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# Marketization revisited

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398

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## Abstract

**Purpose** – The purpose of this paper is to introduce the *IJPSM* special issue on marketization to clarify the conceptual foundations of marketization as a phenomenon within the public sector and gauge current marketization trends based on the special issue's seven papers.

**Design/methodology/approach** – Conceptual clarification and cross-cutting review of seven papers analysing marketization in six countries in three policy areas at the level of local government.

**Findings** – Four ideal-types models are deduced: quasi-markets involving both provider competition and free choice for users; classical contracting out; benchmarking and yardstick competition; and public-private collaboration. Based on the review of the seven papers, it is found that all elements in all marketization models are firmly embedded but also under dynamic change within public service delivery systems. The review also identifies limitations and modifications of the four ideal-type models. A key trend is a move towards public-private collaboration and cross-sectorial and inter-organizational governance arrangements.

**Research limitations/implications** – Continued research on marketization would benefit from development of more fine-tuned theoretical models which are sensitive to the realm of the dynamics within particular policy and institutional contexts.

**Practical implications** – Policy-makers should balance normative objectives against the experiences gained at the level of implementation.

**Originality/value** – The special issue shows that marketization still is a concurrent phenomenon which is driving substantial change in public service delivery systems as well as is under dynamic change itself.

**Keywords** Local governments, Public sector reform, Marketization

**Paper type** Research paper

## 1. Introduction

There is no exception to the rule that every time a culture works out an empirically valid answer to a problem, it thereby generates a host of derivative problems (Moore and Tumin, 1949, pp. 794-795).

One way of interpreting NPM's [New Public Management] origins is as a marriage of two different streams of ideas. One partner was the "new institutional economics". [...] the new institutional economics movement helped to generate a set of administrative reform doctrines built on ideas of *contestability*, *user choice*, *transparency* and close concentration on *incentive structures*. [...] the other partner in the "marriage" was the latest of a set of successive waves of business-type "managerialism" in the public sector, [...] (Hood, 1991, p. 5).

The objective of this special issue is to provide an empirical basis for analysing and comparing the recent evolution and current state of marketization – the use of market-type-mechanisms (MTM) – at the level of local government in several countries. It includes seven papers from six different countries analysing the evolution and current status of marketization in three public policy areas. The aim has been to examine to what extent the classical marketization models well-known from new public management (NPM) (Knudsen and Rothstein, 1994; Pollitt and Bouckaert, 2011b; Premfors, 1998) have been replaced or supplemented by other types of institutional arrangements for interaction between public and private sector organizations.



Recent processes of marketization are probably best understood from a broader historical perspective. One of the more remarkable trends of the twentieth century was a growth in the public sector all over the world, especially in the more wealthy countries, culminating in the post-war decades (Tanzi and Schuknecht, 2000). In the 1970s, a reaction to the global economic crises as well as the growth of the public sector gained momentum in many countries – especially in the Anglo-Saxon countries. Prime Minister Margaret Thatcher in the UK and President Ronald Reagan in USA represented some of the strongest voices in this neoliberal reaction, as perhaps most forcefully stated in Reagan's first inaugural address as President on 20 January, 1981: "In this present crisis, government is not the solution to our problem; government is the problem"[1].

Since the 1970s, the public sector all over the world has witnessed important changes in its organization and management. In the public administration literature, these changes have been labelled NPM (or reinventing government in the US context) and the changes have included a variety of new ways of organizing public sector activities (Christensen and Lægreid, 2007; Hood, 1991; Osborne and Gaebler, 1992; Pollitt and Bouckaert, 2011a), by and large focusing on enhancing efficiency and/or shrinking the state – or at least restricting its growth.

One of the strongest global reform trends of NPM has been the implementation of different types of marketization in public service delivery (Hood, 1991; Osborne and Gaebler, 1992), though the strength and features of this trend vary considerably between countries (Djelic, 2006; Hansen and Lauridsen, 2004; Pierre, 1995; Pollitt and Bouckaert, 2011b) and policy areas (Hansen, 2011).

