

RESEARCH ARTICLE

Research at the Vanguard of Public Management and Policy Implementation

Does not-for-profit corporatization of local public services improve performance?

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Handling co-editors: Carolyn Heinrich, Sebastian Jilke, and Stephanie Moulton**Abstract**

The corporatization of local public services is an increasingly common public management reform worldwide. This study investigates whether a shift from in-house to not-for-profit corporatized service provision can result in improvements across multiple dimensions of performance. To do so, we examine the staggered adoption of Arms-Length Management Organizations (ALMOs) to provide social housing by a third of English local governments during the period 2000 to 2008. Utilizing a Differences-in-Differences (DiD) with Multiple Time Periods (MTP) approach, we find that corporatized social housing outperformed in-house provision on service quality, citizen satisfaction, and environmental sustainability, with little evidence of worse achievements on other performance dimensions. Event history analysis suggests performance benefits emerged around 2 years after corporatization occurred. Our study therefore implies that not-for-profit corporatization is potentially an effective strategy for improving local public service performance.

INTRODUCTION

The corporatization of local government by moving public services previously provided in-house into publicly-owned corporate forms of organization is a popular public management reform across the globe (van Genugten et al., 2023). A key motivation behind the corporatization of local public services is to “replace politics by professionalism” (Bourdeaux, 2008). By weakening direct political control over public services, corporatization gives professional managers more autonomy to innovate, improve organizational performance, and make operational decisions in the best interests of service users (Garrone et al., 2013). These benefits may be especially apparent when corporatization takes a nonprofit form because the surplus income made by nonprofit organizations must be reinvested in service improvement. However, corporatization can also “reduce accountability” because “decisions

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are taken out of public view and are made to appear technical” (Rubin, 1988, p. 543). This, in turn, can lead to divergence between the goals of elected representatives and the corporatized organizations tasked with implementing public policies (Parikh & Bhatnagar, 2018). In this paper, we investigate the merits of these contrasting perspectives on corporatization by using quasi-experimental methods to analyze the performance effects of a shift from in-house to not-for-profit corporatized provision.

“Corporatization” occurs when public services that were previously managed in-house by local, regional, or national governments are transformed into publicly-owned but legally separate corporate entities typically subject to company law (van Genugten et al., 2023). Such corporations are managed at arm’s length from their parent organization, meaning that they have “autonomy from elected politicians in the way they exercise their functions” (Durose et al., 2015, p. 138). Parent organizations maintain control over publicly-owned corporations through contracts or management agreements (van Genugten et al., 2020). Nevertheless, because they are publicly-owned, corporatized public services are still ultimately accountable to their parent organizations rather than to nongovernmental shareholders or trustees as would be the case for private firms or nonprofits fulfilling government contracts. The agency costs incurred by government when managing publicly-owned corporations are therefore lower than those associated with managing external service providers (Hoppe & Schmitz, 2010).

At the local level, municipally owned corporations (MOCs) operate on either a profit-making or nonprofit basis, owned by a single or multiple local governments and sometimes also part-owned by private firms or nonprofits. Profit-making corporations have long been used by local governments for the management of natural resources, the provision of utilities, such as gas and electricity, and other infrastructure services, such as transportation and waste management. However, the process of corporatization is now increasingly occurring in the human services provided by local government, such as education, elderly care, recreation and sport, and social housing (van Genugten et al., 2023; Voorn et al., 2017). Because human services often have charitable purposes, local-government-owned corporations that provide them usually take a nonprofit form (Evers, 2005).

Both profit-making and nonprofit corporations enable local governments to generate new revenue through commercial trading activities, which can be used to drive performance improvements (Stumm, 1996). Nevertheless, those operated on a not-for-profit basis also accrue tax advantages and gain access to grants and other sources of charitable income that can be utilized for service development (Knauer, 1996). There are several further sectoral advantages for public service performance that not-for-profit corporations have over those that are profit-making. Firstly, nonprofits are subject to the nondistribution constraint that requires them to reinvest surplus income into service development rather than issuing profit dividends to shareholders (Hansmann, 1980). Secondly, when providing human services nonprofits are usually required to demonstrate that they provide a public benefit (Halliday & Harding, 2022). Thirdly, nonprofit organizations are often considered to have a strong connection with communities and a public service orientation that enables them to meet social needs (Billis & Glennerster, 1998).

To understand whether not-for-profit corporatization can improve the performance of local public services, we investigate the creation of Arms-Length Management Organizations (ALMOs) to provide social housing by about a third of English local governments during the period 2000 to 2008. In 2001, the UK national government encouraged local governments in England to establish ALMOs to improve the quality of social housing (Pawson et al., 2010). ALMOs were set up as nonprofit organizations owned by local governments to provide housing-related services, such as tenancy lettings, rent collection, debt counselling, and grounds maintenance under the terms of a management agreement. Within local governments, the performance of ALMOs was monitored by a committee of politicians and managers. The management of each ALMO itself was overseen by a board of directors, which included local politicians nominated by the parent government, as well as tenant representatives, and independent members (Pawson et al., 2010).

Due to the heterogeneous timing of the uptake of ALMOs by local governments, it is necessary to use an appropriate estimation technique to approximate its effect on social housing performance. We therefore use a Difference-in-Differences (DiD)-style multiple time-periods (MTP) approach to ana-

lyze the potential for not-for-profit corporatization to enhance local social housing quality, efficiency, citizen satisfaction, environmental sustainability, and equity. Providing the method assumptions hold, DiD MTP approaches can approximate treatment effects from staggered policy adoption by comparing the treatment effect for each group of units that receive the treatment at the same time with that for units either “never treated” or “not-yet-treated” (Athey & Imbens, 2022; Callaway & Sant’Anna, 2021). A DiD MTP approach is especially suitable for analyzing the effects of public management reforms that are implemented on a gradual basis, as ALMOs were by English local governments.

Does not-for-profit corporatization of local public services improve their performance? To answer this question, we develop arguments about the likely performance effects associated with nonprofit corporatization and analyze variations in several key performance indicators for local governments that switched social housing to an ALMO versus those that retained services in-house: i) the percentage of non-decent homes (quality); ii) the percentage of rent collected (efficiency); iii) the percentage of tenants satisfied with housing services (citizen satisfaction); iv) the average property energy efficiency rating (environmental sustainability); and v) the number of affordable homes per 1,000 people (equity). The results from our analysis suggest that the creation and use of ALMOs resulted in improvements on three key dimensions of performance—service quality, citizen satisfaction, and environmental sustainability. At the same time, the improvements were not achieved at the expense of service efficiency and equity. These findings hold valuable lessons for scholars and policymakers interested in alternatives to in-house public service provision.

