below). In these cases, authorities often partner with private firms as minority shareholders to create local development companies to provide infrastructure services, or work with local communities to establish not-for-profit trusts to provide leisure and cultural services in which the authority retains only a minority of the trustees on the board of directors. Variations in the publicness of these companies thus facilitates examination of some key principal-agent relationships associated with the corporatization of local public services. In particular, investigation of the mortality/survival of local authority companies can shed light on the extent to which their potential to be considered effective agents for the creation of public value might depend on the degree of public ownership and political control to which they are subject.

To analyse the relationship between organizational publicness and mortality, this study draws upon a dataset of nearly 600 local authority companies in England. Survival analysis is used to estimate the effects of public ownership and political control on the length of time for which companies operate. Public ownership is measured as the exercise of majority shareholding or voting rights over a company by public organizations, with political control measured as the percentage of local politicians on the board of directors of each company. Other covariates likely to influence the mortality of local authority companies (organizational age and size, board size, profit orientation, and service type) are also included in the analysis. The statistical results indicate that majority public-ownership reduces the likelihood of dissolution, whereas greater political control increases the prospect of mortality. In addition, companies taking a profit-making form or with a large board of directors are more likely to survive, whereas those providing human or administrative services are more likely to be dissolved. The study therefore raises important theoretical and practical questions about the future of corporatized public services.

The paper will now briefly set out the literatures on organizational mortality and the dimensional approach to organizational publicness, focusing in particular on the institutional setting of local authority companies. Drawing on ideas from principal-agent theory, it will then develop and describe hypothesized relationships between public ownership, political control and organizational mortality, before explaining the research context and methods employed. This will be followed by a discussion of the results, and finally conclusions will be drawn regarding the theoretical and practical implications of the study.

### **Organizational publicness and mortality**

Theories of organizational mortality point to the challenge of determining whether and when an organization has genuinely ceased operations (Freeman, Carroll and Hannan 1983). In the public sector, it has long been thought that such ‘deaths’ occur extremely rarely (Downs 1967; Kaufman 1976), with government agencies, departments and bodies often restructured, reorganized or continuing as ‘permanently failing’ organizations due to the political difficulties of finally closing them down (Meyer and Zucker 1989). Despite the technical challenges of identifying genuine cases of organizational mortality within government (Peters and Hogwood 1988), there are certain organizational forms operating in the public sector field that may exhibit cycles of birth and death that are more akin to those found amongst private firms. In particular, the enterprises, corporations and companies that are set up by public organizations are often subject to private company law and have to demonstrate commercial viability as well as political legitimacy (Bruton et al. 2015), making their survival as a ‘going concern’ especially challenging when compared with ‘pure’ public organizations. These corporate forms of organization vary considerably in the patterns of public ownership and political control that they experience, and thus represent an excellent setting for examining whether variations in organizational publicness are associated with organizational mortality.

Since the rise of the New Right in the 1970s and NPM in the 1980s, efforts to reduce the ‘publicness’ of public organizations through marketization, light-touch regulation and business-like management, have held sway as tools for enhancing public sector governance, performance and accountability (Hyndman and Lapsley 2016). In response to these developments, researchers have long paid attention to the relationship between publicness and organizational outcomes (see Andrews, Boyne and Walker 2011), and have also begun to acknowledge the relationship between publicness and public values more broadly (Antonsen and Jorgensen 1997; Bozeman and Moulton 2011). However, empirical evidence on the implications of publicness for the public value created by local authority companies is comparatively scarce.

Local authority companies operate in ‘a twilight zone, being both private in one sense, acting according to the legislation of joint stock companies, and public in another sense, oriented towards fulfilling the needs of the municipal citizenry’ (Collins et al. 2009, 142). Whatever particular service they are set up to provide, companies are required to be commercially viable and to create ‘public value in such a way that what the public most cares about is addressed effectively’ (Bryson, Crosby and Bloomberg 2014, 446). Amongst the public values that companies are expected to promote, are those that Hood (1991, 13) terms the *lambda* values of ‘resilience, endurance, robustness, survival and adaptivity’ – values that have long been connected with organizational legitimacy (Pfeffer and Salancik, 1978), and which are key indicators of an organization’s success in cementing its role within a political system (Carpenter, 2001). Since organizational publicness is assumed to have an important relationship with the realization of public values (Bozeman and Moulton 2011; Moulton and Eckerd 2012), the sustainability and, ultimately, survival of local authority companies thus seems likely to be influenced by the different dimensions of organizational publicness.

