

# Political control of government enterprises:

## Who controls whom?

Jørn Rattsø, Norwegian University of Science and Technology and Rune J. Sørensen, Norwegian Business School (BI) ([jorn.rattso@svt.ntnu.no](mailto:jorn.rattso@svt.ntnu.no), [rune.sorensen@bi.no](mailto:rune.sorensen@bi.no))

### **Abstract**

Government enterprises are vulnerable to political intervention and influence of various interest groups. The theoretical literature emphasizes the role multiple and conflicting goals that distorts incentives and accountability. We offer empirical evidence of the importance of the political ownership with respect to internal and external interests in the enterprise. Our theoretical starting point is a veto player model of the relationship between two political parties and an interest group. The interest groups can exploit conflict between two political parties regarding the goals of the enterprise, and they can hold back the capacity to reform and restructure the enterprise. The empirical analyses are based on a survey questionnaire to board members and CEOs of the major government enterprises in Norway. The survey offers enterprise-specific measures of party agreement/conflict and interest group influence. The estimates suggest that political conflict increases interest group influence, both internal and external, and thereby holds back restructuring of the enterprise. Furthermore, when current revenues come from government grants, interest group influence tends to be extensive. In an extension of the analysis we show that media attention implies that board members are held more accountable.

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Comments welcome

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## 1. Introduction

Government enterprises represent a challenge to political control in most countries. They are outside the command line of government, and at the same time they often face limited market discipline from competition. Strong internal and external interests may influence the enterprise when ownership is weak. Governments struggle to establish good managerial systems and set incentives right. Empirical evaluations of these attempts are scarce, because data are limited. We have designed a questionnaire answered by board members and CEOs of the most important government enterprises in Norway to throw light on political control in practice. The design of the questionnaire aims at combining assessments of the control system and the working of the enterprises. These data are combined with structural data to analyze how political conflict affects the influence of interest groups and managerial capacity to implement reforms.

The importance of politics for the working of government enterprises is dealt with in a large literature. The influential article of Shleifer and Vishny (1994) argues that politicians use the firm to promote own political interests. Politicians force the firm to pursue political goals such as overemployment. More broadly the enterprise is given multiple and conflicting goals and with unclear specification about the tradeoffs between goals. A related literature addresses political connections. Agrawal and Knoeber (2001) and Faccio (2006) and others study the performance of politically connected firms. Enterprises can benefit from preferential treatment, but can also be distorted by political intervention. Dewenter and Malatesta (2001) show that state owned companies improve performance before privatization, while ownership type as such have modest efficiency effects. The empirical results are mixed. We investigate political ownership based on the principles of corporate governance - how the state ownership role is taken care of, and what are the consequences. We address political disagreement about the social and political goals of the enterprise, and how political conflict affects the working of the enterprise, in particular the influence of internal and external interests. Our main hypothesis is that political conflict facilitates the influence of internal and external interest groups.

The a priori consequences of political conflict are not obvious. It can be argued that political conflict and deliberation are beneficial to the enterprise, that new information may surface, and that goals can be clarified. Political attention strengthens incentives to improve

performance. Or political conflict may require time and resources from the management to deal with politicians, leaving less time and capacity for internal control. This can be exploited by internal and external interests. The argument emphasizes the capacity to run the enterprise instead of political monitoring. To separate between political conflict and political attention we have collected data about media exposure of the enterprises studied. The results indicate that both factors are of importance.

The empirical literature studying government enterprises has concentrated on the relative importance of competition and ownership. An influential analysis of Boardman and Vining (1989) found support for the conjecture that government enterprises perform worse than private enterprises, but this has since been challenged. A comparison of government monopoly with private companies subject to competition involves market structure as well as ownership. Vickers and Yarrow (1991) found that the change in ownership in itself has little impact on enterprise performance. A recent review of Megginson and Netter (2001) find a similar lack of differences. The finding motivates a closer look at the working of government enterprises and variation between them. We study how variation in economic and political conditions of the enterprises influences their control and functioning.

Political interference is typically assumed to be related to the stated objectives of the enterprise. We separate business goals and sector-specific political goals in the empirical part, and study how the weighting of political goals versus business results is subject to political disagreement. The political demands may relate to regional and income distribution concerns that impede the possibility of reaching conventional business goals. We use a veto player model to interpret the implications of conflicting political goals. The model shows how two political parties with different political goals with respect to a specific enterprise reduce the winset compared to status quo. Political conflict reduces the scope for enterprise reform. Internal and external interest groups are introduced as veto players in the model. These groups benefit from goal displacement and slack, and the model shows that the winset is narrowed down further when the interest groups are taken into account. Trade unions and local political interests are obstacles to enterprise reform and the influence of the interest groups increases with the conflict between the two political parties.

The empirical political economy literature suggests measures of political conflict at the national level, either indicators of conflict within the political system or in the society at large (such as ethnical conflicts). The focus here is different, since we focus on political conflict with respect to the government enterprises. We need to identify the political conflict relevant for each government enterprise. Some enterprises are subject to stark party political controversy, while other enterprises are hardly at the agenda of the politicians. Accordingly, the politicians are eager to influence some enterprises and political interventions are expected to affect the working of the enterprises concerned. Other enterprises are left alone. Enterprise-specific measures of political conflict and interest group influence are established by the use of a survey questionnaire to board members and CEOs of 81 government enterprises and agencies with own board of directors. The estimates show a negative relationship between assessment of party agreement and interest groups as obstacle to restructuring. Political conflict is associated with greater influence of trade unions and local political interests. When the analysis is extended to include media attention, both political conflict and media exposure encourage interest group influence. Furthermore, the interest group influence is positively related to government financing of the enterprise and negatively related to the degree of competition. In an extension of the analysis we show that media attention implies that board members are held more accountable.