CORPORATIZATION AND LOCAL PUBLIC SERVICE PERFORMANCE

Local governments across the world are exploring alternative management structures for the delivery of public services, such as privatization, contracting out, public-private partnership, collaborative outsourcing, sharing services, and, increasingly, corporatization and reversals of alternative delivery models (Bel & Warner, 2015; Dollery & Akimov, 2007; Kim & Warner, 2016; Silvestre et al., 2018; van Genugten et al., 2023; Voorn et al., 2021; Warner & Hebdon, 2001). These developments are often driven by a desire to reduce the costs associated with in-house provision, but also reflect pragmatic choices about new ways to achieve public service improvement (Aldag & Warner, 2018; Kim & Warner, 2016). We turn next to examine arguments regarding the potential benefits of corporatization for local public service performance, especially when MOCs take a not-for-profit form.

Theory

The vast majority of MOCs are constituted as legally autonomous private companies. For local governments, this legal autonomy can generate service improvements because the directors of private-law based municipal corporations are legally required to act in the best interests of the organization (Chartered Institute for Public Finance and Accountancy, 2022). Nevertheless, as for public services provided under contract by private firms and nonprofits, the legal autonomy of corporatized services increases the agency costs associated with aligning the priorities of MOC directors and ruling politicians who seek re-election (Tavares & Camões, 2007), which could, in turn, hamper efforts to improve services. Given the complex relationship between the owners and managers of MOCs, most prior research has therefore applied a principal-agent framework to theorize and empirically investigate the performance of corporatized local public services (Stiel, 2023; Voorn et al., 2017).

From a principal-agent point of view, local democratic governance entails that politicians are agents elected by citizens (the principal) to oversee the implementation of public policies by public managers (agents of the politicians). When local public services are provided in-house, politicians are directly accountable to voters for service quality (Tavares & Camões, 2010), motivating them to ensure that services create public value and are perceived to be legitimate (Olsen et al., 2017). However, politicians

have an incentive to interfere in policy implementation to increase their chances of re-election, which is more readily achieved when they exert direct control over public services (Miller, 2005). By insulating local public services from political interference, corporatization enables public managers to devote more time to meeting citizens' needs (Lupia et al., 1998). This is especially likely to apply for MOCs operated as nonprofit organizations, such as ALMOs, that must reinvest surplus income in service development (Salamon & Sokolowski, 2016).

The duty of the directors of corporatized local public services to act in the organization's best interest can unleash managers' public service motivation (Meyer et al., 2014), particularly in nonprofit corporations, which are required to provide a public benefit (Halliday & Harding, 2022). Indeed, theories of sectoral advantage point towards the strengths of the nonprofit sector in eliciting citizen support and addressing citizens' needs and how these are enhanced when combined with the public sector's capability for authoritative decision-making (Billis & Glennerster, 1998; Salamon, 1987). In this respect, nonprofit MOCs may be especially effective vehicles for improving public services because local governments can design the governance of MOCs in ways that maximize the participation of community stakeholders (Smith & Lipsky, 1993). Importantly, for local governments, the performance benefits associated with nonprofit corporatization are also potentially greater than those associated with contracting out to private profit-making firms because such companies experience pressure from their owners to increase profits by reducing the quality of services (Domberger & Jensen, 1997). Moreover, because corporatization represents an acceptable middle-ground between in-house provision and privatization to local citizens (Leavitt & Morris, 2004), service users are more likely to co-produce MOC services than would be the case for contracted out services.

Although the above arguments illustrate the benefits of not-for-profit corporatization versus service delivery involving profit-making actors, they do not transfer so easily to contracting with nonprofits or inter-municipal cooperation. In the case of nonprofit contracting, there are similarities between the motivations of nonprofit service providers and nonprofit MOCs, especially the requirement to provide a public benefit and to reinvest surplus income (Salamon & Sokolowski, 2016). However, the agency costs associated with monitoring MOCs are likely lower than for nonprofit contractors because local governments have a closer relationship with MOCs and because corporatized services usually operate within a single jurisdiction. By contrast, private nonprofits may offer services across multiple jurisdictions thereby diffusing their accountability to the contracting government and to local citizens (Cole & Powell, 2010). The performance benefits associated with intermunicipal cooperation take a similar form to those associated with municipal corporations because most local governments have broadly similar objectives (Aldag et al., 2020). Nonetheless, agency costs for inter-municipal cooperation are likely higher than those associated with wholly-owned corporations due to the challenges of monitoring and managing goal alignment among multiple principals (Sørensen, 2007; Voorn et al., 2019).

Whatever the merits of the positive case for corporatization, there is a counterargument that local governments that corporatize public services confront principal-agent problems that increase service delivery costs and harm service quality (Voorn et al., 2020). In particular, separation of the ownership and control of corporatized services, and competing perspectives on their management and governance, can make it difficult to attain good financial and service performance (Berge & Torsteinsen, 2023; Olsen et al., 2017). Furthermore, MOC managers can potentially use their informational advantages to pursue the interests of the corporate entity at the expense of the parent organization or citizens and service users—a problem that raises agency costs significantly (van Thiel, 2016). As such, corporatization can cause “fiscal illusion” by hiding the true scale of government activities (Tyer, 1989), heighten “goal conflict” as principal-agent relationships become more complex (Vining et al., 2014), and create “democratic deficits” as services are less directly accountable to citizens (Grossi et al., 2015). To cast more light on the likely relationship between corporatization and local public service performance, we turn next to the extant empirical studies.

Empirical literature

There is a growing body of research addressing the effects of privatization, contracting out, and inter-municipal co-operation (e.g., Aldag et al., 2020; Bel et al., 2010; Bel & Rossell, 2016; Brogaard & Petersen, 2022), but the impact of corporatization on local public service performance is rarely investigated. Amongst those studies that analyze the performance effects of corporatization, most employ quantitative methods and focus on costs and efficiency, using cross-sectional research designs or longitudinal designs lacking clear identification strategies.

