

# Valuation of sector-switching and politicization in the governance of corporatized public services

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## Abstract

Corporatization has great potential for public service provision, but governments face severe challenges in recruiting executive directors (EDs) with relevant human capital. Debates arise about the roles of sector-switching and politicization in public corporation governance, but a critical research gap exists. ED pay (EDP) is a crucial governance factor and signifies the valuation of ED human capital. This study links debates on sector-switching and politicization with human capital theory discourses and analyzes a panel dataset of 1832 ED observations in 291 German public corporations. Political mandate holders and former private-sector EDs receive significantly higher EDP, whereas political human capital is valued even higher. Operating in a profit context strengthens the pay effects for political mandate holders but, contrary to widespread assumptions, not for former private-sector EDs. This study enhances the theoretical understanding of the valuation of human capital factors in public corporation governance and provides important research perspectives.

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## 1 | INTRODUCTION

The devolution of public services to public corporations—referred to as “corporatization”—has increased greatly worldwide, making corporatized public service provision a crucial issue in the debate on the structure and organization of governments (Andrews et al., 2020; OECD, 2017). Public corporations represent enterprises under governmental control through either majority ownership or an equivalent degree of control (OECD, 2015). Beside key potentials for improving public service performance through enhancing managerial autonomy and professionalism while maintaining political control (Thynne, 1994; Voorn et al., 2017), corporatization also introduces severe governance challenges (Cingolani & Fazekas, 2020; Koppell, 2007; Schillemans et al., 2021).

In public corporations, executive directors (EDs) have great managerial flexibility and responsibilities, and they represent an essential resource with high relevance for local democracy and organizational outcomes (Bruton et al., 2015; Krause & VanThiel, 2019; Reddy et al., 2011) as well as corporate goal achievement and managing resource dependencies (Combs & Skill, 2003; Lester et al., 2008). Recruiting competent EDs, who have appropriate knowledge, skills, experience, and social ties—referred to as “human capital” (HC)—has become a crucial governance challenge for governments (Krause & VanThiel, 2019; OECD, 2015).

Driven by public-sector reforms and related corporatization initiatives, there is an increase in the recruitment of private-sector experience in the public sector (Frederiksen & Hansen, 2017), with the belief that so-called “sector-switchers” can contribute to the performance of public service provision through deeper entrepreneurial mindsets and specialized knowledge (Bach & Veit, 2018; Lapuente et al., 2020). On the other hand, recruiting politicized EDs is a reinvigorated governance mechanism, enabling policy coherence and political control, but also associated negatively with political patronage, favoritism, and partisanship (e.g., Ennsner-Jedenastik, 2014; Flinders & Matthews, 2010; Meyer et al., 2018). Despite the relevance, there is a limited theoretical understanding of the extent to which these HC factors are valued in the governance of corporatized public services.

In recruiting competent EDs, ED pay (EDP) is a key indicator in how far different HC factors are valued (OECD, 2015; Peng et al., 2015). In the context of public corporations there is a high discretion for EDP policies (Voorn et al., 2017), and governments need to offer competitive pay to attract qualified EDs (OECD, 2015; World Bank, 2014). Simultaneously, however, they must consider public perceptions, because excessive pay can affect trust in the public sector (Till & Yount, 2019). HC research illustrates the critical role of EDP for valuing relevant HC factors in the public sector (Hicklin et al., 2008; Meier & O’Toole, 2002) and the private sector (Datta & Iskandar-Datta, 2014; Peng et al., 2015).

Several existing studies in leading journals deal with HC, focusing on its interrelation with EDP in the private sector (e.g., Combs & Skill, 2003; Datta & Iskandar-Datta, 2014; Harris & Helfat, 1997; Peng et al., 2015; Sturman et al., 2008) and public sector (Hicklin et al., 2008; Meier & O’Toole, 2002). However, studies on EDP in the special public corporation context—between traditional (bureaucratic) in-house provision and privatization—are still rare. The current EDP research is limited to public corporations at the federal level, focusing on the effects of incentive (Bai & Xu, 2005), board structures (Cahan et al., 2005), political connectedness (Meyer et al., 2018), and financial performance (Cao et al., 2011; Gao & Li, 2015; Mengistae & Xu, 2004) with a lack of studies regarding HC. Moreover, there is a research gap for the relevant municipal level, particularly because the valuation of HC varies highly based on organizational goals and

contexts (Carpenter et al., 2001; Peng et al., 2015) and a very large number of public corporations have been established in municipalities (Bel et al., 2022; Voorn & Genugten, 2022).

Drawing upon these research gaps, the research question of this study is: To what extent are sector-switching and politicization valued in the governance of corporatized public services provision? Methodologically, the study analyses 1832 pay data observations of EDs employed in 291 municipal corporations in Germany based on unique five-year panel data.

The study makes the following contributions. First, it enhances the theoretical understanding of the valuation of private-sector experiences and politicization as HC factors in the recruitment and EDP of public corporations. Contributing to ongoing debates on sector-switching (e.g., Lapuente et al., 2020) and politicization (e.g., Ennser-Jedenastik, 2014), the study theoretically and empirically illuminates the roles of both political and private-sector experience in the governance of top public-sector positions.

Second, the study broadens theoretical understanding of politicization (Christensen et al., 2014; Meyer et al., 2018) by illustrating the need to reflect ED politicization not only as a dysfunctional mechanism of patronage, but also as a functional HC factor for political control. The empirical results contribute to a more nuanced explanation of how different forms of political HC among EDs are valued in corporatized public service governance.

Third, the study enriches current debates on governance differences between public corporations operating in profit and not-profit contexts (Andrews et al., 2020; Papenfuß & Schmidt, 2022). The interaction effects indicate different governance rationalities by showing that the relationship between HC and pay varies significantly between public corporations with profit- and not profit-orientation legal status. This implies the need to differentiate public corporation contexts in both theoretical reasoning and empirical investigations in future research.