Section 2 discusses corporate governance of enterprises with political ownership. A veto player model of political control of government enterprises are outlined in section 4 to argue for the hypotheses tested in the empirical part. The types of government enterprises studied are discussed in section 4. Section 5 presents our enterprise-specific measures of political conflict and interest group influence. Research design and methodological challenges are discussed in section 6. The analysis of the relationship between political control and interest group influence is presented in section 7. Section 8 reports results for board accountability. Concluding remarks are offered in section 9.

## 2. Corporate governance of government enterprises

Corporate governance deals with the control of an enterprise. The approach has emerged as a challenge to the neoclassical model of the firm where the owners and the leadership of the

enterprise are treated as one. The agency model is used to analyze separation of ownership and leadership of the privately owned enterprise (Jensen and Meckling, 1976). In our context of the government enterprise we need to discuss political ownership and monitoring.

The starting point of the agency model of the enterprise is the delegation of decision making power to the enterprise. Conflicts of interest and asymmetric information induce governance problems for the owners. The management of the enterprise is assumed to have interests that deviates from the goals of the owner, usually understood as the desire to capture rents or slack. And the owner is assumed to have limited information about the actions and the performance of the management. It follows that the owner must monitor the management or establish incentives to motivate the leadership to implement the desires of the government. Lack of owner control can make the enterprise realize its own goals against the interests of the owner.

Corporate governance of a government enterprise can be understood in terms of setting the objectives and mandate of the enterprise and establishing a control system with good incentives to perform.

The goals of a corporation result partly from the basic constitutional framework: an oil-company is supposed to produce oil and gas, a railroad-company is in the railroad business, a public utility can have responsibility for airport facilities, and universities provide education and research. Conventional agency theory suggests that delegation to a company board of directors is less complex when goals are one-dimensional (for-profit) and measurement is relatively uncomplicated (profit/loss accounts). Sector-specific social goals implies a more complex governance relation due to trade-offs between profitability and non-commercial goals, and a need to develop multiple performance indicators.

The goals of government enterprises are not fixed, but subject to influence by political decision-making. In the case of fully government owned corporation, there are no legal limitations in the owners' capacity to instruct enterprises to include additional goals or concerns. As discussed above, political leaders seeking re-election may use the company as part of their election strategy - to expand employment, to establish subsidiary operations in particular election districts, to purchase goods and services from particular domestic suppliers

etc. A government enterprise can reduce this type of goal displacement with private minority shareholders.

The other side of the coin is goal-displacement by company management. We may see a drift towards profitability, and organizational expansion based on profitability (Schick, 2002). This can result from the fact that 'hard' performance measures tend to supersede soft social objectives. The reputation of company boards and executives benefit more from meeting the quantifiable performance measures. Whereas the above argument is more relevant for for-profit companies, the latter is more significant for public utilities and possibly some public service enterprises.

When government enterprises have important sector-specific goals, we are likely to observe more policy conflict. Each interest groups want enterprises to prioritize their preferred service. For example, a large number user groups in the health care prefer one group of patients to have more resources. Similar to what we see in private companies, political conflict can augment governance problems. If conflicts are "resolved" by formulating vague and ambiguous company goals (Horn, 1995), it is harder to keep the board of directors responsible for firm performance.

The government-owned firm is an extreme case of dispersed and indirect ownership, commonly claimed to produce lesser profitability in private for-profit firms. Ownership control is also diluted by the fact that elected leaders are not responsible the management of one company only, but a whole portfolio of government-owned enterprises and ordinary government affairs. It is hard to see voters throw out the incumbent party as result of poor performance in a government-owned firm only. The mainstream hypothesis holds that weak electoral controls reduce the incentives that parliament's committee members and ministers have to exert real control over company affairs.

Alternative corporate governance mechanisms can supplement or substitute ownership control. Market competition is the obvious case: product market competition can discipline the firm as alternative suppliers are believed to replace the existing government-owned firm (contestable markets). In some cases, yardstick competition can promote cost-efficiency in monopoly firms, such as in electricity distribution (Bertero and Rondi 2000). With low equity

capital, banks and other credit institutions may also monitor company performance. This is based on the assumption that the bankruptcy and restructuring is a viable and credible option, a point which is addressed below. In other words, active exercise of ownership control is likely to be *more* important where the government corporation holds a monopoly position.

The incentives of electoral competition are likely to be stronger in sectors where company performance has direct and immediate implication for voter welfare. In these cases, we would expect politicians to keep boards accountable. The government railways and air traffic control have travelers; the hospitals have patients, cultural institutions have visitors etc. For some of the enterprises the relationship to users is more specific, such as applicants for funding from energy policy support scheme.

Moreover, the political science literature suggests that politicians can bring in alternative control mechanisms. Control and monitoring can be delegated to administrative “autopilots”, particularly independent regulatory authorities designed to oversee security regulations and quality standards in government-owned organizations (for further discussion, see McCubbins, Noll and Weingast, 1987; Grønnegård Christensen, 2008). In most countries, the Office of the Auditor General has this supervisory role for the public sector as a whole. Sector-specific institutions are often established to monitor health services, education, telecommunications etc.

Elected politicians can also set up “fire alarms” by means of legislation that entitle service users access to information, to appeal to ombudsmen and complain boards, and receive compensation for inadequate services (McCubbins and Schwartz, 1984). Interest groups and news media will “push the alarm button” in cases of some general interest. Media attention can be strong and dramatic when criticism from the users is top news in the national media (such as repeated delays in the national railways). The potential for negative media attention gives the enterprises a strong incentive to maintain high standards of service.