This special issue uses the concept of marketization broadly to refer to a family of managerial arrangements or policy tools (Bartlett and Le Grand, 1993; Bevir, 2009; Hansen, 2011; Le Grand *et al.*, 2007) that attempt to integrate various types of market mechanisms (competition, price mechanisms, exit options, etc.) into public services (Salamon, 2002). The phenomenon of marketization is related to but different from privatization, the transfer of hitherto public activities and responsibilities into the private sector, which we will elaborate below.

Theoretically, a common way of framing the adaptation of marketization across national context(s) is to use a diffusion model; that is, to see marketization reforms as initiated and spreading out from so-called benchmark countries, in particular, Anglo-Saxon countries, towards other – and later adapting – countries within the group of OECD countries (Bevir, 2009; Salamon, 1993). This type of convergence story is often supported by sociological (legitimacy driver) or economical (efficiency driver) versions of institutional theory (Barzelay, 2000; Hansen, 2010). The convergence story, however, is not uncontested (Hall and Taylor, 1996; Scott, 2001), and historical institutionalism (Common, 1998) and its notion of path-dependent processes provide an alternative interpretation often celebrated by scholars in public administration (Mahoney and Thelen, 2010; Steinmo *et al.*, 1992).

Marketization, along with other elements of NPM, has now been tried out for several decades in many countries and a number of lessons concerning its advantages, disadvantages, pitfalls, paradoxes, trade-offs and dilemmas in different sectors and countries have been suggested by scholars in public administration (Hood and Peters, 2004; Le Grand *et al.*, 2007). Over the past decade, various types of post-NPM trends have been suggested, and in terms of public-private service delivery arrangements, especially one suggested trend is important to examine. To what extent can a change from competition to collaboration in public-private service delivery arrangements be detected?

(Christensen and Laegreid, 2007; Dunleavy *et al.*, 2006; Hood and Peters, 2004; Lindholst, 2009; O'Flynn, 2007).

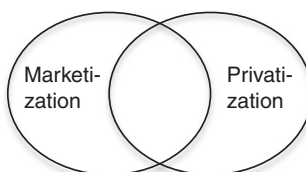
In this introductory essay, we first provide a conceptualization of marketization and clarify how it relates to other elements of public management reform. We then briefly review the papers included in this special issue on marketization and point out where they add to the marketization literature. Finally, we discuss the main contributions of the special issue.

## 2. Marketization and privatization

As indicated in the introduction, we use the term marketization broadly to refer to managerial arrangements – or packages of policy tools (Donahue and Zeckhauser, 2006; Entwistle and Martin, 2005; Hodge *et al.*, 2012; McGuire, 2006; Warner and Hefetz, 2008) that attempt to integrate MTM into public services (Salamon, 2002). By public services is meant “services that are of fundamental importance to the public [...] it usually implies services for which there is some form of state or government intervention, whether in its finance, provision, regulation or all three” (Le Grand *et al.*, 2007, p. 4). The services analysed in the seven papers in the special issue are park and road maintenance, employment services and heating.

Marketization resembles, but is different from, the concept of privatization, which is the general concept most often used in the public administration literature (besides more specific tool-labels such as public procurement, contracting out, agencification, purchaser-provider split, etc.). While privatization has been defined in numerous ways in the scientific literature (Feigenbaum *et al.*, 1998; Hodge, 2000; Lundqvist, 1988), all definitions emphasize the distinction between a public and a private sector and the transfer of activities and/or responsibilities from the public to the private sector.

Marketization on the other hand, as we use the term here, emphasizes the introduction of various MTMs – especially provider competition and user choice based on transparency and exit options – in the delivery of public services (Le Grand *et al.*, 2007) while downplaying somewhat the importance of sectors. Although the privatization and marketization concepts are related and often combined, that is not always the case (Hartley and Parker, 1991). The transfer of tasks to a private company (privatization) does sometimes, but certainly not always, lead to better exit options for users and/or increased competition between providers of public services (marketization). And though competition and exit options have traditionally been weak within the public sector, they have certainly been strengthened in many countries in recent decades as a result of deliberate attempts to enhance these mechanisms (internal marketization). Thus the relation between the two concepts/phenomena is probably best understood through a Venn diagram. In some cases, privatization and marketization overlap; in some cases, we see privatization without marketization; and in some cases, we see marketization without privatization (e.g. internal marketization) Figure 1.