## **2 | BACKGROUND AND RELEVANCE OF CORPORATIZATION IN PUBLIC SECTOR**

Worldwide, public corporations account for about 10% of the global GDP (Bruton et al., 2015), have a combined value of \$2 trillion, and are responsible for up to 10% of national employment (OECD, 2017). They are an important alternative to privatization, usually understood as the state's withdrawal from a certain field through the entire or majority sale of public assets/shares (Alonso et al., 2022). Conceptually, a key goal of corporatization is to improve the effectiveness and efficiency of public service provision by maintaining a relevant degree of control through majority ownership (Papenfuß & Schmidt, 2021; Voorn et al., 2017). Promoting private-sector policies, such as the involvement of private-sector expertise becomes increasingly relevant to promoting the goals associated with corporatized public services (Alonso et al., 2022). Corporatization is not limited to profit-oriented public services—it is also often used for not-profit-oriented services needing public funding. In most countries, according to laws, fulfilling public services is the key goal of public corporations.

## **3 | PERSONNEL GOVERNANCE OF PUBLIC CORPORATIONS: THE ROLE OF EXECUTIVE DIRECTORS AND PAY**

In debates on corporatized public service provision, a key issue is the personnel governance of independent public corporation boards (Papenfuß & Schmidt, 2021; Van Genugten et al., 2020).

In this context, one of the most critical personnel governance mechanisms for achieving the strategic/political goals of corporatization is the recruitment of EDs—granted with high managerial autonomy and decision-making responsibility (Gao & Li, 2015; Krause & VanThiel, 2019; OECD, 2015; World Bank, 2014). In two-tier board systems, as in Germany, EDs (management board) are legally separate from non-EDs (supervisory board). In German municipalities, the mayor is the key decision-maker in appointing and paying EDs and public administration and further political bodies (e.g., city council) supply support.

Typically, referring to private rather than public/administrative law, public decision-makers have high flexibility in appointing EDs for public corporations (Bel et al., 2022; Voorn et al., 2017), and recruitment can target the entire labor market. Especially, managers with private-sector experience can be attracted, which is often perceived as helpful in public service provision to implement strategic/structural change (Boyne et al., 2010) and associated with a deeper entrepreneurial mindset and private values (Bruton et al., 2015; Lapuente et al., 2020), and specialized knowledge of management approaches and tools (Bach & Veit, 2018; George et al., 2019). Moreover, EDP is flexible and can deviate from public labor agreements and public-sector pay caps and structures (Voorn et al., 2020). The OECD (2015) recommends that EDP packages for public corporations reflect market conditions to attract qualified personnel, but care should be taken to avoid potential backlash due to negative public perceptions. In light of this and with expanding compensation disclosure laws and corporate governance guidelines for public corporations (Expert Commission G-PCGM, 2022; OECD, 2015; Papenfuß & Schmidt, 2021; World Bank, 2014), EDP has become a key issue in the governance and political control of public corporations under the close scrutiny of public audit agencies, the media, the political sphere, and the general public (Meyer et al., 2018; Papenfuß & Schmidt, 2021). Moreover, it is a key topic in the social debate on trust in the public sector and social (in)equality. Appropriate pay is important in the public sector, as fairness and equity are pertinent public values according to which public-sector organizations should operate (Lapuente et al., 2020). However, recent research still detects relevant pay disparities in public corporations, including vertical pay dispersion (Keppeler & Papenfuß, 2021), gender pay gaps (Bishu & Alkadry, 2017), and patronage-driven pay (Meyer et al., 2018). Citizens' perceptions of fair pay are critical to fostering trust in the leadership of public-sector organizations, as perceptions of pay being inappropriate contribute to distrust in governments and poor forecasts for the future well-being of society (Till & Yount, 2019).

EDP reflects the views of those charged with governance concerning the unique and valuable experiences and skills of EDs in achieving organizational goals (Harris & Helfat, 1997). Conceptually, it is a key indicator of the valuation assigned to HC of EDs (e.g., Combs & Skill, 2003; Peng et al., 2015; Sturman et al., 2008) and management qualities in the public sector (Hicklin et al., 2008; Meier & O'Toole, 2002).

## 4 | THEORETICAL CONCEPTUALIZATION AND HYPOTHESES

This study links conceptual discourses on sector-switching (Boardman et al., 2010; Frederiksen & Hansen, 2017; Hansen, 2014; Lapuente et al., 2020; Su & Bozeman, 2009) and politicization (Lester et al., 2008; Meyer et al., 2018; Papenfuß & Schmidt, 2022; Veit & Scholz, 2016) in the public-sector context to the human capital theory (HCT) debates (Becker, 1964; Peng et al., 2015). HCT is important to explain the role of individual characteristics in governance and service provision (Avellaneda, 2009; Kirkpatrick et al., 2017; Teodoro & Switzer, 2016; Wang & Sun, 2020) and in relations between management quality and pay in the public sector (e.g., Hicklin et al., 2008;

Meier & O'Toole, 2002). However, HCT research currently focuses predominantly on the private sector (Combs & Skill, 2003; Datta & Iskandar-Datta, 2014; Harris & Helfat, 1997; Sturman et al., 2008), though HC valuations vary highly in terms of organizational goals and contexts (Bruton et al., 2015; Carpenter et al., 2001).

HC provides resources to public corporations that can enhance political and strategy goal achievement and corporate performance and foster managing external resource dependencies (Combs & Skill, 2003; Kirkpatrick et al., 2017). The relationship between HC and EDP depends on the degree to which governments perceive specific HC factors to be relevant for public corporation service provision and governance.

ED politicization (Lester et al., 2008; Papenfuß & Schmidt, 2022) and sector-switching (Lapuenta et al., 2020; Su & Bozeman, 2009) are considered relevant HC in managing public services, and they therefore should affect EDP in public corporations from an HCT perspective. Given the different organizational goals and contexts, not all HC might bear the same relevance for ED in public corporations as they do for private firms and thus require different considerations for EDP. Moreover, HC valuations for EDs might vary between public corporations operating with different organizational goals and in different contexts, such as profit and not-profit (Andrews et al., 2020; Papenfuß & Schmidt, 2022).