The incentives of democratic competition can produce the opposite effect: ministers seek “plausible deniability”. Risk-averse politicians delegate to more independent enterprises in order to minimize losses of voter support due to unpopular or unsuccessful policy outcomes. Incumbent politicians have an incentive to design institutions in ways that allow incumbent politicians to claim credit for successful policies, and “shift the blame” when policies fail to

achieve their goals. In policy areas with significant policy risks, politicians may delegate to administrative units in ways that dilute, and which allows the incumbent to “wash his hands” in cases of policy failure. The “blame-shifting” proposition suggests that risk-averse politicians delegate to minimize losses of voter support due to unpopular or unsuccessful policy outcomes. At least one paper suggests that “blame shifting” allows the principle to dilute his responsibility for unpopular decisions (Bartling and Fischbacker, 2008). This interpretation suggests that tasks are delegated to government-owned enterprises to dilute political responsibility (Fiorina, 1982, 1986; Grønnegård Christensen and Pallesen, 2001).

The capacity to put the blame on the enterprise may undermine corporate responsibility. For example, an enterprise in a media storm will often see that spotlight shifts quickly from the failure of the government enterprise to the political responsibility, in practice the government and the responsible ministry. If the control regime is able to withstand the shock, the ministry refers responsibility to the enterprise board. The minister may respond in general terms, but it should be clear that the enterprise is responsible for the actions taken and the consequences. The enterprise must present a credible clarification of why problems have surfaced, and a plan for the 'solution'. If the control regime succeeds, the problem is terminated with this reaction. The alternative is a temporary breakdown of governance arrangements – a political bankruptcy - with ministerial intervention in board responsibilities. Should similar situations arise yet again, such experiences can encourage management to put the “blame” on political leaders. Successful upward blame-shifting can be just as damaging as political blame-shifting downwards.

### 3. A veto player model of political control

The corporate governance literature suggests that ownership structure and board composition affect company performance. The major trade-offs are between preference alignment (the agency problem), decision-making capacity ('decisiveness') and access to relevant information ('informativeness'; see Børhen and Strøm, 2010). For example, large and heterogeneous boards appear to reduce performance, presumably since decisiveness is more important than information. The corporate governance literature also suggests that ownership dispersion and indirect ownership causes lower performance. The state-owned enterprise is a polar case in this respect. Widespread ownership means that government enterprises are susceptible to conflicts. Disagreements in the population at large are likely to spill over to parliament and government, and these differences are likely to impair managerial decisiveness. In addition, the competition between different agents within the political system may spillover into the handling of government enterprises. Consequently, the government enterprises are likely to experience a status quo bias, which may be detrimental to organizational adaptability and cost efficiency.

The veto player model of Tsebelis (2002) represents a useful theoretical point of departure. The approach is a development of the agenda setter model of Romer and Rosenthal (1978). The status quo holds a strong position in all decision-making, and the key question is how to overcome the status quo and move towards a 'better' equilibrium. While Romer and Rosenthal rely on the evaluations of the agenda setter, Tsebelis assumes that all agents have veto power. The model defines a winset which is better to all players than the status quo. Tsebelis and Chang (2004) offer a recent application for fiscal policy.

Political disagreement concerning government enterprises often relate to the goal formulation. The enterprises must fulfill both goals of profitability and sector-specific goals, and there is likely to be a tradeoff between the two types of goals. The tradeoff is shown as the concave downward sloping possibility curve in figure 1. Given an efficient operation of the enterprise, along the frontier, better goal achievement for sector-specific goals come at a cost of business goals. The assumption reflects the fact that sector-specific goals have a cost side that must be carried by the enterprise.

Political conflict in parliamentary democracies can be represented by political parties with different priorities, here between business goals and sector-specific goals. Given circular preferences we assume that the (blue) right wing party put greater weight on profitability, while the (red) left-wing party has more emphasis on sector-specific objectives in figure 1. Both parties want to implement the maximum of sector-specific and commercial goal achievement. They want to avoid inefficiencies inside the possibility frontier.

The model assumes that both political parties are veto players. The consent of both parties is necessary to move away from the status quo. A simple interpretation of this situation is the case of post-election coalition government where all coalition members must agree. A broader understanding is that the two party blocks in the long run must agree about the conditions of the enterprise.

Figure 1 about here.

In Figure 1, we assume that the status quo allows for efficiency improvement both with respect to commercial objectives and sector-specific goals. In general the winset of the status quo is the set of policy proposals that are better than the status quo for all veto players. All points inside the circular indifference curves are preferred to the status quo. The winset is within the intersections of the two preference curves. The winset of the status quo is an indicator of political stability. A small winset makes it harder to shift the status quo than a large winset. Tsebelis (2002: 21-22) argues that a large winset is more likely to satisfy external constraints such as legislative limitations. A large winset means that the distance to the status quo also is large, which increases the likelihood that decision-makers will adopt a policy proposal. A big policy shift is likely to yield sufficiently large efficiency improvement compared to the transaction costs related to the reform. If the distance between the ideal points of the two parties increases, the size of the winset shrinks. A movement from the status quo towards the efficiency frontier is less likely. Political conflict reduces the likelihood of policy improvement.