According to Bozeman (1987), all organizations vary in terms of ownership, funding and control. Ownership publicness focuses on the extent to which an organization is collectively-



owned by the institutions representing a political community, rather than privately-owned by shareholders and/or entrepreneurs (Pesch 1997). Funding publicness pertains to the degree to which an organization obtains its resources through government grants or contracts, instead of via fees charged to the consumers of its services (Bozeman and Crow 1990). Control publicness reflects the extent of direct political influence over an organization, especially in terms of the opportunities for politicians to set organizational priorities, monitor their achievement, and to constrain managerial autonomy (Nutt and Backoff 1993).

Variations in these three different dimensions of organizational publicness are especially salient for local authority companies, because they often have complex ownership structures, rely on diverse funding streams and have less contact with elected politicians. Companies may be part-owned by non-state actors and institutions, including private firms and investors, and charitable foundations, whose priorities may differ from public actors (Thomasson 2009). Moreover, they are often able to access revenue sources unavailable to ‘pure’ public organizations, such as user charges, fees for commercial services and charitable grants and tax relief (Stumm, 1996). In addition, the corporate governance of local authority companies may have to address specific requirements regarding the composition of the board of directors and its independence from the parent public organization(s) (Papenfuss et al. 2018). Critically, the extent to which each of these dimensions of publicness matter can vary from company to company, so it is important to consider the ways in which this might influence the prospects of organizational dissolution.

### ***Public ownership and organizational mortality***

The sociological literature on organizational mortality draws upon ecological and institutional theories that suggest organizations are either selected out of existence by external forces (Freeman, Carroll and Hannan 1983; Singh and Lumsden 1990) or survive by becoming

embedded within networks of mutual dependence (Baum and Oliver 1992; Hager, Galaskiewicz and Larson 2004). By contrast, political science and public administration points towards the principal-agent relationships that may condition the likelihood that a public agency will survive or be terminated (Kuipers, Yesilkagit and Carroll 2018) – an insight that is also central to research on local authority companies (Voorn, van Genugten, and van Thiel 2017). Building on those bodies of research, this study adopts a principal-agent perspective to theorise the potential connections between organizational publicness and mortality, and ecological and institutional theories to identify a range of relevant control variables.

In the past, researchers studying organizational publicness focused exclusively on the legal form of ownership taken by an organization, whereas it is now regarded as only one amongst a number of different publicness dimensions (Bozeman and Bretschneider 1994). Ownership publicness is essentially a product of the economic assets (property rights) held by the owners of a given organization (Pesch 1997). For privately-owned organizations, these assets are dependent upon market forces, which represent the source of economic authority for distinctive business management practices. By contrast, the assets of publicly-owned organizations derive from the authority of the state, and so public management practices are not so influenced by the economic authority of the market, but instead gain legitimacy from the (political) authority of the state. In fact, for Bozeman (1987, 17), political authority is actually the essence of publicness: ‘all organizations are public because political authority affects some of the behaviour and processes of all organizations.’

The exercise of political authority by local governments over the companies that they create is frequently modelled using insights from principal-agent theory (van Genugten, van Thiel and Voorn 2020). From this perspective, a local authority company is an agent responsible for undertaking tasks on behalf of its principal (the local authority). To ensure that a company (the agent) does not use its informational advantages to pursue its interests at the expense of the

local authority's, the authority (the principal) must invest in systems for monitoring the performance of the agent, which, in turn, creates additional transaction costs (van Thiel 2016). The magnitude of such costs is highly likely to be influenced by the relative publicness of the companies that local authorities create and supervise.

The transaction costs associated with achieving alignment between the goals of the principal and the agent tend to be lower in privately-owned organizations because managers' salaries are linked to organizational performance, thereby ensuring that the agents (managers) have a direct financial incentive to create value for the principals (the owners and shareholders) and requiring less intrusive oversight (Demsetz 1967). By contrast, public managers are unlikely to benefit financially from better performance and have less incentive to seek out innovative business practices than their private sector counterparts (Boyne 2002; Hodgkinson et al. 2018), which raises the agency costs for political principals seeking to ensure public managers make good decisions (Vining and Weimer 2006). Because local authority companies operate at arms-length from their parent public organizations, information asymmetries arise that increase the costs of supervising and steering them towards desired policy objectives – at least until good inter-organizational relations are established (Voorn et al. 2017). Majority-owned companies can potentially generate higher agency costs for local authorities than those in which private or nonprofit partners take a more active supervisory role, which may lead local policy-makers and politicians to be wary of devoting the additional resources of time and money needed to support them effectively (Aars and Ringkjøb 2011). This, in turn, implies that rates of mortality could be higher amongst local authority companies with a greater degree of public ownership.