Following public service corporatization, HC valuation in recruitment and EDP has led to a shift toward openness to private-sector policies, including EDs embodying private managerial norms and values of efficiency/effectivity in service provision (Christensen & Lægheid, 2003; Fernández-Gutiérrez & Van de Walle, 2019; Lapuenta et al., 2020). In this context, sector-switchers with private-sector experience become increasingly crucial to managing public service provision (Boardman et al., 2010; Chen, 2012; Hansen, 2014; Kirkpatrick et al., 2017; Lapuenta et al., 2020; Petrovsky et al., 2015). The literature finds switchers from the private-sector more open to monetary/pecuniary incentives and more qualified for (re-)shaping public services for greater efficiency and market orientation (Boardman et al., 2010; Bruton et al., 2015; Fernández-Gutiérrez & Van de Walle, 2019). In addition, EDs with private-sector experience are supposed to have a more innovative and entrepreneurial mindset, fostering more strategic/structural changes in corporatized service provision (George et al., 2019). Despite the more private sector values of results orientation and efficiency embodied by the ED with private sector experience, unlike the conventional views, core public values do not suffer in public service provision (Lapuenta et al., 2020). Moreover, recruiting sector-switchers in a competitive labor market forces governments to offer more competitive EDP, without knowing how efficiently the ED talent labor market operates or whether it will lead to the desired effects. This leads to:

**H1** *Sector-switchers with private-sector ED experience are more likely to receive higher EDP than those without private-sector ED experience.*

A further personnel governance mechanism in the public corporation context is recruiting and paying EDs with political HC. Beyond frequent associations with political favoritism and patronage, ED politicization can also offer the government more direct political control (Ennsner-Jedenastik, 2014; Flinders & Matthews, 2010). Regarding HCT, former political mandate holders may provide valuable non-business perspectives on political logic and public interest and profound knowledge about political processes for public corporations (Lester et al., 2008). By spending considerable career time in political (net)works, politicized EDs develop context-specific HC, and they may be more familiar with public corporation characteristics, such as goal ambiguity and rule-based control of governments (Petrovsky et al., 2015). In theory, however, the valuation of politicized EDs depends on the range of HC generated by government positions (Lester

et al., 2008). Thus, former political mandate holders possess a broader range of HC than individuals who only become visible as a party member without having held a political mandate. They represent a rare labor market resource offering valuable HC that is highly transferable among organizations. This leads to:

**H2** *Former political mandate holders are more likely to receive higher EDP than those who have never held a political mandate.*

Another potential factor affecting EDP in public corporations is the HC from prior experience in public administration. The HCT posits that public administration employees are characterized by extensive sector-specific HC, including experience in administrative processes and practices (Petrovsky et al., 2015). Furthermore, public administration officials have specific knowledge in the political-administrative system and regarding political processes. However, sector-specific HC built in public administration might be perceived to have low transferability due to its high specificity to tasks within more formal bureaucratic structures than in the private sector; these structures can weaken HC building in creative, entrepreneurial, and strategic mindsets (Bruton et al., 2015; Hansen, 2014). Because public corporations operate outside bureaucratic lines and are established to promote public entrepreneurship (Andrews et al., 2020), public administration and public corporations differ in terms of organizational contexts and goals within the public sector. Hence, in comparison to other HC factors, intra-sector-switching might be less valued in EDP of public corporations. This leads to:

**H3** *EDs with public administration experience are more likely to receive lower EDP than those without public administration experience.*

HCT argues that contingencies and organizational contexts affect HC valuation in ED recruitment and pay-setting (Carpenter et al., 2001; Combs & Skill, 2003; Peng et al., 2015). After corporatization, public services exist in a more complex socioeconomic environment, with market competitiveness alongside public interest (Bel et al., 2022; Christensen & Læg Reid, 2003). However, the intensity by which market forces and business logic influence public corporations strongly depends on profit-making capacity (Andrews et al., 2020). Substantial differences in profit orientation exist between public corporations operating in different sectors/contexts. Some public corporations operate in a more profit-oriented context, with a politically formulated goal to generate profit for business activity and disbursements to the public budget. Other public corporations operate in non-profit contexts, in need of governmental funding to ensure long-term services (Petrovsky et al., 2015). While ED politicization and sector-switching are HC factors likely to be valued in EDP of public corporations, they are unlikely valued equally in all contexts.

Public decision-makers may design EDP in corporatized public services to meet their specific personnel governance needs. Given the increased salience of market forces under greater business logic for public corporations operating in profit-oriented contexts, decision-makers might draw special benefits from EDs with private-sector experience. From a publicness perspective (Andrews, 2022; Petrovsky et al., 2015), these public corporations are more closely tied to competitive markets and market forces and are more independent from the “political budgetary market.” Due to stronger profit orientation, the valuation of entrepreneurial mindset of private-sector experienced EDs might be more relevant. In the personnel governance of profit-oriented public corporations, public decision-makers may be more open to higher EDP for sector-switchers with

private-sector ED experience to strengthen public service efficiency and profit orientation. This leads to:

**H4a** *The profit-orientation legal status of public corporations strengthens the positive effect of private-sector ED experience on EDP.*

As outlined above, profit-oriented public corporations are typically characterized by a stronger market orientation, where service provision is more influenced by market forces in addition to government involvement (Peng et al., 2015). Consequently, to maintain political control over corporatized public services and to regain policy coherence in such profit contexts, governments may consider recruiting EDs with political/administrative experience. Against this background, public decision-makers may recruit EDs with critical political experience (H2) and administrative experience (H3) to re(bind) the management of service provision in profit contexts to the public sphere and allow more direct political control. However, in labor market competition with private firms, higher EDP may be necessary to recruit this valuable but rare HC. From a more critical politicization perspective, the room for political patronage in terms of unjustifiably high pay might be greater in profit-oriented public corporations because of more opportunities and financial independence from the government to use generated money by the public corporation also for higher EDP. This leads to:

**H4b** *The profit-orientation legal status of public corporations strengthens the positive effect of former political mandate holder experience on EDP.*

**H4c** *The profit-orientation legal status of public corporations weakens the negative effect of public administration experience on EDP.*