The control of the enterprise is influenced by internal and external interest groups in addition to the political ownership. The important point here is that the influence of interest groups may depend on the political conflict affecting the ownership. In the empirical analysis we

draw on data measuring the influence of trade unions (internal interest group) and local political interests (external group). To simplify the model below we introduce a third veto player representing either internal or external interests. Both the trade union and the local political interests are assumed to put more emphasis on sector-specific goal achievement and less emphasis on overall efficiency compared to the two parties. To illustrate the role of the interest groups we assume that they have similar preferences in our context. The Euclidian indifference curves of the trade union and the local interests are introduced in figure 2. When the trade union or the local interests are veto players, and a solution must require the consent of both political parties, we see from the figure that the winset of the status quo is further reduced. The trade union and the local interests reduce the likelihood of movement away from the status quo. A possible movement from the status quo will be drawn in the direction of sector-specific goals and can lead to less efficiency.

This model predicts that political conflict will reduce the scope for policy reform, and it will strengthen the influence of trade unions and local interest groups. This relationship between political conflict and the role of the trade union and local interests will be pursued in the empirical part.

Figure 2 about here.

Whether the trade unions and local interests can be seen as veto players may depend on whether the enterprise is subjected to price competition or not. We would expect unions and local interests to be more influential when the enterprise has a monopoly position. We would expect cost efficiency to be relatively low. The union and local interests may be constrained by the likelihood of privatization and/or liberalization of the entire industry.

The Chief executive officer (CEO) can be modeled as an agenda setter. She may tilt outcomes in her preferred direction, subject to either maintaining the status quo or proposing a shift contained by the winset. For example, the CEO may value organizational autonomy, which is likely to be greater the higher the profitability of the firm, and we could envision the CEO agenda setter who maximizes profitability. Since the winset shrinks (or remains unchanged) as number of veto players increases, the agenda setting power of the CEO will decrease with number of veto player and the intensity of political conflicts.

#### 4. Government enterprises

Government organizations are a varied collection of entities. Some are corporations subject to ordinary market competition, others are monopoly firms financed by fees and charges, and some are monopoly firms relying on government grants. In addition, several public agencies that are integral part of public administration imitate the corporate structure by having a board that supervises management. The choice of organizational form has been an important issue in public administration reform in most countries (see overview of the literature with particular relevance for Canada by Bilodeau, Laurin and Vining, 2005). All these alternatives are part of our dataset. We call them all government enterprises below for simplicity.

Government enterprises deal with quite varied tasks and in quite different economic environments. It is helpful to separate between business oriented for-profit companies, public utilities dominated by old monopolies, and expanding enterprises in the area of public service production. Public service production such as health care can be organized as government enterprises or administrative agencies with some autonomy.

Business oriented for-profit companies have no particular place in a scheme where the purpose of government is to correct market failures and imperfections. It is sometimes argued enterprise headquarters yield positive spillovers, and that “national champions” should be promoted by means of government ownership. Exploitation of natural resources (oil, natural gas and hydroelectric power) can yield large profits, which is hard to extract fully by means of general taxation. Government ownership can therefore be a supplement to taxation.

The public utility has a more clear-cut normative justification: economies of scale and scope, possibly in combination with asset-specific investments. The last 20 years has seen a development where technological development and more sophisticated types of government regulation have eroded the justification for large, integrated public utilities. Market competition has been introduced in areas like telecommunications and postal services. In other industries, the big statutory monopolies have been broken up into service production, supply of infrastructure and network services and government control. Examples are found in airport facilities, railway transportation, natural gas and electricity infrastructure.

The public service enterprise has been established to yield greater managerial discretion than is possible for traditional agencies in public administration. The aim is to improve cost efficiency and operational flexibility in service provision. Relevant examples are credit institutions with non-profit, “social” objectives, hospital services and higher education. The public service enterprise is commonly a monopoly organization. A relevant alternative is government purchase of services from both publicly and privately owned corporations and non-profit organizations. Competition can be introduced by competitive tendering, which is common for many public transportation services, rent of office facilities, different types of auxiliary services, and more.

Government enterprises are typically established by moving agencies out of the public administration. They are taken out of the hierarchical line of command and given the independent status of an enterprise to promote autonomy and flexibility. Sometimes administrative agencies are organized as quasi-enterprises with “arm length distance” to top down administrative control and political responsibility. Administrative controls have been replaced by instruments inspired by corporate governance. However, governments have also built up or taken over companies that operate in markets with own income and own customers. Government ownership then is justified by different types of market failures as well as distributional objectives.

## 5. The data: Measures of political conflict and interest group influence

The empirical analysis is based on data for 81 government-owned organizations - government enterprises and administrative agencies with board of directors. The largest group of government enterprises consists of 27 health institutions, both regional health enterprises coordinating three of the regions of the country and 24 selected hospitals organized as enterprises. In addition the dataset includes 24 other government-owned enterprises defined by the government to have sector-specific political goals. For comparison we have also included 8 government enterprises with combined business goals and sector-specific political goals and 3 enterprises with ‘pure’ business goals. As a reference group, we have included 19 semi-autonomous public administration agencies with own boards. They represent the main alternative organization, delegation within public administration. Government colleges and

universities and some cultural institutions are organized this way. All government organizations studied are named as government enterprises for simplicity.

We have designed a survey questionnaire to tap respondents' assessment of political control of government enterprises. The survey questionnaire was sent to board members and chief executives in the relevant enterprises. Executives and board members were asked to assess the goal structure of their enterprise, organizational discretion and incentives, and various aspects of priorities and decision-making behavior. Most of the questionnaire is identical for executives and board members. The overall response rate for board members was 56 per cent (475 respondents). Outside the health sector, we received responses from 71 percent of the board members. For the executives, the response rate was 62 percent (49 respondents). Rattsø and Sørensen (2011, in Norwegian) provide a complete documentation of questionnaire and descriptive statistics.