Despite the plausibility of a positive public ownership-dissolution relationship, it is equally conceivable that mortality may be lower amongst public-owned companies, in the first instance, because majority ownership *per se* signals a credible commitment on the part of the

principal (the local authority) to accept the agency costs associated with the supervision of the company (Feiock, Jeong and Kim, 2003). At the same time, the costs associated with coordinating the interests of multiple principals seem likely to be much higher in minority than majority-owned companies (Voorn, van Genugten and van Thiel, 2019), especially in those companies in which principals come from different sectors of the economy (Hoppe and Schmitz 2010). Since these collective-action problems may be less influential in companies with higher levels of public ownership, they may be more likely to benefit from the commitment of government to their survival as (semi)autonomous entities through soft budget constraints (e.g. low-cost loans, grants and subsidies) (Bruton et al. 2015; Kornai, Maskin and Roland 2003), and, ultimately, bailouts in the event of financial failure (Faccio, Masulis and McConnell 2006). For these reasons, higher levels of public ownership are often associated with lower levels of dangerous risk-taking (Boubakri, Cosset and Saffer, 2013), and the adoption of ‘appropriate’ practices that can enhance the legitimacy of an organization in the eyes of key stakeholders (Ruef and Scott 1998). As a result, the likelihood of dissolution may be lower for majority than minority public-owned companies.

Although the available evidence suggests that organizational death rates are lower in the public than in the private and nonprofit sectors (Dahiya and Klapper 2007; Hager, Galaskiewicz and Larson 2004; Kuipers, Yesilkagit and Carroll 2018), to date, research on organizational mortality has yet to explicitly address the issue of public ownership. Empirical publicness research generally suggests that while public ownership may be associated with efficiency losses, it is often positively related to the creation of other important sources of public value, such as organizational effectiveness and public service equity (Andrews, Boyne and Walker 2011). As a result, even if publicly-owned local authority companies potentially have weaker financial management than those in which the private sector plays a greater role (Hoppe and Schmitz 2010), they can draw upon strong capabilities for authoritative decision-making

and responsiveness to citizens that can bolster and reinforce their democratic and political legitimacy (Aars and Ringkjøb 2011). This, in turn, is likely to contribute towards the realisation of *lambda* values, such as resilience and adaptivity, and stave off potential threats to organizational survival. For this reason, the following assertion is posited:

*Hypothesis 1:* Public ownership will have a negative relationship with organizational mortality

### ***Political control and organizational mortality***

Like many other NPM-inspired reforms, one of the key motivations behind corporatization is to ‘replace politics by professionalism’ (Bourdeaux 2008). From a principal-agent point of view the political dynamics of corporatization look a little different from the supervisory dynamics. Politicians are agents elected by citizens (the principal) to oversee the implementation of public policies by public managers (agents of the politicians). However, politicians have an incentive to interfere in policy implementation in order to increase their chances of re-election (Miller, 2005). Increased political control over local arms-length organizations can therefore potentially threaten the independence of the senior managers and directors responsible for corporate governance (Caker and Siverbo 2011; Garrone, Grilli and Rousseau 2013). Moreover, to the extent that local authority companies become susceptible to political rather than economic considerations, they may suffer from goal displacement caused by the rent-seeking of politicians, which, can threaten their perceived legitimacy (D'Souza and Nash 2017). Indeed, the literature on the death of government agencies highlights that insulation from potential political interference may hold the key to organizational survival in the public sector (James et al. 2016; Lewis 2002; Park 2013).

Although the extension of political control over arms-length organizations can potentially constraining managerial freedom and effective corporate governance, it may also enhance democratic accountability and legitimacy (Koppell 2003; Klausen and Winsvold

2019). Unlike the managers of local authority companies, politicians are directly accountable to voters for the quality of local public services (Tavares and Camões. 2010), which means that they have the motivation (and ideally the skills and expertise) to ensure that the organizations responsible for providing those services create public value and are perceived to be legitimate (Olsen, Solstad and Torsteinsen 2017). One influential argument against the creation and use of local authority companies is the suspicion that they “reduce accountability of public officials”, because “decisions are taken out of public view and are made to appear technical” (Rubin 1988, p. 543). Any perceived transaction costs and goal displacement associated with the political control of local authority companies may therefore be outweighed by the potential for improved organizational and democratic legitimacy that the involvement of politicians in arms-length organizations can bring, and which, in turn, might make dissolution less likely.

A small number of empirical studies have investigated political involvement in the companies operated by local authorities. This literature suggests that local authority companies confront conflicts between politics, policy and professionalism that increase agency costs and undermine their capacity for action (Bordeaux 2008; Krause and van Thiel 2019). However, local authorities that are more comfortable with the political transaction costs involved in managing these ‘ambiguities of control’ (Aars and Ringkjøb 2011, 843) may be more willing and able to create and operate large numbers of companies (Rubin, 1988), and therefore be reluctant to close them down. Moreover, the lack of transparency around appointment to paid positions on the boards of local authority companies can potentially make them an attractive way for political leaders to reward loyal party members (Bergh et al. 2019). All of which suggests the following proposition:

*Hypothesis 2:* Political control will have a negative relationship with organizational mortality