## 5 | DATA AND METHODOLOGY

### 5.1 | Methodological design and data collection

This study focuses on public corporations on the municipal level in Germany. In Germany, there are 18,566 spin-off organizational forms, such as public corporation across all federal levels, approximately 88% of which are at the municipal level (German Federal Statistical Office, 2020). Data collection occurred manually in four steps: First, all majority-owned public corporations of all 183 German cities having over 50,000 inhabitants were identified using the cities' shareholdings reports. Corporations with direct or indirect (second degree) majority city ownership (at least 50%) were included, while dissolved/merged public corporations were excluded. The study analyzes public corporations of major public service industries often represented in municipal portfolios. Second, available annual financial statements of these public corporations were obtained from the company register—a national repository of corporate reports—for 2013–2017. Third, all personalized pay data of full-time EDs were collected in the annual financial statements and cities' shareholdings reports EDP databases for German public corporations. In certain German cities, public corporations are legally bound to disclose personalized pay data for all EDs, while others recommend pay disclosure and EDP appropriateness in established public corporate governance codes. Studies show that EDP disclosure rules through self-regulation and law are most significant for EDP disclosure (Papenfuß & Schmidt, 2021). All EDs with missing personalized pay data were excluded, and pay data were omitted if an ED did not hold the post for an entire year. Fourth, as a common approach in research on HC (Datta & Iskandar-Datta, 2014;

Peng et al., 2015) and ED politicization (Ennser-Jedenastik, 2014; Meyer et al., 2018), the study conducted extensive online and media research of multiple publicly available sources to identify available biographical data, career stages, and political ties of EDs, including public corporation and city websites, social media databases, newspapers, biographical encyclopedias, and official government documents. In addition, the study examined the first 15 Google search results for EDs' first and last names, and for politicization data, the study further combined the ED name with popular acronyms of major political parties in Germany. A second rater reviewed all coding to ensure data consistency and reliability and complete intercoder agreement was achieved after resolving disagreements through exchange.

## 5.2 | Dependent variable

“EDP” is the natural logarithm of personalized EDP referring to annual cash pay (salary and performance-based pay), consistent with previous compensation studies in leading journals (Combs & Skill, 2003; Harris & Helfat, 1997; Peng et al., 2015). Other pay components, such as stock options and long-term incentive plans—typical for large, listed firms—are uncommon in the German public corporation context (Papenfuß & Schmidt, 2022). Thus, cash pay that decision-makers decide to pay EDs appears to be the most direct measure of the valuation of ED HC (Harris & Helfat, 1997; Peng et al., 2015). Pay data from ED turnover years are omitted because such data include partial pay if the ED did not serve the entire year. Moreover, departing EDs often receive added pay components, such as severance/one-time payments, which may distort pay for said year.

## 5.3 | Independent variables

**Sector-switcher:** The study traces sector-switchers by examining whether the ED held one or more jobs in the private sector. As the HC literature states, more specific HC should hold superior value—reflected in higher pay—over less specific HC (Sturman et al., 2008), the study more precisely distinguishes between different forms of private sector experience. Like others (e.g., Boardman et al., 2010; Zhang, 2017), the study uses binary coding for private-sector experience. The variable “Sector-switchers-with-private-sector-ED-experience” equals one if an ED held one or more ED positions in the private sector, and “Sector-switchers-with-private-sector-experience-below-ED-level” if an ED occupied one or more jobs at any hierarchical level below the ED level in the private sector. Further, through a novel theoretical and methodological lens, the study analyzes the EDP effects of intra-sectoral switching between different public organization types (Papenfuß & Keppeler, 2020). “Public-sector-switchers-from-public-administration-to-public-corporation” is a binary-coded variable equal to one if an ED occupied one or more positions as an administrative official in public administration.

**Politicization:** Referring to the HC literature (Lester et al., 2008), the study identifies political experience by analyzing whether an ED held one or more political mandates (“Former-political-mandate-holder”), that is, whether they held a professional party office (e.g., mayor, minister) or served on a city council, regional parliament, or cabinet of ministers. Like other studies (Fan et al., 2007; Peng et al., 2015), this variable is binary coded, equal to one if the ED has this attribute. Separately, the study identifies and binary codes whether an ED became visible as a party member without having held a political mandate (“ED-only-visible-as-party-member”).



Although party membership also implies ED politicization (Ennsner-Jedenastik, 2014; Meyer et al., 2018), it must be treated differently from the HCT perspective because the breadth of political experience is substantially lower than for former political mandate holders (Lester et al., 2008).

**Public corporation context:** The study distinguishes public corporations in profit-oriented or not-profit-oriented contexts. The profit-orientation status is measured by legal classifications in German municipal laws which differentiate public services into profit or not-profit activities. Not-profit activities structurally include, for example, public services in the fields of education, culture, sports/recreation, health or social services, business development, fairs, and administrative activities that exclusively meet the needs of local governments. Like other studies (Andrews et al., 2020; Papenfuß & Schmidt, 2022), the profit-orientation legal status of public corporations is operationalized as a binary-coded variable. “Public-corporation-profit-orientation-legal-status” equals one if an ED holds a position in a public corporation with a profit-orientation legal status.

## 5.4 | Control variables

The study considers individual controls that potentially influence EDP: “ED-doctoral-degree” is binary-coded and equal to one if the ED holds a doctoral degree. The academic graduation is often used for measuring generic human capital associated with higher pay (Datta & Iskandar-Datta, 2014). “ED-tenure” measures the number of firm-years an ED held their position assuming more firm-specific HC level relates to higher pay (Combs & Skill, 2003; Harris & Helfat, 1997). “ED-age” is a categorical variable to account for potential pay differences between age groups reflecting potential inverted U-shaped function of age-pay-relations (Finkelstein & Hambrick, 1989). “Female-ED” is binary-coded and equal to one for female for considering potential gender pay disparities.

Regarding firm controls, the study integrates the firm size measured by the natural logarithms of “Balance-sheet-total” and “Number-of-employees”—the most important EDP factors (Tosi et al., 2000). “City-ownership-shares” is the percentage share of the largest shareholding city, and “Indirect-shareholding-of-city” is a binary-coded variable indicating indirect city shareholding. Higher and more direct city involvement in public corporations may reduce the risk of high EDP due to more public monitoring opportunities (Mengistae & Xu, 2004). “Private-shareholder” is a binary-coded variable that indicates whether a public corporation has an added private shareholder owning a minority of shares, reflecting potential private-sector pay policy influences related to higher pay. “Private-legal-form” is a binary-coded variable equal to one if the public corporation operates with a private legal form offering greater pay flexibility for than public legal forms (Voorn et al., 2020). “Number-of-EDs” represents the management board size, as greater responsibility of a single person on a small management board may correspond to higher EDP. As a frequently analyzed economic determinant for both private and public-sector organizations, the study includes “Return-on-assets” (annual earnings divided by total assets per year), showing that higher financial performance increase EDP (Gao & Li, 2015; Tosi et al., 2000). “Public-service-industry” refers to the industry to which each public corporation belongs. According to municipal law classifications and corporate objectives, the study categorized: municipal utility; public transport; hospitals; public housing & facility management; economic & urban development; social services; and culture, sport, & recreation.