Voorn et al.'s (2017) review of predominantly cross-sectional corporatization-performance studies from Western Europe and the U.S. published between 2001 and 2015 suggested efficiency gains can be realized from corporatization, especially through mixed municipal enterprises that involve private sector partners. Similarly, Cambini et al.'s (2011) longitudinal analysis identified efficiency advantages for Italian local bus operators following corporatization, while Menozzi et al. (2012) observed higher profitability for corporatized local utility providers in Italy across a 10-year period using a dynamic panel estimator. Guerrini et al.'s (2018) stochastic frontier analysis suggested wholly-owned Italian municipal water corporations were less efficient than those part-owned by private firms during 2009 to 2014. However, Bel et al.'s (2022) random effects estimates from Spain indicated that between 2014 and 2017 mixed municipal enterprises had higher costs than other modes of service delivery. In Germany, Stiel (2023) found that the productivity of municipally owned utilities is no different from other organizational forms when applying a production function for an 11-year period—as per earlier research on German municipal electricity providers (Stiel et al., 2018). Steinbrunner's (2024) quantile regression analysis of utilities in the Czech Republic, Hungary, and Slovakia suggested MOCs had weaker productivity between 2010 and 2017 than privately owned firms. However, using cross-sectional data, Białek-Jaworska (2022) showed that corporatization improved the debt capacity of Polish municipalities in 2018.

Overall, there is mixed evidence on the relationship between corporatization and financial performance measures. But what about the non-financial indicators of public service performance that citizens arguably care about most? The few studies examining the impact of corporatization on non-financial performance dimensions have offered equivocal support for the contrasting arguments about the advantages and disadvantages of corporatized public services. Bergh et al.'s (2022) cross-sectional analysis of Swedish municipalities suggested corporatization is unrelated to citizens' satisfaction, though it may be associated with higher taxes and increased corruption. Using a synthetic control method approach, Alonso and Andrews (2021) found that corporatization of education in a large urban government improved service effectiveness and equity. Esposito et al. (2021) found mixed ownership is best for performance using a multinomial ordered probit analyzing 41 Italian municipal waste corporations between 2014 and 2016. However, Tafuro et al.'s (2022) fuzzy logic-based classification of waste management performance in 106 Italian cities between 2015 and 2016 suggested wholly-owned MOCs are superior. To our knowledge, no other published research has addressed the non-financial performance of corporatized local public services. Hence, there is insufficient evidence to categorically support assumptions that corporatization will result in service improvement or decline. In this study, we seek to better understand whether not-for-profit corporatization can improve local service performance by undertaking a quasi-experimental study of performance in the English social housing sector.

POLICY CONTEXT

Local governments in the UK have been involved in social housing provision since the late nineteenth century when they began to regulate slum landlords. After the First World War, the regulatory role of governments expanded to encompass the construction and management of public housing, a process

accelerated following the second world war (Holmans, 1987). In the 1980s, Conservative national governments sought to privatize housing by establishing tenants' right-to-buy their homes and by encouraging local governments to transfer their housing stock to private and nonprofit organizations (Malpass & Mullins, 2002). These policies were largely accepted by the 'new' Labour national governments of the 2000s, but there was more emphasis on stock transfer as a vehicle for "raising the quality of social housing" (Department for Environment, Transport and Regions, 2000). Within this setting, not-for-profit corporatization through transfer to ALMOs was encouraged to address "local authority and tenant concerns around accountability, control and privatization" (Pawson, 2006) and to enable central government to retain some control over local efforts to meet the Decent Homes Standard introduced in 2000 (Pawson, 2006).

To establish an ALMO, local governments were first required to apply to central government for permission to set one up. UK central government based their approvals for ALMOs on the quality of the proposals that they received, rather than publicly targeting specific local governments to apply or focusing on particular metrics (Office of the Deputy Prime Minister, 2004b). To encourage local governments to set up ALMOs, central government offered them extra borrowing powers that were not available to local governments keeping services in-house (Cole & Powell, 2010). This financial incentive was attractive because local governments providing social housing directly were constrained by public sector borrowing rules and unable to access private finance. All ALMOs were established as wholly-owned, non-profit-making entities to whom local governments delegated the management of their social housing stock on the basis of a long-term contract (usually between 5 and 10 years; Pawson, 2006). The accountability of ALMOs to local governments and citizens was upheld by configuring ALMO boards on the 'three thirds' principle of "one-third tenants, no more than one-third local authority nominees, and at least one-third independent members" (Office of the Deputy Prime Minister, 2004a, para. 12.18).

Funding for ALMOs initially came from two main sources: i) local governments' social housing budget, comprising local government borrowing, central government grants and housing rents; and ii) central government investment funds specifically for ALMOs (Office of the Deputy Prime Minister, 2004b). Due to their ability to access private finance, private and nonprofit providers of social housing have a comparative advantage over public providers, but local governments operating ALMOs were uniquely able to access additional capital funds (Cole & Powell, 2010). As the sole and controlling owner of ALMOs, local governments operating them bear most of the risk in the contract, especially as the funding for ALMOs was managed through the local government's housing revenue account. However, governments that set up ALMOs were likely willing to accept the risk of contract failure because they believed that the new organizational form would enable them to achieve improved performance on the outcomes on which they were evaluated by UK central government.

ALMOs were subject to the same Comprehensive Performance Assessment (CPA) regime under which in-house local government social housing operated (Audit Commission, 2003). The CPA was the main driver of strategic management in English local governments during the 2000s, leading governments to share very similar preferences for the public service outcomes measured as part of the CPA (Lockwood & Porcelli, 2013). Furthermore, as well as being subject to the same performance management regime as directly-provided social housing, ALMOs were also subject to the same external auditing standards that nonprofit providers of social housing are held by company law (Cave, 2007). The dual regulatory environment in which ALMOs operated may therefore have reduced agency costs for local governments opting for corporatized rather than privatized service delivery. Moreover, many of the practices employed by local governments to monitor and manage the performance ALMOs were similar to those employed to manage in-house services, such as annual delivery plans and performance reports. For example, in 2006, Barnsley metropolitan borough's cabinet discussed issues relating to Berneslai Homes, the ALMO responsible for Barnsley's social housing, on eight separate occasions. Barnsley's cabinet committee minutes for 2006 reveal that the ALMO produced: i) an annual

delivery plan in collaboration with the local government; ii) a quarterly report on its performance against targets; and iii) a contract renewal review in collaboration with the local government.¹

For the above reasons, the costs associated with monitoring the performance of ALMOs are likely lower for local governments than those incurred when monitoring private and nonprofit providers or partners in mixed ownership municipal corporations. In addition to coproducing the performance management of ALMOs, local governments had more freedom to impose severe sanctions on ALMOs in the event of contract non-fulfilment than on external providers, including the immediate reversal of corporatization by bringing services back in-house (Cave, 2007). Importantly, because ALMOs are non-profit-making corporations, any residual profits have to be reinvested in service improvement, and unlike private and nonprofit providers of social housing, the operations of ALMOs are limited to the territory served by each local government, strengthening their connections with tenants and local communities (Cole & Powell, 2010).