Our data comprises only government owned enterprises. For-profit enterprises are limited corporations. A not-for-profit organization is a separate legal entity (not part of the government), which is not primarily set up to provide profit (dividend) for the owners. Many of these enterprises are limited corporations. Some are set up with tailor-made legislation that resemble regulations for private limited corporations, but where bankruptcy and other owners than the government are not allowed. Note that the not-for-profit enterprises differ from non-profit organization as owners can (and do) take dividend. The agencies are an integral part of the government, and they are not separate legal units.

#### *Political conflict and interest group influence*

Data from the questionnaire allows us to describe political conflict and interest group influence for each government enterprise. These unique data are based on the evaluation of respondents on two questions in the questionnaire:

1) Which description do you find best regarding the degree of political party agreement in parliament about the goals of the enterprise? (Large degree of agreement, fairly large degree of agreement, fairly large degree of disagreement, large degree of disagreement)

2) How much do you agree or disagree in the following statement about how the environment of the enterprise has influenced the ability to restructure in the last years?

- Organizations representing the workers have considerable influence and weaken the capacity of the management to implement demanding restructuring. (Fully agree, partly agree, not agree or disagree, partly disagree, fully disagree)

- Local interests (such as local politicians) have considerable influence and weaken the capacity of the management to implement demanding restructuring. (Fully agree, partly agree, not agree or disagree, partly disagree, fully disagree)

Based on all responses for each enterprise we have established an index for party agreement for the enterprise, as documented in the appendix. For each respondent the answer is coded from the extreme value of 1 when 'there is large agreement among the parties' to the value of 0 when 'there is large disagreement among the parties'. The variable for each enterprise is the average of the responses. Since we use degree of party agreement as an explanatory variable, the average is computed without the respondent used in the relevant response variable.

We have established similar indexes for the trade union and local political interest influence at the enterprise level. The responses are coded from value 1 if the respondents fully agree with the statement (unions and local interests have large influence) to the value of 0 when the respondents fully disagree. The indexes for each enterprise are the averages of it's respondents, see appendix for details.

We have motivated the political conflict related to the goals of the enterprises. The data allows for a look at the variation in the goal setting. Government enterprises are usually established to promote some political goal beyond business profitability. Since all private and government enterprises are assumed to take into account social concerns (such as the environment), we describe the political goal as a sector-specific goal. The enterprise is assumed to take care of political goals in a particular sector, such as the supply of particular goods and services, arrange equal access to goods and services, and secure some quality level of goods and services. Often the sector-specific goals have implications for regional or income distribution. The weight given to sector-specific goals relative to business goals varies between enterprises. In the questionnaire we have asked the respondents to assess the relative importance of sector-specific goals (see documentation of question in appendix).

*Control variables: Media attention, government financing and competition*

We have calculated an index of media exposure to separate the effect of attention and noise from the effect of party agreement. Media attention is measured by number of news stories mentioning the enterprise during the period studied. The average number of news stories is 195, but the variation between the enterprises is very large.

Two economic control variables are included in the analysis: Government financing and competition. They are taken into account here because the economic conditions affect the design and operation of political control and because the influence of interest groups also may reflect economic conditions.

In practice the government guarantees the economic health of government enterprises. If the enterprise ends up in serious economic difficulties, the government will supply additional funding. Many government enterprises and most of the agencies receive their main financing from the government budget. In this case the budget process is a dialogue between the enterprise and the owner about the economic conditions. Parliament plays a prominent role in the appropriations process, and the regulations related to the budgetary process are detailed and complex. Agencies and enterprises receive a letter of intent that specifies goals and priority issues. Letters tend to be quite detailed and comprehensive documents. We suspect that enterprises that depend on government appropriations tend to have a complex goal structure, restricted managerial discretion, and that they tend to be governed more like an administrative agency than a enterprise. Appropriations are used as a substitute for corporate governance based on ownership rights.

The behavior of the enterprise may influence the budget process and the enterprise consequently is affected. A sound budget process rewards good performance and projects that are well planned. But the budget process may also end up with budget allocations to handle poor results, so-called 'bail-out'. In practice the bail-out appears as additional appropriations in response to loss or other 'crises'. It is a challenge to organize the budget process and management to prevent strategic behavior of the enterprise in this situation.

We have collected data about government appropriations as share of current revenues in 2009 for each enterprise. This share mainly reflects the dependence on government budgets versus the revenues collected from own sales of goods and services. We measure the degree of competition by assessing number of competitors and whether competition was relevant for price and/or quality. Competitors can both provide competition for the same product market and / or by providing substitutes. The competition indicator is described in the appendix.

## 6. Empirical strategy

The analysis is designed to investigate how political conflict affects interest group influence in the government enterprises. We have unique data about political agreement and interest group influence for each enterprise based on questionnaire assessment of board members and CEOs of the enterprises concerned. The responses are represented by interval scale variables as explained above. The response variables are investigated using linear probability models. The main hypothesis tested is that political conflict allows for internal and external interest group influence.

The main methodological concerns are endogeneity and background unobservables. Endogeneity is present when influence of internal or external interest groups affects political agreement. The relationship then is not reflecting the effects of political conflict, but rather the determination of political conflict. But observations of political conflict created by trade unions or local interests related to specific government enterprises are rare. And this kind of conflict is primarily important for political attention. We use media exposure of the enterprises as a control variable to check out the channel of effect of political agreement. We assume that the assessment of the degree of political agreement about the goals of the enterprise is not determined by variation in experienced internal and external interest group pressure.