## **Data and methods**

The study sample includes all the companies, at least partly-owned by the full population of single and upper-tier local authorities in England for the period 2009-17. Single-tier local authorities (London boroughs, metropolitan districts and unitary authorities) operate mostly in urban areas, while upper-tier local authorities (county councils) operate in the two-tier local government system that covers rural areas. They manage about a quarter of the total UK public sector budget (HM Treasury 2018) and are responsible for local public services in the areas of: education (e.g. primary and secondary schooling), social care (e.g. services for older people and at-risk children), environmental services (e.g. waste management), highways and transportation, economic development and land use planning, and leisure and culture services (e.g. sports centres, libraries, museums). With the exception of county councils, they are also responsible for social housing (e.g. sheltered accommodation and rent subsidies). Local authorities have been creating and operating companies to provide all of these services, except for the coordination or management of schools.<sup>2</sup>

To identify the companies that local authorities controlled or in which they had an interest, the annual statements of account for each authority were scrutinized in detail. This extensive search procedure revealed the existence of nearly 700 separate local authority companies during the study period. To construct a company-level dataset for the purposes of the study, the registered company number for each entity in which local authorities had an interest was then searched via the FAME database from Bureau Van Dijk. Following that, the registered numbers were imported into the FAME database to extract the company-level information necessary for the analysis. This process revealed that some of the companies lacked full accounting data. As a result of this data cleaning, the final sample of companies included

in the analysis was 595. Of this sample, 339 Are *private companies limited by shares*, and 197 are *private companies limited by guarantee*; with a small number being limited liability partnerships, charitable incorporated organizations or trusts.

### ***Dependent variable***

Organizational mortality is operationalized in numerous different ways in the business management, organizational sociology and public administration literatures. According to business management scholars, the ultimate indicator of mortality is bankruptcy, since this signals the failure of managers to ensure that a firm fulfils its financial obligations (Cochrane, 1981). By contrast, sociologists focus on the simple discontinuance of organizations as the product of wider ecological and institutional influences (Thornhill and Amit 2003). Public administration researchers emphasize that the termination (or death) of agencies is the result of political decisions shaped by ideological, organizational and institutional factors (Kuipers, Yesilkagit and Carroll 2018). Importantly, the dissolution of local authority companies presupposes the exercise of political authority, but unlike the termination of government agencies involves the disestablishment of a legally autonomous entity. It is therefore an event that takes a more dichotomous form than the name changes, mergers and transformations that sometimes characterise terminations in central government bureaucracies (see Greasley and Hanretty 2014). For that reason, this study follows Peters and Hogwood (1988) in regarding organizational mortality as ‘the abolition of an organization with no replacement organization established’ (132).

The dependent variable for the analysis presented here is the hazard rate for a company being legally dissolved in a given year, which can be characterised as the likelihood that this particular event will happen to a given local authority company at a particular time. The hazard of a company being dissolved is a function of the length of time in years that it takes for it to



experience failure. Companies that survived the study period without being dissolved are assigned a value of 1 on a status variable. Companies that are disbanded and no longer operational received a 0 from the year in which they are officially dissolved and then exited the panel.

***Independent variables: public ownership and political control***

The degree of *public ownership* of each company was measured by calculating the percentage of the shares held by local authorities or seats on the board of directors held by nominated local authority officers – local bureaucrats with administrative and managerial responsibilities who are appointed by the chief executive officer in consultation with politicians. In some cases, this information was not present within the FAME database, so the articles of association for local authority companies were downloaded from the UK Companies House public beta service, and examined for the relevant information. Public ownership ranged from a few cases where local authorities had 0% ownership to 100% full ownership. The mean level of public ownership was 67%, but the distribution of ownership coalesces mostly around 20%, 50% and 100% respectively. Given the non-normal distribution of this data, a dichotomous variable coding majority public-owned companies 1 and all other companies 0 is therefore used to measure *public ownership* (see also Andrews, Boyne and Walker 2011; Bozeman and Bretschneider 1994).

The degree of *political control* over each company in the sample was measured by calculating the proportion of local elected politicians on a company's board of directors. These politicians are not employees of the local authority, so their service on a company board signals the interest of the ruling political party in establishing additional democratic control over the company's management. In mathematical notation, political control for company  $i$  in year  $t$  is

equal to  $\left(\frac{n_{it}}{Bsize_{it}} \times 100\right)$ , where  $n$  is the number of directors who are local politicians and  $Bsize$  is the board size.