All of the above features indicate that ALMOs likely have fewer of the agency problems associated with direct political and bureaucratic control over in-house service provision. Hence, the challenges associated with successfully switching from in-house to ALMO-based provision are likely less severe than those associated with transferring the social housing stock to either private or nonprofit contractors. We therefore anticipate that switching to an ALMO will result in improved social housing performance, especially in terms of service quality and the satisfaction of service users, due to the reinvestment of surplus income in services, tenant representation on the board, and the local-area focus associated with ALMOs.

DATA AND METHODS

To investigate the performance effects of not-for-profit corporatization, we deploy a DiD approach using data collected from English single and lower-tier local governments—metropolitan districts, unitary authorities, London boroughs, and district councils—for the period 2000 to 2008. These governments are elected bodies, with a Westminster-style cabinet system of political management, comprising senior members of the ruling political party. English local governments receive the majority of their income from UK central government, so their decision-making is heavily influenced by national level policy frameworks. Single-tier governments provide local public services in the areas of: education (e.g., primary and secondary schooling), social care (e.g., services for at-risk children and older people), environmental services (e.g., waste management), roads and transportation, economic development, cultural services (e.g., museums, libraries), and social housing. Lower-tier district councils are responsible for cultural and social housing services in rural areas. Upper-tier county councils are excluded from the study as they are not responsible for housing.

The final sample consists of an unbalanced panel of the full population of 217 single and lower-tier local governments that did not transfer the social housing stock that they owned to private or non-profit providers at any point during 2000 to 2008.² During that period, 69 local governments adopted ALMOs to manage their social housing, with the other local governments continuing to provide housing services completely in-house. Our study is focused on the period 2000 to 2008 because the performance management regime for ALMOs and local government housing departments changed after 2008, when CPA was abolished. Thereafter, following the general election in 2010, the new Conservative-led national government drastically cut central government funding for local government (Gray & Barford, 2018) and withdrew financial and political support for ALMOs. As a result,

¹ See: <https://barnsleymbc.moderngov.co.uk/ieListMeetings.aspx?XXR=0&Year=2006&CI=135&MD=ielistmeetings>. Unfortunately, comprehensive data from the minutes for all local governments are not available for all years during the study period or for the board meetings of ALMOs.

² In England, the Conservative national governments promoted public housing stock transfer to private and nonprofit providers during the 1980s and 1990s, through so-called large-scale voluntary transfer, a policy also encouraged later by Labour national governments (Alonso & Andrews, 2018).

only 19 local governments now use ALMOs to provide social housing, with many local governments having brought services back in-house or transferred them to not-for-profit housing associations for reasons of financial and service sustainability (Andrews, 2024). At the same time, only a handful of new ALMOs have been created since 2010, preventing the extension of our staggered DiD design through the 2010s.

Social housing performance

The performance of local public services is judged by multiple different stakeholder groups, such as service users, taxpayers, staff, and politicians (Boyne, 2002). The interests of different stakeholders influence which measures of performance matter, what good performance means, and who is responsible for achieving good performance (Andersen et al., 2016). To evaluate the achievements of public service providers it is therefore necessary to measure multiple dimensions of performance (Boyne, 2002). Our analysis of the impact of corporatization focuses on publicly available measures of performance that formed part of the CPA for social housing (Audit Commission, 2003), covered multiple performance dimensions, and were important to key stakeholders, i.e., central government, local government, tenants, and regulatory agencies. Specifically, we investigate the effects of ALMO adoption on five key dimensions of public service performance, namely: (i) service quality, (ii) efficiency, (iii) citizens satisfaction, (iv) environmental sustainability, and (v) equity.³

First, we measure social housing service quality using the percentage of non-decent homes among the housing stock owned by each local government. The UK Department for Communities and Local Government defined a home as non-decent if it does not meet basic legal health and safety standards, and/or it is not in a reasonable state of repair, and/or it does not have reasonably modern facilities and services, and/or it has insulation or heating that is not effective (Department of Communities and Local Government, 2006a). Decent homes improve the quality of life for tenants and facilitate the growth of sustainable mixed communities in which diverse social groups can live together (Department of Communities and Local Government, 2006b). Decent homes are also likely to be less costly in the long run for local governments, tenants, and taxpayers (Hohmann, 2019). The additional resources that local governments using ALMOs are able to secure could be an important mechanism for improving the quality of the homes that they manage. ALMOs are especially well-placed to realize the benefits from more investment for three main reasons: i) managers in ALMOs have greater freedom from local politicians to manage housing upgrades, ii) ALMOs are nonprofit organizations required to reinvest surplus income in service development, and iii) tenant representatives have direct input into strategic decisions regarding the use of resources for home improvements.

Next, to capture the internal *efficiency* of the housing management process we use the percentage of rent collected from tenants (Courtney et al., 2009). Good rent collection performance helps maintain the financial sustainability of social housing by preventing the need to increase rents (Adam et al., 2015). Local governments operating ALMOs will likely have better rent collection performance than those providing services in-house because ALMO managers have more freedom to focus on administrative issues, something which additional resources may be particularly likely to facilitate.

Citizen satisfaction is measured via a survey question capturing the percentage of social housing tenants who are satisfied with the service provided by their landlord, i.e., the local government or its ALMO. Housing providers with more satisfied tenants likely benefit from higher levels of loyalty and greater willingness to co-produce housing services, which can reduce maintenance costs and improve performance (Brandsen & Helderma, 2012). Local governments with ALMOs are likely to have more satisfied tenants because there is more direct tenant involvement in ALMO decision-making than in

³ A comprehensive evaluation of housing performance would incorporate further dimensions, such as costs, staff satisfaction, and probity (Boyne, 2002), which we do not investigate on this occasion due to data availability constraints.

social housing services controlled by elected politicians. As a result, additional investments in housing are more likely to be directed towards upgrades that are valued by tenants.