Background factors may explain both political conflict and interest group influence. Observed correlation between political agreement and interest group influence can be generated by a common factor. One possible source of political conflict and interest group activity may come from the enterprise itself. A management with high ambitions for restructuring and modernization may face active opposition from trade unions and local interests and the

turmoil may engage politicians. The national mail service may be in such a situation. Also a weak management with weak results may allow for strong influence of unions and induce engagement of politicians because the population at large reacts. The rail service is a possible example. The inclusion of the media attention variable is our main response to this problem. This type of conflicts may create media attention towards the enterprise more than party disagreement about enterprise goals. Political conflict and interest group pressure may be associated with external factors. Health policy is politically controversial, and the health sector is dominated by strong professions and unions (nurses and doctors). The correlation between observed strong trade union influence and party disagreement among health enterprises may be explained by the common health policy setting. We acknowledge this possibility and study the main hypothesis both with and without health enterprises. We still think that the hypothesis may be of relevance for the health sector. In the recent controversy regarding the restructuring of health enterprises in the Oslo area the trade unions seem to have exploited the political disagreement between the government and the opposition at the national level.

Two additional strategies are taken into use to handle these challenges. First, we add control variables that have been shown to be important for the working of the enterprises: government financing and competition. When the controls are included, we check the importance of political conflict taking into account the importance of financing and competition. The control variables are not exogenous at the level of the government, since the government designs the enterprise with associated government financing and competition. But from the point of view of each enterprise the government financing and the competitive situation are basically given. Second, we measure the political conflict variable using the other board members evaluation to predict each response. With this kind of instrumentation we reduce the problem of endogeneity at the individual level.

We estimate regression models where perceived interest group influence is the dependent variable. In an extension we introduce a measure of board responsibility as response variable. To facilitate interpretation, we estimate a linear probability model with clustered standard errors. The basic model formulation can be written (note that superscripts indicating the relevant response variables and corresponding equations have been suppressed):

represents the response variables, internal trade union influence and external local political interest influence. The notation  $ik$  represents respondent  $i$  in enterprise  $k$ . 'ForProfit' and 'NotProfit' are indicator variables for for-profit enterprises and not-for-profit enterprises. Agencies with own board are reference category. 'Party agreement' is our measure of political conflict, 'Gov financing' measures the share of operating revenues derived from government appropriations, and 'Competition' is the competition index defined above. Type of respondent is taken into the regression with  $X_1$  representing the CEO,  $X_2$  representing board members elected by the employees in the enterprise, and  $X_3$  representing board members appointed by the owner-ministry. The chairman of the board (also appointed by the owner-ministry) is reference category.

## 7. Political control and interest group influence

Our measure of political agreement shows an average score of 0.605, which indicate a fairly high degree of political harmony. (The index varies from 0 – large degree of disagreement to 1 – large degree of agreement.) As documented in Table 1, the highest level of party agreement is reported for the administrative agencies with own board. These agencies seem to have the best political foundation or anchoring. On the other hand, the delegation to for-profit and non-profit enterprises is to a larger degree affected by political controversy. This is surprising given the standard understanding of delegation. Delegation works best when the tasks and goals delegated are clearly defined and not politically divisive.

The background data say that the health enterprises stand out with little party agreement. The observation is in accordance with the public debate in Norway with heated discussions among politicians regarding the working of the hospitals. The party agreement is highest in enterprises with little competition and low government financing. These enterprises represent monopolies with own revenue in the form of regulated prices or fees. Business oriented enterprises generating own revenue in the market also are less affected by political controversy.

The index of local political interest influence has an average for all enterprises of about 0,3 – implying that (roughly) 30% report a large degree of local political interest influence affecting restructuring. Interestingly, the agencies have the lowest score of local interest influence. Presumably local politicians can better influence the agencies through ordinary political institutions. The index of trade union influence is of similar size with an average for all enterprises of about 0,3 – about 30% report a large degree of union influence affecting restructuring. Enterprises that are close to the market, with high competition and low government financing, report less union influence affecting restructuring. Again the health enterprises represent an extreme in the other direction, the respondents here put large emphasis on the influence of the unions. In general, enterprises with high share of government financing report high union influence.

Table 1 about here

We have described political conflict as disagreement about sector-specific goals versus business goals. Table 1 shows that sector-specific goals are most important in government agencies and least important in for-profit enterprises, as expected. However, the importance of sector-specific goals is surprisingly large in for-profit enterprises. The background data show about the same importance in health enterprises and government agencies. In general it is expected that sector-specific goals have less role in enterprises that are close to the market – with high government financing and large market competition. Again the empirical patterns are according to expectations, but the limited differences in emphasis of sector-specific goals mean that enterprises with very different financing and competition have similar weight on political goals.

We assume that sector-specific goals represent the main challenge of control of government enterprises, in particular when they are complex and when there are important tradeoffs between sector-specific goals. We have asked the board members and CEOs about tradeoffs between sector-specific goals (question documented in the appendix). The main lesson from Table 1 is that such trade-offs are affecting enterprises of all types and that the averages across groups are similar. The background data show that tradeoff between sector-specific goals is somewhat increasing with government financing and decreasing with market

competition. The handling of sector-specific goals is a challenge for most government enterprises, as they are for politicians.

The control variables for the enterprises are described in Table 2, and the three first columns shows media attention, degree of government funding and competition for the different categories of the enterprises. Media attention is introduced as a control for political conflict. Public attention via the media represents a different channel of influence compared to the political ownership. As expected, the business oriented for profit enterprises receive much less media attention on average than the enterprises involved in political goals. The extreme end again is represented by the health institutions with extensive media coverage.