### ***Control variables***

Following the ecological and institutional literature on organizational mortality, measures of company age, size, inter-organizational linkages, profit-making form and industry (service type) are added to the models.<sup>3</sup> Local authority company *age* is measured as the number of years since the financial year in which the company was incorporated. Empirical studies have identified a “liability of newness” whereby recently-established organizations are more likely to be dissolved than older ones (see Coad et al. 2018; Singh and Lumsden 1990). Company *size* is measured by creating a dichotomous variable coded 1 for the local authority companies in the sample that are ranked in the top quartile of the sample for turnover in £millions according to the FAME database. This approach is used to deal with missing accounting information for the smallest of the companies in which local authorities have an interest, and the non-normal distribution of the turnover figures for those companies with complete information. Organizational mortality research suggests that large organizations are less likely to fail than their smaller counterparts (e.g. Fackler, Schnabel and Wagner 2013; Singh and Lumsden 1990).

*Inter-organizational linkages* are measured by included a measure for the number of directors that sit on each company board per annum.<sup>4</sup> Like non-profit organizations, local authority companies have a distinctive social mission, and often have to address the interests of multiple stakeholders, and so this indicator can proxy for the extent to which a diverse range of stakeholder groups are represented on a company’s board of directors (Aggrawal, Evan and Nanda 2012). Involvement of a wider range of stakeholders in the direction of a local authority company seems likely to increase its legitimacy and the institutional sources of support for the organization, reducing its overall resource dependency and, therefore, the likelihood of

dissolution. Singh, Tucker and House (1986), for example, find that larger boards are positively associated with the survival of not-for-profit social service organizations in Toronto.

The importance of a *profit orientation* for the prospects of company mortality is gauged by included a dichotomous measure in the models coded 1 if the legal form of a local authority company permits the distribution of share equity (i.e. is a company limited by shares or a limited liability partnership) and 0 if it does not. Non-profit organizations may be able to reduce their risk of dissolution by occupying a distinctive organizational niche (Baum and Singh 1994). However, profit-making local authority companies are likely to benefit from greater commitment to their survival from their parent organizations because they are regarded as sources of additional revenue (Rubin 1988; Stumm 1996) – something that may be especially important for English local authorities operating profit-making companies in an era of austerity (Ferry et al. 2018). For this reason, a negative relationship between a profit orientation and mortality is anticipated.

Finally, three dichotomous variables coded for the main type of public service provided by each company are created: technical, administrative or human. To categorize companies into these three types of service, they were first assigned to the main local government service budget lines published by the UK's Ministry for Housing, Communities and Local Government: administrative support; cultural services; economic development; educational support; environmental services; leisure services; social care; social housing; and, transportation. After that, they were classified as providing either an administrative, human or technical type of service, with the technical services category as the reference category in the analysis. It is anticipated that mortality will be higher for companies providing administrative and human services, as these are typically more dependent upon professional staff, and combine high levels of asset specificity with difficulty managing and measuring outcomes (Brown and Potoski 2005). In addition, the companies providing human services, in particular, are likely to confront

a wider range of competing accountability structures than those providing technical services (Andersson and Liff 2012), posing more serious threats to their legitimacy and survival.

Descriptive statistics and correlations for the variables used in the analysis are presented in Table 1. The table highlights that nearly two-thirds (64%) of the local authority companies in the sample are majority public-owned, and that the mean proportion of politicians on the boards of directors is around 11.2%. On average, companies are nearly eleven years old, with those in the top quartile for turnover holding, on average, about £50 million (£50,301,859) in assets. The average number of directors on a local authority company board was nine, with over half (58%) of the companies in the sample taking a profit-making rather than a not-for-profit form. Most of the companies provide technical services, such as waste management and transportation (52%), rather than human services, such as social care and housing (36%), or administrative support, such as financial or IT services (12%). The negative correlation between majority public ownership and organizational mortality and the positive correlation between political control and mortality already point towards the possibility that there are important relationships between organizational publicness and mortality. Other notable correlations shown in Table 1 include those confirming the anticipated relationship between profit orientation and mortality and between the different service types and mortality.

[Table 1 about here]

## **Statistical results**

Figure 1 depicts Kaplan-Meier estimates of the hazard rate for the sample of local authority companies included in this study. The figure highlights that there were a comparatively small number of company dissolutions during the study period (about 7%)<sup>5</sup>, something that is backed up by anecdotal evidence from consultancy reports (Grant Thornton 2018). However, it is also

important to note that the rate of company mortality appears to be increasing. This is perhaps unsurprising given the fast growth in the creation and use of companies by English local authorities during that time (Ferry et al. 2018), but also underlines the importance of understanding the possible causes (and consequences) of company mortality given the increasingly important role that these entities play in providing public services.

[Figure 1 about here]

Cox proportional hazard estimates for the likelihood of company mortality are shown in Table 2 below. The global test of the proportional-hazards assumption indicates that the assumption cannot be rejected for this model ( $\chi^2 = 11.62$ ,  $p = .169$ ). Multicollinearity does not seem to be a concern for the analysis since the individual Variance Inflation Factor is well below 2 (average = 1.21) for all explanatory variables (Belsley, Kuh and Welch 1980).