Environmental sustainability is measured using the score for the “Standard Assessment Procedure” (SAP) efficiency rating, the UK government methodology for evaluating the energy and environmental performance of dwellings.⁴ This indicator ranges between 1 and 100, with a higher score indicating greater energy efficiency.⁵ Homes that are energy efficient are warmer, have lower energy bills, and improved air infiltration, which all enhance health and well-being (Oreszczyn et al., 2006; Symonds et al., 2021). Energy efficient social housing can also generate financial benefits for local governments and tenants, as the costs of maintaining new, well insulated buildings are lower. Local governments with ALMOs are expected to have better SAP ratings than those providing services in-house because their closer connections with tenants enable them to manage new investments in energy efficiency more effectively.

Finally, to proxy for *equity* we use the number of affordable homes per 1,000 inhabitants. A higher supply of affordable homes may reduce housing inequalities and homelessness by lowering the proportion of net income that disadvantaged households allocate to accommodation. The presence of more affordable homes in an area can also contribute towards the goal of mixed-income communities (Levin et al., 2022). Local governments with ALMOs are potentially more committed to affordable housing due to their public benefit orientation as nonprofit organizations, which should mean that any additional resources that they have secured are directed towards improvements in social equity.

The Audit Commission, a regulatory agency responsible for evaluating the financial and service performance of English local governments, assessed the performance of ALMOs and direct government housing provision against four of the five outcome measures that we analyze—decent homes, rent collection, tenant satisfaction, and SAP rating (Audit Commission, 2003). Data for those measures was collected by local governments and audited by the Audit Commission, which had the right to intervene in under-performing service providers, thereby incentivizing local governments to improve performance (Department of Environment, Transport and the Regions [DETR], 2001). Although the housing affordability performance of ALMOs was not formally evaluated by the Audit Commission, it has been a key objective for all providers of social housing in England since the 2000s (see Department for Communities and Local Government, 2006b; National Audit Office/Audit Commission, 2005).

Empirical specification

Our identification strategy relies on a DiD analysis comparing the trends of our five performance indicators in those local governments where an ALMO was implemented, to the trends in those local governments not implementing an ALMO. The traditional generalized DID set up to do so is as follows:

$$y_{it} = \alpha_i + \delta_t + \beta D_{it} + \varepsilon_{it} \quad (1)$$

where y_{it} represents each performance measure, i.e., service quality, efficiency, citizens’ satisfaction, environmental sustainability, and equity for year t ($t = 2000, \dots, 2008$) in local government i ($i = 1, \dots, 217$), α_i denotes municipality fixed effects accounting for different baseline outcomes across local governments, and δ_t represents time effects adjusting for outcome trends. D_{it} is a binary treatment indicator equal to one for those governments setting up an ALMO in time t , and zero otherwise.

We estimate a DID specification with staggered adoption, that is, once a local government is “treated,” it remains “treated” during the following years, and variation in treatment timing. The DID

⁴ See <https://www.gov.uk/guidance/standard-assessment-procedure>.

⁵ There could, however, be scores over 100, indicating that the dwelling/building is a net energy exporter.

TABLE 1 Summary statistics: outcomes in English local governments retaining social housing stock (2000 to 2008).

	All		Treated (ALMOs)		Untreated (in-house)	
	Mean	SD	Mean	SD	Mean	SD
% Non-decent homes	29.85	21.57	40.71	22.15	24.61	19.21
% Rents collected	97.08	3.16	96.47	2.68	97.36	3.32
% Tenants' satisfaction	77.43	8.70	73.28	8.83	79.41	7.90
SAP rating	61.84	8.63	61.38	8.90	62.05	8.50
Affordable homes per 1,000 people	0.93	1.26	1.14	2.03	0.84	0.69

Note: Number of local governments = 217.

Sources: Department for Levelling Up, Housing and Communities, and Ministry of Housing, Communities & Local Government: <https://www.gov.uk/government/organisations/department-for-levelling-up-housing-and-communities>.

literature shows that traditional approaches, such as the Two-Way Fixed-Effects (TWFE) estimator, produce biased estimates of treatment effects when there is staggered adoption and/or variation in treatment timing (see, e.g., Athey & Imbens, 2022; Callaway & Sant'Anna, 2021; among others). To address these potential sources of bias, we use the DID with multiple time periods (MTP) estimator proposed by Callaway and Sant'Anna (2021).

Callaway and Sant'Anna's (2021) approach consists of estimating a "group-time average treatment effect," using a 2×2 DID estimate for each group of units that receive the treatment at the same time, and comparing the change in outcomes of these units with units either "never treated" or "not-yet-treated." Group-specific DID estimates are then averaged to derive treatment effects. This empirical approach allows us to estimate an event-study type "leads and lags" model, where leads and lags are binary variables indicating that a given unit is a given number of time periods away from the event under study, i.e., the implementation of an ALMO. Besides revealing treatment dynamics, the event study design allows us to investigate the parallel trends assumption (Autor, 2003), which implies that in the absence of treatment, differences in the outcomes between two groups would have remained stable over time (Angrist & Pischke, 2008). Hence, a deviation from the parallel trend after setting up an ALMO to deliver housing services, can be interpreted as the approximate impact of the policy.

RESULTS

Table 1 reports summary statistics for our sample of English local governments. The governments that implemented an ALMO to deliver housing services during the study period had, on average, worse performance outcomes in comparison with those providing services inhouse, particularly for tenants' satisfaction and percentage of non-decent homes. These differences in outcomes could affect our estimates if they create non-parallel outcome trends between both groups of local governments, in which case a DID strategy would not be adequate to recover the parameter of interest (Abadie, 2005).