**Figure 1.**  
Marketization and  
privatization

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The basic strategy of marketization, whether deliberate or not, is thus to strengthen governance by competition – often through some combination of provider competition and user choice.

This may be done through external marketization, in which privatization – the transfer of tasks to the private sector – is used to enhance provider competition and choice based on exit options for users. In its most drastic form privatization may mean that state or local government-owned enterprises are transferred entirely to the private sector, and the public sector refrains from interfering in this task area. Thus, the task is no longer considered a public service and privatization moves beyond marketization as we delimit it here. Less drastic forms of privatization include outsourcing, contracting out, public procurement or public-private partnerships.

MTM may also be enhanced within the public sector through internal marketization, such as management by contract, agencification, free choice for users, vouchers, purchaser-provider split models and other attempts to create quasi-markets around public services.

Often internal and external marketization are combined as in the case of contracting out, which is facilitated by the presence of several competing providers and an internal organization characterized by management by contract and purchaser-provider split models.

A too narrow conceptualization of attempts to introduce MTM in public sector activities in recent decades tends to underestimate the importance of the changes that have taken place.

### 3. Models of marketization

At the core of marketization strategies lies the notion of using competition as a driver for enhancing continuous learning processes towards higher efficiency in the delivery of public services. Three ideal-type models – in Weber's (1947) sense – of marketization can be deduced from the literature and the seven papers in this special issue as well as a fourth model beyond marketization.

The quasi-market: provider competition and user choice: in the quasi-market model, societal engineers deliberately construct a model resembling the market. Competition between providers (public or private) and choice between several alternatives by users are enhanced by a package of institutional arrangements. Organizing public services is usually the task of the local government, which is organized in a purchaser-provider split model. The relation between the purchaser (public) and the provider (public or private) is organized in a "management-by-contract" model. The basic quality of the providers is ensured through an accreditation procedure. Users of public services are given free choice between accredited providers and "vouchers" partly or fully financed by taxes. Thus, to the provider, the user is a customer in much the same way as in a private market place.

In this special issue, current employment services in Australia and the early stage reform of employment services (late 2000s) in Lombardy (Italy) resemble the ideal type of the quasi-market model.

Contracting: provider competition without user choice: in many types of public services it is difficult or impossible to organize free choice for users resembling a market. There may be only one park in the neighbourhood and everyone has to drive on the same road. In such cases users do not have a choice, but they have a voice to complain or make suggestions for change if they are dissatisfied. But still, competition between providers of public services, if more than one provider is present, can be

organized to enhance efficiency and other goals. In the contracting model, competition between providers is organized regularly, and one provider is then selected to provide the service until the next outsourcing process.

Contracting has historically been and is presently an important model of marketization in the park and road services in England, Denmark, Sweden and Norway.

Yardstick competition and benchmarking – when neither user choice nor provider competition is applicable: in some contexts, even provider competition is either impossible or difficult to organize – or simply not desirable. When economies of scale are important, and in circumstances resembling a natural monopoly due to subadditivity of costs, provider competition may be inefficient and undesirable. Even in such cases, competition may play an important role through yardstick competition (Shleifer, 1985) or benchmarking (Ammons and Roenigk, 2015), in which the performance of companies is compared to the performance of others, and these performance comparisons are used to improve performance through organizational learning processes.

The analysis of the Danish heating sector in this issue is an example of an attempt to establish benchmarking competition in the context of a natural monopoly.

Public-private collaboration beyond competition: The three models above represent some of the most prominent marketization models in this issue and in the public administration literature more generally, but as our review below shows, they often run into difficulties when they are carried out in practice and varying versions of alternative models of public-private collaboration are tried out.