[Table 2 about here]

Starting with the relationship between public ownership and mortality, the hazard ratio for majority public ownership is less than one and is statistically significant, suggesting that majority-owned companies are less likely to be dissolved than those that are minority-owned. According to Allison (1995), substantive interpretation of hazard estimates can be undertaken by subtracting one from the hazard ratio and multiplying that by 100. Following this process suggests that local authority companies that are majority-owned are about 75 per cent less likely to be dissolved than those that are minority-owned. Figure 2 depicts Nelson-Aelon failure estimates for the majority and minority-owned companies included in this study, which

highlight the much higher rate of mortality among minority-owned (more than 10%) than majority-owned companies (less than 5%) during the study period.

[Figure 2 about here]

The hazard ratio for the proportion of politicians on the board of directors is positive and statistically significant indicating that political control is positively associated with local authority company mortality. On this occasion, substantive interpretation of the hazard ratio suggests that for every percentage point increase in the proportion of politicians on the board of directors, the likelihood of dissolution increases by almost a fifth of a percentage point (.18). Put differently, this implies that if the average percentage of politicians on the board were to be doubled from 11 to 22, then the likelihood of dissolution would increase by about twenty per cent. While this is not as substantive an effect as that for public ownership, the upper confidence interval for the political control estimate highlights how the risk of mortality may well be much greater in some companies than others. This finding also corroborates anecdotal evidence that politics rather than business viability may often be responsible for local authority company dissolution in the UK (Grant Thornton 2018). Something that is discussed further below.

Overall, the estimated effects of the organizational publicness variables imply that there is strong support for hypothesis 1, but that the evidence contradicts rather than supports hypothesis 2. Turning to the results for the control variables shown in Table 2, it appears that, unlike the prior empirical literature, organization age and size are both unrelated to mortality. However, both board size and profit-making form have the anticipated negative relationships with mortality. Here, the substantive effect of board size implies that a doubling of the number of directors would reduce mortality by about 53 per cent, while for-profit companies appear to be almost 58 per cent less likely to be dissolved than not-for-profit companies. At the same

time, there appear to be interesting variations in the mortality rate associated with the type of public service provided by local authority companies. In particular, mortality rates are, as expected, higher for the companies that provide administrative or human services, than for those providing technical services. This finding suggests that local policy-makers may have important concerns about the legitimacy of corporatizing such services.

## **Discussion**

The survival analysis presented above indicates that majority-owned local authority companies are less likely to be dissolved than those that are minority-owned, but that greater direct political control of companies is associated with an increased propensity for dissolution. In addition, further analysis suggests that a range of other important organizational characteristics influence the likelihood of survival for local authority companies, especially board size, profit orientation and the type of service provided.

Drawing on ideas from principal-agent theory, this paper has tested and found that variations in organizational publicness are likely to have important implications for the survival of corporatized public services that require more serious and sustained attention from public management scholars. In particular, research that addressed the impact of organizational publicness on other aspects of the management and performance of local authority companies could clarify the merits of alternative patterns of publicness for local authorities seeking to set up companies to provide public services. Preliminary analysis of the return on assets and return on capital for a sample of just over 400 of the companies studied here suggests that ownership and control publicness have no relationship with profitability (available on request). This implies that the connections between organizational publicness and company mortality in England may have more to do with political judgements about the public value being created by companies than their financial performance – something that should certainly be examined in greater depth in the future.

Although it is possible that unobserved variables relating to the political salience of certain companies and services may lie behind publicness-mortality relationships, such factors were (partly) controlled by including both measures of publicness in the model, and the service type variables. Nonetheless, building on the findings reported here, further research drawing on surveys and case studies should explore the political dynamics that lie behind company terminations. For example, subsequent studies could investigate why majority-owned companies are more likely to survive, focusing on the structures of accountability and governance within which they operate (Klausen and Winsvold forthcoming), the degree of managerial autonomy that they are accorded (Krause and van Thiel 2019) and the number of partners with a stake in the organization (Voorn, van Genugten, and van Thiel 2019). For instance, consultants suggest that wholly-owned companies, in particular, offer local authorities much-needed control over the financial risks associated with corporatization (Grant Thornton 2018). Likewise, it would be important to better understand whether companies with more politicians on the board are more prone to unwelcome political interference in their decision-making than those that are managed more at arms-length from the political leadership of the parent authority or whether politicians intervene to address performance problems.