To evaluate whether non-parallel trends influence our analysis, we report in Figure 1 event study plots for each outcome. Unlike the case of a "canonical" DID approach (i.e., two groups with the same pre-treatment and post-treatment periods), when groups of units are treated at different points in time, a figure depicting "raw" pre-treatment trends is not feasible given the structure of our data (see above). In DID approaches with multiple time periods, the most common test of parallel trends is the use of an "event study plot," with the criterion for evaluating these pre-trends being the individual significance of the pre-treatment point estimates (see, e.g., Calkins et al, 2023; Markevich & Zhuravskaya, 2018; among many others). Pre-treatment point estimates that depart significantly from zero would suggest a violation of the parallel trends assumption. The results depicted in Figure 1 suggest that parallel trends hold in the pre-treatment periods for all the outcomes, since there do not seem to be any statistically

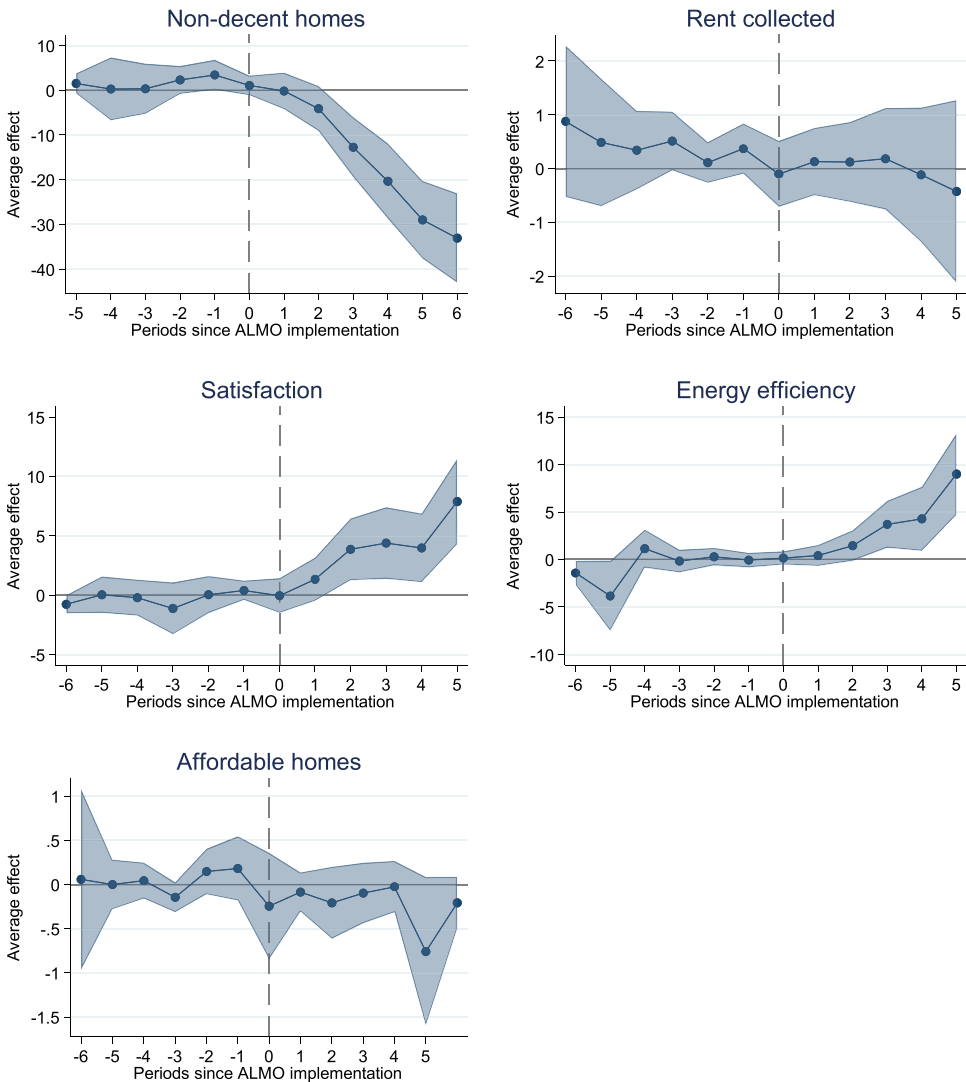


FIGURE 1 Estimated effect of establishing an ALMO to deliver housing services in English local governments (2000 to 2008): Event study plot.

Note: The dots represent point estimates and the shaded area show robust 95% CIs.

significant point estimates before the ALMOs implementation. Hence, although ALMO adopting governments had worse performance than those that retained services in-house, this does not affect the validity of our estimates as the parallel trends assumption is met.

Our DiD estimates are reported in Table 2. Robust standard errors, reported in parentheses, were clustered by local governments to deal with serial correlation (see Bertrand et al., 2004). Estimates using the never-treated local governments as the control group are presented in column (a) and, as a robustness test, we also provide estimates using the not-yet-treated local governments as the comparison group in column (b). Overall, the results suggest that setting up an ALMO to provide social housing services resulted in improvements for three performance dimensions, namely service quality, citizens' satisfaction, and environmental sustainability. However, we cannot conclude that there were positive or negative effects as regards efficiency and equity.

Substantively, our results suggest a large reduction in the percentage of non-decent homes, with the point estimates showing a reduction of about 9 percentage points (95% CI [-14.05; -3.99] and

TABLE 2 Estimated effect of establishing an ALMO to deliver social housing services in English local governments (2000 to 2008): Difference-in-differences estimates.

	Callaway and Sant'Anna (2021)		Borusyak et al. (2021)
	(a)	(b)	
Service quality: % of non-decent homes			
DID estimate	-9.027*	-9.194*	-7.413*
	(2.566)	(2.558)	(2.226)
Observations	1580	1580	1581
Efficiency: % of rents collected			
DID estimate	0.016	-0.001	0.328
	(0.390)	(0.365)	(0.330)
Observations	1630	1630	1632
Citizens' satisfaction: % tenants satisfied with landlord service			
DID estimate	2.635*	2.666*	2.919*
	(0.981)	(0.983)	(0.894)
Observations	1476	1476	1488
Environmental sustainability: SAP rating			
DID estimate	2.000*	1.911*	1.933*
	(0.741)	(0.734)	(0.659)
Observations	1592	1592	1597
Equity: number of affordable homes per 1,000 people			
DID estimate	-0.196	-0.200	-0.058
	(0.165)	(0.168)	(0.071)
Observations	1881	1882	1891

Notes: Robust standard errors in parentheses. Column (a) reports estimates using never treated local governments as the control group. Column (b) reports estimates using the not yet treated local governments as the control group. * p -value < 0.05.