#### 4. The contributions of the special issue

The special issue was organized as an open call for papers on marketization of public services in local government in the Autumn of 2015 and widely disseminated by *IJPSM* and the guest editors in various international networks. The backbone of the call was a comparative research project concerning innovations in the marketization of park and road services organized by the guest editors. The call brought forth several proposals. After an extensive and rigorous peer review process, seven papers were accepted. Each of these papers addresses an important theme in the marketization and post-marketization of public services.

The review is organized according to the sequential logic of the models of marketization presented above. We first review the two papers examining aspects of the quasi-market model, then the four papers examining aspects of the contracting model and finally, the paper examining the attempt to enhance benchmarking.

##### *Marketization model one – quasi-markets in employment services in Italy and Australia*

The first paper, by Benedetta Trivellato, Mattia Martini, Dario Cavenago and Elisabetta Marafiotti, provides an intriguing analysis of the changing governance arrangements organizing the delivery of employment services in the Lombardy region in Italy from the early 2000s to 2015. Applying an economic institutional perspective, the case illustrates a number of interesting dynamics in multi-level governance as well as many of the difficulties and challenges faced by the quasi-market model of marketization in the policy context of employment services. A number of implementation issues, coupled with a difficult integration within a multi-level governance system, endangered the effective implementation of a quasi-market, thereby leading to experimentation with public-private collaboration forms which go beyond competition.

The second paper, by Wilma Gallet, provides a compelling analysis of the impact on Christian-based service providers and their clients of the marketized employment service systems in Australia. The privatization of public employment services in Australia in 1998 and the establishment of an employment service quasi-market is a classic example of market-type NPM reforms. The entry of for-profit firms into an area previously dominated by non-profit and Christian-based organizations has resulted in these organizations integrating commercialized routines and activities, which in turn put the earlier organizational culture and motivational structure under pressure. The marketization of employment services is resulting in the commodification of the unemployed and changing the way in which Christian-based agencies deal with their clients. The paper shows convincingly how marketization not only transfers tasks to the private sector, but also significantly transforms the non-profit sector.

*Marketization model two – contracting out in park and road services in England, Denmark, Norway and Sweden*

The third paper, by Nicola Dempsey, Mel Burton and Johanna Selin, provides an illuminating account of how the marketization of parks and roads maintenance in England has evolved since the 1980s as well as the present situation within this policy area, in which contracting out has been the predominant marketization model. The paper provides a review of the academic and grey literature, and findings are presented from a large-scale online questionnaire survey. The findings suggest that responsibilities are increasingly shared in England between different combinations of public, private, third and community sector stakeholders. Although a move towards new forms of governance arrangements is identified, the classic model of contracting out, based on cost efficiency concerns, performs well and contributes to the achievement of managerial objectives. The paper highlights that although marketization has been fiercely promoted over the years in the UK context, it has not resulted in a dominance of private contractors in public service delivery systems. Apparently, a domination of in-house arrangements, complemented with a complex involvement of several other types of providers, characterizes service delivery systems within the park and road sector.

The fourth paper, by Andrej Christian Lindholst, Morten Balle Hansen and Ole Helby Petersen, applies a historical institutional approach in its compelling analysis of marketization trajectories in the Danish park and road sectors since the 1980s. The paper is based on a study of marketization and gradual changes in the involvement of private contractors (as providers of maintenance services) in the municipal park and road sectors in Denmark over the past 30 years. The study draws theoretically on historical institutionalism as an interpretive framework and empirically on findings from earlier research, register data from municipal accounts and new survey data. Marketization within the park and road sectors in Denmark has historically taken place through gradual changes, in particular, by processes of layering and displacement, which has added up to substantial transformations in the park and road sectors. The paper contributes to the understanding of the historical development and differential pathways of marketization within the public sector; in particular, how pathways of gradual change, spurred by the influx of long-term policy pressures, over time can lead to substantial institutional transformations. The paper also identifies a steady increase in the use of private contractors as well as an increase in the diversity of contractual arrangements used for the involvement of private contractors in service delivery systems within the park and road sectors in Danish municipalities.