Lastly, the study integrates city size, measured by the natural logarithms “City-population”, and “City-debt-per-capita” to capture the city’s economic and sociodemographic aspects that

might affect opportunities for competitive EDP and pay needs regarding living costs. In addition, the study employs dummy variables to control for year effects.

## 5.5 | Model specification

The study applies multilevel modeling (Raudenbush & Bryk, 2002) to analyze hierarchical data (for a comparable approach, see Peng et al., 2015). The data encompass EDs (level 1) nested in public corporations (level 2), which are nested in local governments/cities (level 3). Furthermore, the data include repeated ED observations over years (unbalanced panels). The results of the likelihood-ratio test suggest three-level modeling, so the study applies three-level random intercept models, enabling intercept variation between groups. The model equation, written in level notation, is as follows:

$$Y_{ijkt} = \beta_{000} + \sum_{m=1}^M \beta_m \text{City}_{mkt} + \sum_{p=1}^P \gamma_p \text{PublCorp}_{pjkt} + \sum_{q=1}^Q \delta_q \text{ED}_{qijkt} + T_t + I_{ij} + w_{00k} + v_{0jk} + \varepsilon_{ijkt} \quad (1)$$

where  $Y_{ijkt}$  is the individual-level dependent variable (EDP) for ED  $i$  nested in public corporation  $j$  nested in city  $k$  in year  $t$ . The term  $\beta_{000}$  represents the intercept,  $\beta_m$  ( $m = 1, \dots, M$ ), the effects of city predictors ( $\text{City}_{mkt}$ ),  $\gamma_p$  ( $p = 1, \dots, P$ ), the effects of public corporation predictors ( $\text{PublCorp}_{pjkt}$ ), and  $\delta_q$  ( $q = 1, \dots, Q$ ) the effects of ED predictors ( $\text{ED}_{qijkt}$ ).  $T_t$  controls for time fixed effects and  $I_{ij}$  for public service industry fixed effects. The terms  $w_{00k}$  and  $v_{0jk}$  indicate the within-level random residuals for local governments/cities and public corporations. Finally,  $\varepsilon_{ijkt}$  is the within-cluster random residual at the individual level. The study employs multilevel mixed-effects maximum likelihood models using the *xtmixed* command in Stata 17.

## 6 | EMPIRICAL FINDINGS AND DISCUSSION

### 6.1 | Sample size and descriptive statistics

The study sample comprises 510 EDs employed in 291 public corporations from 64 German municipalities during 2013–2017, yielding 1832 observations. In the sample, 23.3% are private-sector-switchers with ED experience and 29.0% with experience only below ED level. In total, 19.8% of EDs have public administration experience. In comparison to state-owned enterprises in other countries (i.e., federal-level public corporations), such as Austria (Ennsner-Jedenastik, 2014; Meyer et al., 2018), China (Fan et al., 2007), and Russia (Okhmatovskiy, 2010), recruiting politicized EDs (12.5%) plays a relatively minor role in German public corporations. Here, 5.9% are former political mandate holders, while others became visible as party members without holding a political mandate. Moreover, the sample indicates general linear career patterns in one sector with only 4.9% of EDs have more than one of the analyzed HC factors. According to Chi-squared tests there are no significant differences in distribution for the analyzed HC factors between public service industries and public corporations with profit/not-profit-orientation legal status, indicating no structural influences of self-selection and sorting effects.

The mean EDP of the total panel is 211,448 Euros (maximum 984,000 Euros). The highest average EDP levels are in municipal utilities (283,300) and public hospitals (264,000), while social

services represent the lowest (98,500). Sector-switchers with private-sector ED experience receive on average 226,541 Euros, approximately 33,000 EUR more than EDs without this experience; former political mandate holders receive on average 238,611 Euros. Table A1 in the supplementary appendix shows the descriptive statistics. According to the pairwise correlation matrix, all coefficients are below 0.7, and the variance inflation factors (VIFs) are well below the usual cut-off of 10, signaling no concerns of multicollinearity (Supplementary Appendix/Table A2 and A3).

## 6.2 | Multilevel panel data regressions results and discussion

Table 1 presents the results of the multilevel panel data analysis. Model 1 is the baseline model, with only the effects for controls, Model 2 shows the main effects of sector-switching and politicization on EDP, and Models 3–5 demonstrate the moderating effects of a public corporation's profit-orientation legal status. The methodological design performs well: the overall intra class correlation (ICC) is approximately 0.97, with the highest proportion of variance in EDP between public corporations (ICC = 0.67). Akaike's information criterion (AIC) is used to assess the models' information effectiveness.

The findings support H1, indicating EDs in corporatized public services receive significantly higher EDP if experienced in private-sector ED positions (Model 2). Private-sector ED experience commands on average 6.4% higher pay in public corporations<sup>1</sup>—it appears to be perceived as an important HC factor in recruitment in the public corporation context (see descriptive statistics above), and it has significant EDP effects if private-sector experience was obtained from an ED position. In the debate on recruitment of human capital in the public sector (Kirkpatrick et al., 2017; Papenfuß & Schmidt, 2022), this indicates that competences and practices attained at private-sector ED level are valued in the governance and management of corporatized public service provision.

Supporting H2, former political mandate holders receive higher pay (Model 2). While party membership alone has no significant effect, former political mandate holders receive 13.2% more EDP on average, further enhancing the theoretical understanding of the perceived value of different political HC in ED recruitment and pay (Ennsner-Jedenastik, 2014; Meyer et al., 2018). EDP significantly differs according to the breadth of political HC (Lester et al., 2008). In public corporation governance, higher EDP seems to play an important role in recruiting profound political experience. Mere visibility as a party member without considerable career time as political mandate holder does not affect EDP. However, given their privileged access to political representatives and prospects to use their political networks opportunistically, ED positions held in public corporations by former political mandate holders can also indicate a dysfunctional form of politicization and patronage with a use of political connections to get higher pay. However, tests illustrate that a politicized ED affiliated with the mayor's party does not significantly influence the EDP, indicating a need for future governance research to analyze the politicization breadth of top position holders in a more differentiated manner.