Sources: Department for Levelling Up, Housing and Communities, and Ministry of Housing, Communities & Local Government: <https://www.gov.uk/government/organisations/department-for-levelling-up-housing-and-communities>.

[-14.2; -4.18], depending on the control group used, that is, never treated or not-yet-treated). For citizens' satisfaction, the estimated ATT is associated with increased tenant satisfaction with landlord services of about 2.63 percentage points (95% CI [0.71; 4.55]), when using the never-treated local governments as the control group, and a similar increase of about 2.66 percentage points (95% CI [0.73; 4.59], when the not-yet-treated governments are the control group. Our results also point to a modest improvement in environmental sustainability, with the point estimates indicating an increase of about 2 points in the SAP scores (95% CI [0.54; 3.45], and [0.47; 3.35], depending on the control group employed). The point estimates for the percentage of rents collected and number of affordable homes per 1000 people are close to zero, and the magnitude of the robust standard errors prevent us from concluding that implementing an ALMO had an impact on these two performance outcomes.

Robustness tests

As discussed above, English local governments were given the option of transferring their housing stock to a local government-owned ALMO in the 2000s. This means that local characteristics might influence the decision to establish a housing ALMO, which could bias estimates of the policy impact

if those characteristics are also associated with differential trends in the outcome variables (Hoynes & Schanzenbach, 2009). To analyze this potential threat to our identification strategy, we gathered data on governments' characteristics that might influence the adoption of an ALMOs in the financial year 2000/2001, that is, on the eve of the first ALMOs: local governments' debt, fiscal risk, fiscal slack, administrative intensity, housing expenditure, population, population density, age diversity, ethnic diversity, social class diversity, deprivation, and Conservative party political control. The choice of these characteristics is based on Andrews et al.'s (2020) analysis of the factors explaining the incidence of corporatization. In Appendix Table A1 we report definitions and descriptive statistics for all these covariates.⁶ Following Hoynes and Schanzenbach (2009) we use these pre-treatment characteristics to predict the year that local governments' implemented an ALMO. More specifically, we estimate a survival (or time-to-event) model (Cox proportional hazard model) in which the dependent variable is the time (in years) until the establishment of a housing ALMO.

In Appendix Table A2 we report point estimates and hazard ratios for the Cox proportional hazard model. The correlations between local characteristics and establishing an ALMO are consistent with the findings of Andrews et al. (2020), but the point estimates and hazard ratios are not statistically significant at the 10% level, with the exception of administrative intensity, which is negatively correlated with the starting date of a housing ALMO. Hence, while Appendix Table A1 suggests that there are differences in the context for local governments adopting ALMOs and those providing social housing in-house, the results of the survival analysis presented in Appendix Table A2 indicate that it is only possible to be confident that administrative intensity is associated with the adoption of the ALMO approach. In light of these findings, we relax the unconditional parallel trends assumption even though it seems to hold (see Figure 1) and estimate all ATTs under the weaker assumption that parallel trends hold conditionally after adjusting for local governments' administrative intensity. These results, reported in Appendix Table A3, are similar to our baseline estimates, though the point estimates associated with our model evaluating energy efficiency are smaller and the standard errors higher.

A second potential concern would be that to encourage local governments to switch to ALMOs they were offered extra funding on application by the British central government that was not made available to local governments keeping services in-house. Local governments operating ALMOs may be more likely to realize the benefits from additional resources because of: i) the legal autonomy of ALMOs from their parent governments; ii) the requirement that as not-for-profit companies ALMOs invest all of their resources into service development; and iii) the key role that tenants play in ALMO board decisions. Nevertheless, it is conceivable that the additional investment ALMOs secured itself may have led to the outcomes observed, rather than the change in management structure. To explore this possibility, we estimate a "treatment intensity" TWFE model for each outcome of interest, in which we interact the ALMO adoption binary indicator depicted in equation 1 with the total amount of extra funding received by each local government operating an ALMO, measured in millions of British Pounds.

The results reported in Appendix Table A4, suggest that the additional resources may have led to improvements in efficiency and citizen satisfaction. The point estimates for rents collected and tenants' satisfaction are statistically significant at the 5% level. That being said, the magnitude of the coefficients is small suggesting that extra funding per se is unlikely to drive our baseline results: there is a 0.007 percentage points improvement in rent collection per additional million pounds and a 0.011 percentage points improvement in tenant satisfaction per additional million pounds. The coefficients for the percentage of non-decent homes, environmental sustainability, and the number of affordable homes, are all positive, but the point estimates are not statistically significant. Given the limitations of TWFE approaches when dealing with multiple time period treatments, one should interpret these estimates with caution. Unfortunately, while the Callaway and Sant'Anna (2021) estimator can handle staggered time period treatments, to our knowledge, it cannot accommodate "treatment

⁶ All appendices are available at the end of this article as it appears in JPAM online. Go to the publisher's website and use the search engine to locate the article at <http://onlinelibrary.wiley.com>.

intensity” covariates, so we are unable to test for resource effects in as robust a way as conceivably possible.

As a third robustness test, we run a series of placebo estimations, which examine the effect of the implementation of an ALMO on local government performance outcomes that should not be affected by this policy change. If establishing an ALMO to deliver housing services were to show a statistically significant correlation with placebo outcomes, then the validity of our DiD estimates could be called into question. To test for placebo effects, we replicate our baseline estimates using performance data from 2000 to 2007 for the following local services: (i) corporate services (percentage of property tax collected, percentage of invoices paid on time); (ii) community safety (violence against the person, sexual offences); (iii) education (proportion of working age population with educational Level 3 or higher); and (iv) waste performance (recycling rates). These performance measures were at the core of the UK Labour Government’s Best Value policy during the study period (DETR, 2001). We report in Appendix Table A5, the results of these placebo tests, finding that none of the estimated single-ATTs are statistically different from zero.

Finally, we also benchmark our estimates of the single-ATTs using a recently developed alternative to DID designs with staggered adoption introduced in Borusyak et al. (2021), known as the DiD imputation estimator. The results of this approach, reported in the last column of Table 2, confirm our findings using the Callaway and Sant’Anna (2021) estimator.