For-profit firms receive almost no government funding, and not-for-profit enterprises providing indirect services are also relatively self-sufficient. Not-for-profit enterprises delivering services, including hospitals, rely heavily on government appropriations. The competition index is 1.3-1.45 for these two categories, which is due to intensive price competition. Some of the enterprises with sector-specific goals – the public utilities – receive a fraction of revenue from government grants. But most of these enterprises are financed by regulated prices – license fees, electricity tariffs, aeronautical charges, etc. On average, less than a third of revenues are government appropriations. These enterprises are mostly monopolies with a competition index of 0.25. The health sector is organized as four regional health authorities, which are responsible for managing 22 local health authorities. The regional authorities are organized as an enterprise group, and are regulated by special legislation. The health sector is fully financed by government appropriations, and competition is almost non-existent. The 21 government agencies with boards receive most of their funding from the government budget. For most government agencies, competition is weak. Colleges and universities face some competition to attract students and to get research grants.

Table 2 about here

Different models are estimated to analyze the relationship between political conflict and interest group influence. We start out with the importance of political conflict for local political interest influence in Table 3A. The analysis is made both at the enterprise level (about 80 enterprises) and at the individual level of the respondents of the questionnaire (about 430 respondents). Party agreement is measured both as expressed by each individual

respondent and 'instrumented' for each respondent by the average for the enterprise (excluding the individual). The two first columns of Table 3A show the effect of these two measures of party agreement including only controls for position of the respondents. We have separated out the importance of each type of respondent, separating between CEO, employee representatives at the board and board members appointed by the ministry, using the chairperson as reference.

The estimated effect of party agreement is negative and statistically significant at the 1% level. More political agreement is associated with reduced local political interest influence. The estimated coefficient of party agreement is larger using the average measure compared to the individual measure. A shift from a situation with minimum to maximum agreement on policy objectives leads to a reduction in local political interest influence of 0.3 (on a scale from 0 to 1) using the low estimate and 0.6 using the high estimate. An increase in agreement of one standard deviation (0.19; see Table1) will reduce local political influence by 0.06 and 0.12 (about 1/3 and 2/3 standard deviation). The average measure of party agreement is used in the rest of Table 3A and the size of the effect is in this order of magnitude across the model specifications. There are no important differences in the evaluation of local political interest influence across the different types of board members.

Table 3A about here.

In column 3 we introduce three types of control variables representing government financing, degree of competition and a classification of the companies. The local political influence is increasing with government financing. The effect is statistically significant at the 1% level and consistent across model specifications. Interestingly, local political influence is also increasing with competition. Enterprises experiencing more competition report larger influence of local interests. The effect is statistically significant at the 5% level. Local political influence in particular is large for not-for-profit enterprises, the group that includes health institutions. The health institutions are excluded in column 4 (we are down to 51 enterprises and 276 respondents here). Party agreement is still important for the assessment of local political influence, government financing has a positive effect, and not-for-profit enterprises stand out with higher local political influence. In column 5 the model is estimated

at the enterprise level and the negative effect of party agreement is strong and statistically significant at 1% level.

Political conflict affects the role of local political interests for the enterprise according to the estimates above. To investigate this relationship further we introduce media attention as a control variable. Media attention also may influence the operation of enterprises and we want to see whether party agreement is of importance even when we take into account media attention. The measurement of news stories is made for all enterprises in the sample except for the health institutions, and the number of respondents is reduced to 276 (in 51 enterprises). The introduction of the media exposure variable in column 6 reduces some of the quantitative effect of party agreement compared to column 5, but both party agreement and media attention are statistically significant at the 5% level. Media attention increases the influence of local political interests. The size of the effect is similar to party agreement. An increase in media exposure of one standard deviation (log of variable in Table1) will increase local political influence by about 0.08 (about 1/2 standard deviation).

The robustness of the results is investigated further in several multi-level model specifications in Table 3B. Column 7 includes dummy variables for classification of companies and types of respondents and these estimates based on individual observations are quite consistent with the enterprise level estimates in column 6. Party agreement has a negative effect and media exposure a positive effect on local interest group influence. The effects are also reproduced in column 8 where we include the economic controls (government financing and degree of competition) and types of respondents. It should be noticed that the effect of government financing no longer is statistically significant. Using the full battery of control variables in column 9 the statistical significance of the party agreement variable is marginal.

The columns 10-12 investigate interaction effect between government financing and the roles of party agreement and media exposure. The importance of government financing for local interest group influence may vary with degree of party agreement. The other way around, government financing may be more important for local interest influence when there is political conflict. In short, the interaction effects seems not to be important and the party agreement effect is not statistically significant in these model specifications.

Table 3B about here

The influence of the trade unions is analyzed in the same way as the influence of local political interests. Table 4A reports the estimates. The two first columns study the effect of party agreement measured as individual response (column 1) and average response (column 2) only taking into account the type of respondent. The estimated coefficient of party agreement is negative and statistically significant at 1% level in both versions. The individual level measurement has somewhat lower coefficient compared to the average level, coefficients are about 0.2 and 0.45 respectively. More political agreement reduces trade union influence. A shift from a situation with minimum to maximum agreement on policy objectives leads to a reduction in union influence of 0.2 – 0.45 (on a scale from 0 to 1). An increase in agreement of one standard deviation (0.19; see Table1) will reduce union influence 0.04-0.09 (about 1/4 to 1/2 standard deviation). The size of the effect is consistent across model specifications. Interestingly, the employee representatives on the board have a significantly different evaluation of trade union influence than the rest. They see the trade union influence as much less important.

Table 4A about here.