Comparing the EDP effects of private-sector and political experiences, the results indicate a relatively lesser effect at a lower significance level of private-sector ED experience ( $\beta = 0.062$ ,  $p < .10$ ) than of holding a former political mandate ( $\beta = 0.124$ ,  $p < 0.01$ ). The EDP increase for former political mandate holders is 6.8% points higher, so while private-sector ED experience appears valued in public corporations, within the orchestra of different HC factors, its role is not dominant.

The results also support H3, where public administration experience is associated with an average 6.95% lower EDP in public corporations ( $\beta = -0.072$ ,  $p < 0.05$ ). Although EDs with

TABLE 1 Multilevel panel data regressions

Independent-variables	(1)	(2)	(3)	(4)	(5)
Sector-switchers-with-private-sector-ED-experience		0.062† (0.034)	0.062 (0.042)	0.060† (0.035)	0.058† (0.035)
Sector-switchers-with-private-sector-experience-below-ED-level		0.042 (0.038)	0.042 (0.038)	0.041 (0.039)	0.039 (0.038)
Former-political-mandate-holder		0.124** (0.039)	0.124** (0.039)	0.066† (0.034)	0.114** (0.035)
ED-only-visible-as-party-member		0.004 (0.058)	0.004 (0.059)	0.007 (0.059)	0.000 (0.058)
Public-sector-switchers-from-public-administration-to-public-corporation		-0.072* (0.032)	-0.072* (0.033)	-0.072* (0.032)	-0.133*** (0.036)
Moderators					
Sector-switchers-with-private-sector-ED-experience × public-corporation-profit-orientation-legal-status			-0.001 (0.078)		
Former-political-mandate-holder × public-corporation-profit-orientation-legal-status				0.114* (0.050)	
Public-sector-switchers-from-public-administration-to-public-corporation × public-corporation-profit-orientation-legal-status					0.156* (0.072)
Individual-controls					
Female-ED		-0.065† (0.036)	-0.056 (0.038)	-0.053 (0.037)	-0.050 (0.038)
ED-doctoral-degree		0.150*** (0.032)	0.156*** (0.031)	0.156*** (0.031)	0.151*** (0.032)
ED-tenure		0.006* (0.002)	0.007* (0.003)	0.007* (0.003)	0.007* (0.003)
ED-age	RC	RC	RC	RC	RC
≤45 years					
46–50 years	0.015 (0.015)	0.015 (0.015)	0.015 (0.015)	0.015 (0.015)	0.015 (0.015)
51–55 years	0.023 (0.019)	0.023 (0.019)	0.023 (0.019)	0.023 (0.019)	0.024 (0.019)
56–60 years	0.014 (0.025)	0.015 (0.025)	0.015 (0.025)	0.015 (0.025)	0.017 (0.025)
≥61 years	0.011 (0.035)	0.012 (0.035)	0.012 (0.035)	0.012 (0.035)	0.014 (0.034)

TABLE 1 (Continued)

Independent-variables	(1)	(2)	(3)	(4)	(5)
<b>Firm-controls</b>					
Public-corporation-profit-orientation-legal-status	0.281* (0.123)	0.264* (0.129)	0.264* (0.128)	0.257* (0.126)	0.231† (0.133)
City-ownership-shares	-0.001 (0.001)	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)	0.000 (0.002)
Private-shareholder	0.127 (0.101)	0.123 (0.098)	0.124 (0.098)	0.125 (0.098)	0.136 (0.099)
Indirect-shareholding-of-city	-0.058 (0.070)	-0.070 (0.070)	-0.070 (0.069)	-0.068 (0.071)	-0.060 (0.069)
Private-legal-form	0.115 (0.073)	0.108 (0.071)	0.108 (0.070)	0.107 (0.071)	0.113 (0.072)
Balance-sheet-total, logarithm	0.011*** (0.003)	0.011*** (0.003)	0.011*** (0.003)	0.011*** (0.003)	0.011*** (0.003)
Number-of-employees, logarithm	0.004 (0.003)	0.004 (0.003)	0.004 (0.003)	0.004 (0.003)	0.004 (0.003)
Return-on-assets	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Number-of-EDs	-0.004 (0.008)	-0.004 (0.008)	-0.004 (0.008)	-0.004 (0.008)	-0.004 (0.008)
<b>Public-service-industry-dummies</b>					
<b>Municipal-utilities</b>					
Public-transport	RC	RC	RC	RC	RC
	0.181 (0.136)	0.178 (0.140)	0.178 (0.141)	0.178 (0.139)	0.171 (0.142)
Public-housing & facility-management	-0.195* (0.080)	-0.204** (0.078)	-0.204** (0.077)	-0.202** (0.078)	-0.202* (0.078)
Economic & urban-development	-0.078 (0.160)	-0.085 (0.166)	-0.085 (0.166)	-0.084 (0.164)	-0.079 (0.167)
Social-services	-0.499** (0.187)	-0.506** (0.186)	-0.506** (0.183)	-0.506** (0.185)	-0.499** (0.185)
Culture, sport & recreation	-0.248 (0.196)	-0.260 (0.201)	-0.260 (0.199)	-0.263 (0.199)	-0.264 (0.203)
Hospitals	0.372* (0.182)	0.364* (0.184)	0.364* (0.183)	0.362* (0.183)	0.363† (0.189)
<b>City-controls</b>					
City-population, logarithm	0.146*** (0.039)	0.138*** (0.039)	0.138*** (0.039)	0.139*** (0.039)	0.138*** (0.038)
City-debt-per-capita, logarithm	-0.034 (0.032)	-0.033 (0.030)	-0.033 (0.030)	-0.034 (0.030)	-0.035 (0.030)
Year-dummies	Jointly sign.	Jointly sign.	Jointly sign.	Jointly sign.	Jointly sign.
Intercept	9.944*** (0.344)	1.040*** (0.334)	1.040*** (0.337)	1.035*** (0.335)	1.050*** (0.331)
ICC	0.969	0.968	0.968	0.968	0.968
Proportion-of-variance   city	0.061	0.061	0.061	0.060	0.059