The fifth paper, by Merethe Dotterud Leiren, Andrej Christian Lindholst, Ingjerd Solfeld and Thomas Barfoed Randrup, analyses patterns of contracting out in the park and road services in Norway. This paper provides insights into the extent of, rationales for and outcomes of contracting out in the local park and road sectors in Norway. To understand the use of contracting out in local governments, it highlights the relevance of the capability perspective found in the organizational literature as an alternative to the standard efficiency perspective found in the public management literature. The study suggests that Norwegian municipalities primarily contract out park and road maintenance services when they do not have the capability to perform these services themselves. In contrast, cost concerns are found to be of less importance. Moreover, lack of competition, in particular due to the administrative and geographical characteristics in Norway renders the use of contracting out as a potentially costly and less satisfying arrangement within service delivery systems. The dominating view among proponents of marketization in the public sector suggests that contracting out to private contractors is undertaken to enhance economic efficiency compared to keeping service production in-house. This study, however, suggests that this is not always the case – even in “most likely” sectors, such as park and road maintenance. In perspective, the paper highlights that new theoretical lenses will improve the understanding of why contracting out is used in some contexts and why evaluating contracting outcomes from the standard perspective of cost efficiency is sometimes less relevant.

The sixth paper, by Ylva Norén Bretzer, Bengt Persson and Thomas Barfoed Randrup, analyses the park and road sectors in Sweden. The authors provide an account of the evolution and current status of the governance model within this policy area and then focus on the extent to which public procurement has enhanced cost savings in the public sector. They find that cost efficiency in the park and road sectors in the Swedish municipalities only holds for “the few lucky ones”. It holds for the larger metropolitan city regions (Stockholm, Gothenburg, Malmö) with regard to roads, but less so for parks.

#### *Marketization model three – organizing competition through benchmarking?*

Finally, the seventh paper, by Per Nikolaj Bukh and Lars Grubbe Dietrichson, analyses collaborative benchmarking in the Danish district-heating sector – a sector with characteristics resembling a natural monopoly. The paper investigates why and how companies in voluntary networks engage in performance benchmarking, how requirements for a standardized chart of accounts are handled, and what the role of regulatory pressure is. The paper is based on a longitudinal case study of an established group of six district-heating companies. The data sources are semi-structured interviews, observations and documents. Both a forthcoming re-regulation of the district-heating sector and aims to improve efficiency motivated the collaboration among the firms. An interpretation of common accounting rules can be negotiated in a collaborative network. The benchmarking model was embedded in routines internally in firms to facilitate learning and knowledge exchange, but it was also used to legitimize current operations. The paper contributes to research understanding the role of collaboration in voluntary networks when benchmarking is implemented.

### **5. Cross-cutting discussion of the insights, contributions and limitations of the special issue**

After the brief overview of each paper above, a concluding cross-cutting discussion organized around the four models of marketization is given.

At a general level, the papers in this special issue indicate that marketization is very much alive and a strong current in present day strategies for organizing public services.

In the park and road sectors, the employment service sector, and the heating sector in our case studies, various versions of marketization played an important part in the service delivery systems. However, our cases also indicate that each of the models of marketization faces important problems when implemented, and that public-private collaboration beyond competition provides an important alternative supplement.

Turning to the quasi-market model, the review of the papers from the employment service sector in Italy and Australia indicates some very different but related challenges to this model of marketization. The Australian case shows how the culture of long-standing arrangements within public service delivery systems can come under pressure and potentially be transformed or lost in the process. This highlights a potential convergence trend towards a uniform and commercialized culture in public service delivery systems. Marketization implies cultural transformations, which change fundamental values and motivational structures of public and organizational life. In the case from Lombardy in Italy, a number of difficulties in making the quasi-model model work as intended in the implementation process are shown. One of the problems was to make the market of employment services transparent for the unemployed, which meant that the exit mechanism did not work very well. Another problem was to create appropriate incentive structures to the service providers to avoid suboptimal behaviour. In the case of Lombardy, deliberate considerations of the shortcomings of marketization eventually spurred new directions in public policies and enhanced a governance model of public-private cooperation by and large-scale abandoning of the quasi-market model.