Treatment dynamics

Figure 1 depicts post-treatment as well as pre-treatment trends using the Callaway and Sant’Anna (2021) approach under the unconditional parallel trends assumption and using the never-treated local governments as the control group. Additionally, we report estimates using the not-yet-treated local governments as the control group in Appendix Figure A1. The post-treatment dynamics suggest that the positive impact of transferring social housing services to an ALMO is likely to be observed once ALMOs have bedded in. The proportion of decent homes, tenants’ satisfaction, and energy efficiency improved gradually after the introduction of the ALMOs, with the positive effect peaking during the last periods in the sample. For efficiency and equity, the leads and lags results mirror our baseline DiD MTP estimates; that is, we do not find evidence that the creation of ALMOs by English local governments increased the percentage of rents collected nor the number of affordable homes.

DISCUSSION

Consistent with arguments regarding the benefits of not-for-profit corporatization for public service performance, we find that English local governments that adopted ALMOs to provide their social housing services witnessed better service outcomes than those that retained services in-house. Since the switch to corporatized services did not appear to result in a performance dip or trade-offs between the different social housing objectives, the additional agency costs associated with this particular reform may not have been substantial enough to affect performance. Nonprofit corporatization could therefore be a more attractive management structure than other common alternatives to in-house provision of human and social services. These findings have important theoretical and practical implications.

Implications for theory

This study advances research on the performance effects of alternative management structures for public service provision by analyzing the impact of a switch from in-house to not-for-profit corporatized

provision of a major local public service. Much has been written about the management challenges posed by corporatization (e.g., Berge & Torsteinsen, 2023; Grossi et al., 2015; Klausen & Winsfold, 2021). Our analysis indicates that the creation of wholly-owned non-profit-making organizations to manage public services might represent an effective strategy for maximizing the benefits from additional resources because of the profit reinvestment, public benefit orientation and community focus associated with nonprofits. The additional investment secured by local governments operating ALMOs was also likely important, but corporatization seems to have played a vital role in stimulating service improvement. As such, the results offer support for theories of sectoral advantage that suggest synergistic effects can be realized when the public and nonprofit sectors work together, especially when the terms of that collaboration are carefully constructed, as per the three-thirds principle of ALMO board representation. In addition, unlike prior studies, we implement a research design that enables us to identify changes in performance that may be attributable to the switch to corporatized service provision—i.e., the impact of corporatization itself. Critically, in adopting a DiD MTP approach we are able to approximate the effects associated with the staggered policy implementation typical of public management reforms at the local level.

Despite the strengths of our DiD MTP approach, it is still important to acknowledge that we were unable to accurately capture the impact of treatment intensity on this occasion. Subsequent studies of the effects of corporatization should seek to disentangle the effects of organizational form and resources using quasi-experimental methods. Moreover, in this study, we are focused on social housing in England at a particular point in time. In the future, scholars should systematically investigate the impact of not-for-profit corporatization in different services and countries. In particular, while the legal form and ownership structure are the same for all of the ALMOs included in our analysis, and their boards were required to comprise one third local politicians, one third independent directors, and one third tenants, other corporatized public services exhibit greater heterogeneity in their governance arrangements and the extent to which they are able to garner resources from national government (van Genugten et al., 2023). Researchers should therefore seek to examine the merits of alternative forms of corporatization, particularly the relative performance of nonprofit versus profit-making corporations and whether levels of investment and expenditure matter. In addition, research comparing the effects of corporatization across multiple services could address key dimensions of the transaction costs associated with a switch from in-house provision, such as the impact of asset specificity and output measurability (Williamson, 1991). Studies that were able to incorporate agency costs (e.g., monitoring intensity) directly into the analysis of performance effects would also be insightful.

Implications for policymakers

The results of our study demonstrate to national, regional, and local policymakers that corporatization can improve local public service performance. In particular, for human services corporate forms of organization that are nonprofit, wholly-owned, locally-bounded and with significant citizen representation on the board of directors may be an effective vehicle for improving service quality, citizen satisfaction and environmental sustainability. These benefits may have been achieved by ALMOs because they received strong financial and political backing from central government until 2010 when central support was withdrawn and the reverse corporatization of many ALMOs occurred (Andrews, 2024). Prior research suggests a commitment to service quality may hold the key to the long-term sustainability of alternative management structures for public services (Aldag & Warner, 2018). Such a commitment is likely to be stronger in not-for-profit organizations than those that are profit-making (Hefetz & Warner, 2012). Politicians and policymakers should therefore consider how legal form, ownership structure, and board composition can sustain support for service improvement in corporatized services before advocating for a switch away from in-house provision. It is also important to be ready to commit meaningful resources to supporting new entities.

The research provides valuable lessons for the leaders and managers of corporatized public services. In particular, while the benefits of corporatization may take some time to emerge, our research suggests that such benefits are potentially substantial. Time and resources spent eliciting the support of internal stakeholders during the corporatization process, such as those employees transferring to the new organization and the representatives of service users and local politicians who sit on the board of directors, seem likely to pay dividends (Cole & Powell, 2010). Likewise, efforts to build strong relationships with external stakeholders, such as peer organizations, regulatory bodies, and higher levels of government, may also ensure that corporatized services manage their resource dependencies effectively (Malatesta & Smith, 2014). More generally, the development of professional networks related to the management of corporatized local public services, would be a beneficial means for diffusing learning and knowledge about what works for corporatization.

CONCLUSION

Our study contributes to the growing literature on the corporatization of local government by providing robust statistical evidence of the effectiveness of a switch from in-house to not-for-profit corporatized local public service provision. We believe our findings have significant contemporary relevance because of the current predilection for corporatization globally. For example, in European countries the use of MOCs to provide services has grown exponentially during the past two decades, with approximately 20% to 50% of local government budgets now being managed through municipal corporations (van Genugten et al., 2023). Moreover, to date, systematic quantitative research investigating the actual impact of corporatization on local public service performance has been lacking, especially studies that address multiple dimensions of non-financial performance. We hope that our study provides a foundation for further theoretical development and empirical tests in other settings.

DATA AVAILABILITY STATEMENT

The data that support the findings of this study are openly available at <https://www.dropbox.com/scl/fo/ejksj91035yvrsxi7ky6/AAp76C3Tta-7RlXpYsnhPuw?rlkey=drk3vq356j0oe10khdllht7sd&st=igr8nond&dl=0>

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How to cite this article: Alonso, J. M., & Andrews, R. (2025). Does not-for-profit corporatization of local public services improve performance? *Journal of Policy Analysis and Management*, 1–20. <https://doi.org/10.1002/pam.22667>

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