(Continues)

TABLE 1 (Continued)

Independent-variables	(1)	(2)	(3)	(4)	(5)
Proportion-of-variance   public corporations	0.665	0.660	0.660	0.661	0.669
Proportion-of-variance   EDs	0.243	0.247	0.247	0.247	0.240
AIC	-1857.86	-1856.95	-1854.95	-1855.99	-1859.24
Log pseudolikelihood	961.93	966.48	966.48	967.00	968.62
Observations	1832	1832	1832	1832	1832
EDs	510	510	510	510	510
Public corporations	291	291	291	291	291

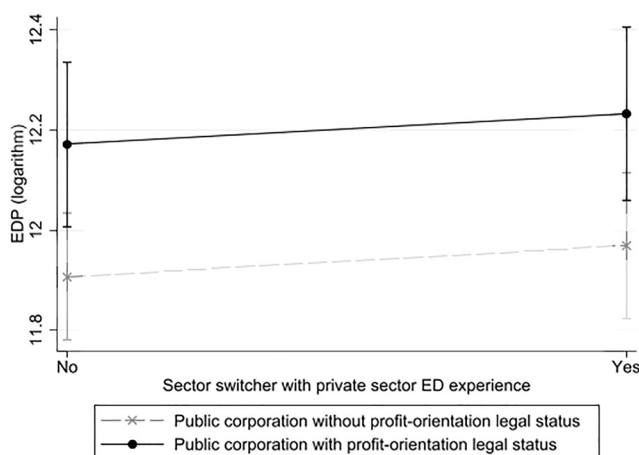
Note: Clustered robust standard errors for city level in parentheses. † =  $p < 0.1$ ; \* =  $p < 0.05$ ; \*\* =  $p < 0.01$ ; \*\*\* =  $p < 0.001$ .

Abbreviations: AIC, Akaike's information criterion; EDs, executive directors; ICC, intra class correlation; RC = reference category.

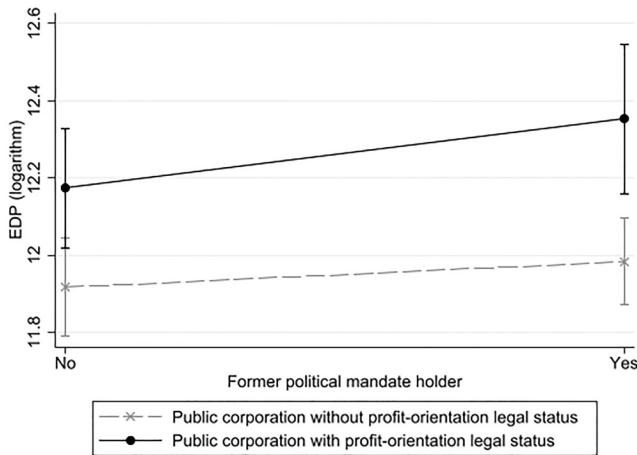
public administration-specific experience are often recruited for public corporations, the statistical results show this HC factor impacts pay negatively. From the labor market demand side, the specificity of public administration experience— frequently associated with lower entrepreneurial and more formal bureaucratic mindsets and skills (Bruton et al., 2015; Hansen, 2014)— may be less preferred by other sectors, especially private. Following labor market logic, weaker competition for this HC factor might lower its price (i.e., EDP). Moreover, administration employees could theoretically show less preference for monetary incentives and instead greater motivation for public service work (Hansen, 2014; Su & Bozeman, 2009). In addition, the pay in former positions can decide pay negotiations and perspectives for an ED position in public corporations. Hence, as pay in public administration is structurally lower than in top private positions (Hansen, 2014), the theoretical implication is lower pay expectations and corresponding pay negotiations. Overall, the results highlight the relative importance of politicization and inter- and intra-sector-switching in recruiting and paying EDs.

The study conducted supplementary tests to assess the robustness of the findings regarding self-selection and sorting biases. Neither the integration of interaction effects between public service industries and the analyzed HC factors nor further post-estimation tests indicates a structural bias due to self-selection/sorting. Supporting the results, EDP appears structurally higher for sector-switchers with private-sector ED experience and former political mandate holders across and within public service industries.

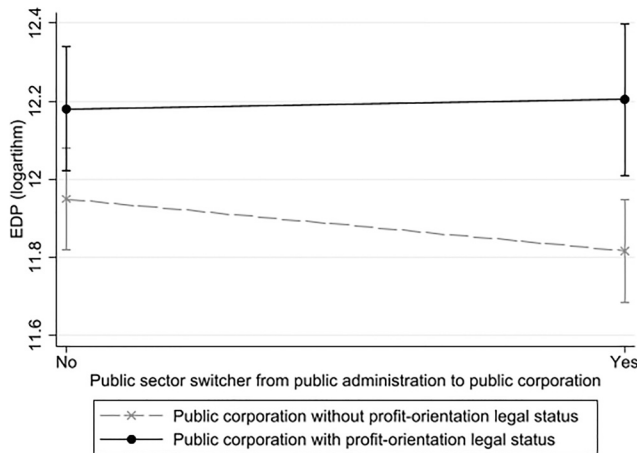
Finally, Models 3–5 show moderating effects of the public corporation profit-orientation legal status on sector-switching and politicization, and Figures 1–3 illustrate the average marginal effects of these interactions. Not supporting H4a, the effect of private-sector ED experience on EDP is unaffected by profit-orientation legal status. Interestingly opposing widespread assumptions, private-sector ED experience does not appear to be valued significantly higher in profit contexts than in not-profit contexts. Concerning current debates on governance differences between public corporations operating in profit and not-profit contexts (Andrews et al., 2020; Papenfuß & Schmidt, 2022), the findings imply a need for further nuanced reflection of HC valuation. Supporting H4b, the positive effect of a former political mandate on EDP is strengthened by public corporation profit-orientation legal status (Model 6). As conceptually argued in the hypothesis section, former mandate holders offer HC that is considered beneficial—translated