Turning to the contracting model of marketization, organizing competition between providers of public services, the case studies from the park and road service sectors in England, Denmark, Norway and Sweden show the continuing dominance of this model. However, while convergence might be produced at a cultural level, diversity may be produced within each model of marketization. In the case of the evolution of contracting out in the park and road sector in Danish municipalities, diversity in contractual forms is found to increase together with entrenchment of key features of the contracting out model. This is similar to the use of contracting out in England, a policy context often regarded as a benchmark country in marketization. In England, diversity is also found in the mix of purposes for using private contractors. What is puzzling in England, however, is that the use of contracting out to private contractors is apparently less dominant than in-house provision. The overall impression in the English park and road sector is furthermore, that a multitude of arrangements characterize the service delivery systems. This points forward to the relevance of the fourth model of marketization highlighted in this paper as well as an apparently limited appeal of the contracting out model within sectors that are routinely regarded in the literature as “most likely” for marketization.

The review also finds that the mainstream assumptions in core models do not always fit the use of the models in practice. In Norway, the case of contracting out within the municipal park and road sectors indicates that the assumption of cost efficiency as a primary driver behind the contracting out model partly fails against the data on why municipalities chose to contract out. In Norway, heterogeneous capabilities between the private and public sector are found to be the dominant driver for contracting out.

The findings from Norway are also reflected by the point of departure in the 1980s for marketization in the Danish park and road sectors. The initial scenario in Denmark was, similarly to the present scenario in Norway, also characterized by the involvement of private contractors through a reasoning based on heterogeneous capabilities. However, comparison of the characteristics of the administrative and geographical

structures in Denmark and Norway (fewer and larger administrative units in a densely populated area vs many and small administrative units in a sparsely populated area) may explain why marketization has been more profound in Denmark than in Norway.

Finally, turning to the third model of marketization, organizing competition through comparison, the case from the Danish heating sector indicates some of the dynamics driving such implementation processes as well as some of the challenges related to this model of marketization.

In sum, the review highlights the actuality of revisiting marketization as a concurrent phenomenon in the public sector.

The research presented in the seven case studies shows that the strategy of marketization is alive and well and that each model is faced with important challenges sometimes causing the abandonment of marketization and sometimes bringing about adaptations and transformations to post-marketization models. The analyses presented are rich, largely descriptive case studies with some hints at possible explanations. They are by and large based on interpretations of survey data, documents and qualitative interviews. There are of course limitations to such research. It is difficult to know to what extent the findings are context dependent and to what extent they can be generalized to many or even most other empirical settings. The studies convincingly show that marketization works differently in different policy sectors and they raise a number of intriguing questions for future research:

- To what extent can the commodification of users of public services found in the Australian context of employment services be generalized to other countries and policy sectors characterized by strong reliance on quasi-markets?
- To what extent are the problems of transparency and weak users found in the case of employment services in Lombardy in Italy characteristic of quasi-markets in other countries and policy sectors? Do we see variations in how policy-makers cope with such problems?
- Is the use of contracting out without competition between providers, which was found especially in the Norwegian park and road sector, unique to Norway? Or is it much more widely used than usually assumed?
- To what extent is the huge diversity within the contracting model, which was found in the Danish and English park and road sectors, also present in other countries and policy sectors?
- On the basis of such evidence, is it possible and useful to elaborate a general model to explain variations in the practices of marketization?
- Finally, to what extent and in what contexts are the difficulties and problems facing models of marketization so devastating that they are likely to be abandoned and succeeded by other governance models?

Future research could benefit from systematic comparative studies of each of the marketization models in different contexts. Especially the policy sector and the larger setting of the national governance system are likely to be important contextual determinants of how the different models of marketization work.

#### Note

1. [https://en.wikiquote.org/wiki/Ronald\\_Reagan](https://en.wikiquote.org/wiki/Ronald_Reagan)

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