The findings from this study also have important implications for policy makers as they can illustrate the ways in which the governance, accountability and performance of local public services is evolving, with decisions about the provision of key services potentially being driven by the sustainability of corporate forms of service delivery. In England, local authority companies are private entities covered by company law, and so their management and performance is subject to less stringent accountability and scrutiny processes than ‘pure’ public organizations. This makes it particularly important for public policy-makers and managers to share learning about which governance structures and management strategies work best for ensuring that local authorities can promote public value and uphold democratic legitimacy



when setting up and operating corporatized public services. In the UK, stakeholder organizations, such as the Chartered Institute for Public Finance and Accountancy and the National Audit Office, are taking an increasing interest in the governance and management of local authority companies. Nevertheless, central government ministries and departments too could pay more attention to ensuring that minority-ownership and political interference do not threaten the potential value created by services that have been corporatized.

Despite its strengths, the study has some limitations. The results are based solely on local authority companies in England. The degree of public ownership is time-invariant for English local authority companies, with the distribution of shares and/or board membership set down legally in their articles of incorporation. For this reason, reverse causality is unlikely to influence the ownership publicness-mortality relationship in this case. However, it is quite conceivable that a company being considered for termination attracts more politicians to its board in a bid to give its closure added legitimacy. Hence, reverse causality may be part of the explanation for the relationship between control publicness and mortality. Although it is not possible to analyse this possibility directly, further analysis on a sample of just over 400 companies suggests that levels of profitability makes no difference to levels of political representation (available on request), again implying that the public rather than the financial value that companies create may be a major influence on closure decisions. This is something that could be explored through detailed case studies of the dissolution process. In addition, evidence on organizational publicness and the dynamics of company dissolution from other countries would highlight the extent to which the findings presented here might be generalizeable.

Cross-country comparative research capturing variations in the administrative traditions in which local authority companies operate could reveal vital differences in the ways in which publicness plays out in different contexts (Grossi and Reichard 2008; Torsteinsen 2018). The

services provided by local authority companies vary across different countries depending on the functional responsibilities of those authorities, and the public service markets in which they are able to operate (see Van Genugten, Van Thiel and Voorn, 2020). As noted above, local authorities in England have a wide range of responsibilities, though they do not manage public utilities unlike many of their counterparts elsewhere. Studies of companies providing comparable services in different systems, such as administrative, environmental and cultural services, could nonetheless form the basis for comparative analyses. In particular, local authority companies in many European countries operate with a two-tier board structure (e.g. Germany, the Netherlands), which may offer politicians a more supportive monitoring role than is the case in countries preferring single-tier boards (e.g. the UK and Norway), where politicians may be expected to take a more active role in operational decisions.

Finally, it was not possible to measure levels of funding publicness on this occasion – it is not mandatory to include the source of company income in annual accounts, and most English local authority companies do not declare this information. Hager, Galaskiewicz and Larson (2004) highlight the role of government funding in explaining the mortality of non-profit organizations, and there are likely to be variations in the funding publicness of local authority companies depending on the ownership structure, and the type of service that is provided. The vast majority of English local authority companies' income and revenues comes from public sources, but some is realized through user fees, charitable sources and, to a lesser degree, services provided to private firms or investment from such firms. Those companies that are more dependent on non-public funding seem *prima facie* likely to be more prone to dissolution. For instance, wholly-owned companies are exempt from full procurement processes when seeking government contracts under EU regulations, whereas minority-owned companies must go through competitive tendering processes and rely more upon the decisions of private investors. Such investment is especially important for local economic development and transport

infrastructure, and it may be that, when levels of funding publicness are accounted for, companies providing these kinds of services are less likely to survive. In-depth analysis of the salience of the revenue sources of local authority companies for their prospects of survival or mortality would therefore cast further light on the impact of publicness on corporatized local public services.

## Notes

<sup>1</sup> The study investigates only two of the three dimensions of publicness (control, ownership), identified by Bozeman (1987). It was not possible to measure levels of funding publicness because very few local SOEs declare all of the sources of company income in their annual accounts. Analysis of two out of three organizational publicness dimensions due to data constraints is common in the empirical publicness literature (see, for example, Bozeman and Bretschneider 1994; Miller and Moulton 2014).

<sup>2</sup> With the single isolated exception of the Learning Trust, which took over the “failing” education department of Hackney council in 2002 (Boyle and Humphreys 2012).

<sup>3</sup> Measures of company performance (Return on Assets and Return on Capital) were excluded from the models due to the large number of missing observations for these figures in the FAME database, which meant that survival estimations were unable to converge.

<sup>4</sup> The roles and responsibilities of local authority company boards in England mirror those of the one-tier boards of directors typically found amongst privately-owned firms in the UK, in which the chairman and managing director jointly supervise company activities with the support of executive and nonexecutive directors.

<sup>5</sup> The mortality rate for local authority companies in England is much lower than that for private companies at large, which is just over 10% annually, with firms providing transportation (16.5%) and business administration service (15.7%) particularly prone to dissolution (Office

for National Statistics, 2019). However, the local authority company mortality rate is about twice that estimated for UK central government agencies, which is about 8% for the 23-year period studied by James et al. (2016).