**FIGURE 1** Marginal means plot of the interaction effect of “Public-corporation-profit-orientation-legal-status” and “Sector-switchers-with-private-sector-ED-experience” on ED pay (EDP)



**FIGURE 2** Marginal means plot of the interaction effect of “Public-corporation-profit-orientation-legal-status” and “Former-political-mandate-holder” on ED pay (EDP)



**FIGURE 3** Marginal means plot of the interaction effect of “Public-corporation-profit-orientation-legal-status” and “Public-sector-switchers-from-public-administration-to-public-corporation” on ED pay (EDP). Note for Figures 1–3: The x-axis displays the independent variables “Sector switchers with private sector ED experience”, “Former political mandate holder” and, “Public sector switchers from public administration to public corporation” In all figures, the y-axis displays the effects on EDP (logarithm). The solid black line displays interaction for public corporation with profit-orientation legal status, while the dashed gray line displays interaction for public corporation without profit-orientation legal status. Points/crosses denote marginal means. Vertical bars/whiskers represent 95% confidence intervals.

into higher EDP—when public services relate more to profit contexts and potentially require a tighter (re)binding of the corporatized public services to political control (Peng et al., 2015). Further, concerning the functional aspects of politicization in this context, there is no evidence of a higher EDP for EDs who only became visible as party members. Critical perspectives, however, may argue that reward-based political patronage operates as dysfunctional politicization, where the profit orientation of public corporations, coupled with greater financial power, makes higher EDP for former mandate holders less suspect. Overall, in the politicization debate, it seems



relevant for future research to differentiate continually among politicization forms to provide a nuanced theoretical and empirical picture of functional and dysfunctional politicization aspects. Regarding H4c, Model 7 supports that corporations' profit-orientation legal status significantly weakens the negative effect of public administration experiences on EDP. Hence, public administrative HC is perceived as valuable in public corporations with profit-orientation legal status. ED candidates with administrative experience allow public decision-makers to maintain public/political perspectives in corporatized public services governed more strongly by market forces/mechanisms. Overall, insights into these moderating effects strengthen recent research impulses on corporatization, striving for more distinguished nuances between public corporation contexts by identifying significant personnel governance differences between public corporations with profit and not-profit legal status.

Finally, concerning the most relevant individual-level control variables, EDs with firm-specific (i.e., longer tenure) and generic HC (i.e., a doctoral degree) receive significantly higher EDP. Moreover, at the firm level, EDP differs significantly between public service industries and is significantly higher in public corporations with a higher balance sheet total and operating in a profit-orientation context. Finally, at the city level, public corporations in larger cities offer significantly higher EDP.

Although the current study provides relevant and new theoretical and empirical contributions, it has limitations. Concerning transparency and publishing comprehensive and meaningful curriculum vitae, the operationalization of politicization and sector-switching based on binary coding means the number of and exact duration in career positions for each ED is unknown. However, the binary coding of career stages is a widely implemented methodological approach for politicization (e.g., Peng et al., 2015) and sector-switching (e.g., Zhang, 2017); given the importance of EDs in German public service provision, the sources analyzed are highly valid for identifying and operationalizing ED HC factors. Future research could assess the specific background and types of sector switcher in more detail. Moreover, the study's theoretical and empirical focus is limited to HC valuation in ED recruitment and EDP in interrelation with profit and not-profit public corporation contexts. It would be interesting in future research to shed light on effects and determinants of different EDP components (e.g., performance-related pay) and assess interaction effects with other governance mechanisms (Kirkpatrick et al., 2017; Papenfuß & Schmidt, 2021). Furthermore, an analysis of the effects of HC and how HC factors valued in EDP translate to improvements in a public corporation's operation, such as performance and innovativeness, would be fruitful. As in all single-country studies, the findings' transferability may be limited. However, as Germany is a constitutional state with a parliamentary democracy and it has highly similar labor market conditions and administrative traditions/systems to many other OECD countries, the findings presented have considerable potential for applicability to other countries, depending on market organization, administration, and governments.

## 7 | CONCLUSION

Public corporations and their governance have become a crucial issue in the structure and organization of governments. For governments, recruiting competent EDs with relevant HC factors and suitable values and motivations for the public sector is crucial for the governance system and policy making.

This study links sector-switching and politicization to HCT discourses, broadening the theoretical understanding of HC valuation in public corporation governance. The findings show

that political mandate holders and former private-sector EDs receive significantly higher EDP, whereas political human capital is valued even higher. The extent depends on the HC breadth and whether the public corporation operates in a profit or not-profit context. This study enhances the theoretical understanding of HC valuation in the governance debate on corporatized and decentralized public services, offering important perspectives.

The findings also have implications for both practice and policy making. For ED recruitment and pay decisions, public decision-makers could benefit from adopting clear governance standards, such as public corporate governance codes, as stressed by international policy makers and initiatives in different countries (Expert Commission G-PCGM, 2022; OECD, 2015; World Bank, 2014). Further, public decision-makers must ensure that key public values play a dominant role, and because public corporations' profit/not-profit status affects perceptions of public administration/political experience, practitioners and policy makers must reflect continually on EDP differences and the effects of politically intended goals.

The valuation and effects of HC of EDs of public corporations is an extraordinarily important issue for future research in the debate on corporatized public service provision and governance of decentralized public organizations, as well as on the structure and organization of governments.

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## CONFLICTS OF INTEREST

The authors have no relevant financial or non-financial interests to disclose.

## DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available from the corresponding author upon reasonable request.

## PATIENT CONSENT STATEMENT

The data are hand collected from publicly available data sources. No informed consent of participants is required.

## PERMISSION TO REPRODUCE MATERIAL FROM OTHER SOURCES

The study does not include any material borrows from other works. No permissions are required.

## ENDNOTE

<sup>1</sup> While EDP uses the natural logarithm in the models, the text reports transformed coefficients using the  $e^{\beta} - 1$  formula to obtain the ratio of EDP increase/decrease. In this example,  $\beta = .062$ ; after transformation using the  $e^{\beta} - 1$  formula, we obtain a 6.40% EDP increase.

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### SUPPORTING INFORMATION

Additional supporting information can be found online in the Supporting Information section at the end of this article.

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