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**Table 1.** Descriptive statistics and correlations

	Mean	SD	1	2	3	4	5	6	7	8	9
1 Mortality	.075	.264									
2 Majority public ownership	.642	.479	-.046**								
3 % politicians on the board	11.200	16.265	.099**	.124**							
4 Organizational age	10.941	9.605	-.030+	-.113**	.216**						
5 Organizational size	.287	.452	.008	.107**	.017	-.042**					
6 Board size	9.024	5.582	-.021	-.011	.153**	.169**	.213**				
7 Profit-making form	.577	.494	-.074**	.054**	-.149**	-.194**	.016	-.459**			
8 Administrative service	.124	.330	.075**	.035*	-.067**	-.094**	-.034*	-.103**	.140**		
9 Human service	.357	.479	.049**	.046**	.020	-.050**	.190**	.212**	-.356**	-.281**	
10 Technical service	.518	.500	-.096**	-.068**	.025	.109**	-.160**	-.135**	.249**	-.391**	-.773**

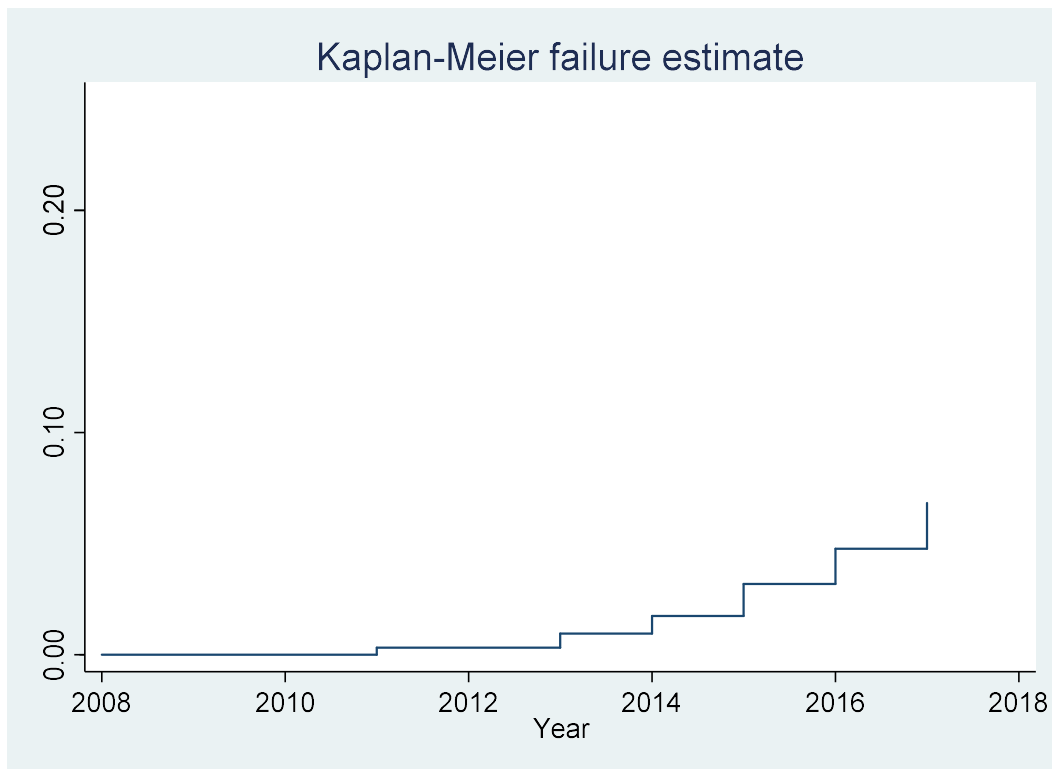
Notes: Observations = 3897. +p<.10; \*p < .05; \*\*p < .01.

**Table 2.** Organizational publicness and mortality

	Hazard ratio	Standard error	Confidence intervals
Majority public ownership	.2303**	.0798	.1167/.4544
Political control	1.0018+	.0011	.9997/1.0038
Organization age	1.0012	1.0012	.9974/1.0050
Organization size	1.4324	.5921	.6371/3.2204
Board size	.9705**	.0093	.9525/.9890
Profit-making form	.4223*	.1655	.1959/.9103
Administrative service	3.4507**	1.4424	1.5209/7.8289
Human service	2.3175*	.9837	1.0086/5.3252
Observations	3897		
Groups	595		
Dissolution events	43		
Log-likelihood	-229.5237		
Wald chi2	70.10**		

Notes: +p<.10; \*p < .05; \*\*p < .01. Robust standard errors in parentheses.

**Figure 1.** Hazard rate for local authority company mortality



**Figure 2.** Hazard rate for the mortality of majority and minority-owned companies