Column 3 includes the control variables representing government financing, degree of competition and a classification of the companies. The trade union influence is increasing with government financing. The effect is statistically significant at the 1% level and consistent across model specifications. The degree of competition is not important, and there is no difference in trade union influence across types of enterprises. The health institutions are excluded in column 4 (we are down to 51 enterprises and 276 respondents here). Party agreement is still important for the assessment of trade union influence and government financing has a positive effect. In column 5 the model is estimated at the enterprise level and the effects of party agreement and government financing are strong and statistically significant at 1% level.

Party agreement seems to be important for trade union influence and the further investigation takes into account also media attention. As above, this part of the analysis does not cover health institutions and the number of respondents is reduced to 276 (in 51 enterprises). The

introduction of the media exposure variable in column 6 does not change the effects of party agreement and government financing, but is only marginally significant. The size of the effect is a bit smaller than party agreement. An increase in media exposure of one standard deviation (log of variable in Table 1) will increase union influence by about 0.04 (about 1/4 standard deviation).

The robustness of the effects of party agreement and government financing are confirmed in several multi-level model specifications in Table 4B. Column 7 includes dummy variables for classification of companies and types of respondents and the estimate of party agreement effect based on individual observations is quite consistent with the enterprise level estimates in column 6. Party agreement has a negative effect and media exposure a positive effect on trade union influence. The effects are also reproduced in column 8 where we include the economic controls (government financing and degree of competition) and types of respondents. The effect of government financing is statistically significant, but the media exposure effect is now only marginal. Using the full battery of control variables in column 9 the effects of party agreement, media attention and government financing are statistically significant.

The columns 10-12 investigate interaction effect between government financing and the roles of party agreement and media exposure. Columns 10 and 11 apply the two different measures of party agreement, average response and individual response respectively. Column 12 only includes interaction between government financing and party agreement. This regression produces a statistically significant and negative interaction between government financing and party agreement. The importance of government financing for trade union influence is reduced with higher party agreement. The other way around, government financing is more important when there is political conflict. Political conflict and government financing strengthen the effects of each other for trade union influence. Trade unions have highest influence in enterprises experiencing high political conflict and at the same time high government financing.

Table 4B about here

## 8. Political control and board responsibility

When political conflict is of importance for interest group influence, we expect that the working of the enterprise in general is affected. The placement of responsibility and accountability is important for government enterprises because of the particularities of political ownership and delegation. The board of directors is in between the enterprise and the political owner. Our data can throw light on factors influencing the responsibility of the board of directors. The responsibility is measured as an index based on the responses to four criteria defined in the questionnaire. They deal with criticism, reappointment, replacement and liability (documented in the appendix). The responsibility is at its strongest when the respondents of the enterprise fully agree that the following may happen when the organizational objectives are not achieved: the board will face public criticism, the board will not be reappointed, the board will be replaced immediately, and the board will face trial for the damages.

The responses, shown in table 2, show surprisingly little differences across enterprise types. The background data say that boards are basically held responsible by criticism and by lack of reappointment. The respondents find the probability of being thrown out of office as very small. A large part of the board members agree that the board will never be held responsible. The assessment of the board responsibility does not vary much with government financing and market competition, but board members in enterprises with high government financing report higher likelihood of being replaced and criticized. The health enterprises are on top here, possibly a result of high political attention towards quality, availability and economic results of hospital services.

The estimated models documented in Table 5AB shows the importance of media attention for the assessment of board accountability. The first 5 columns of Table 5A investigate the effect of party agreement with limited success. The three first columns show an interesting difference among board members. In the Norwegian context, the CEO cannot be member of the board of directors. At the same time, company legislation gives employees representation in the board. A similar practice is applied when state agencies are organized with boards of directors. Based on extensive data on Norwegian firms, Bøhren and Strøm (2010) analyze the

impact of employee board members on firm value (in for-profit companies). They find that a higher fraction of employee directors causes lower firm value. Consistent with this finding, we find that perceived accountability is significantly lower for employee members than for the board members appointed by the owner-ministry. The response variable captures public criticism, liability and the possibility that board members are not reappointed or thrown out of the board. Since employee directors are elected by the employees, they need not worry about reappointment or being ejected. When we measure accountability by criticism and liability only, the employee board members are also less likely to be held accountable for not achieving organizational objectives.

Board accountability varies between types of enterprises. Columns 3 and 4 of Table 5A shows that Not-for-profit enterprises stand out with significantly *higher* assessment of board accountability than government agencies. Government agencies with board of directors are closer to government administrative control than government not-for-profit enterprises. It follows that the boards of government agencies are held less accountable. It is interesting that the level of accountability seems to be about the same in for-profit and not-for-profit government enterprises. This is consistent with the intention of government reform, government enterprises with heavy sector-specific responsibilities should be treated as business oriented enterprises.

#### Tables 5A,B

The effects of media attention are studied in column 6 and onwards. The enterprise level regression in column 6 shows that media attention leads to higher level of board accountability. As above, the measurement of news stories is not available for health institutions and we are down to 276 respondents and 51 enterprises. The robustness of the result is investigated further in several multi-level model specifications in Table 3B. Party agreement is never statistically significant, also when we study interaction effects in columns 10-12. Also government financing seems to be irrelevant for board accountability, but competition has a positive effect in some formulations (columns 11 and 12). We summarize that three results have broad support in the analysis: Media attention increases board accountability. Not-for-profit enterprises have higher accountability than the other. And

employee representatives have a lower assessment of accountability than the rest of the board members.

## 9. Concluding remarks

We have analyzed the corporate governance of government enterprises in Norway. According to the principles of good governance the government as owner basically sets the objectives and mandate of the enterprise and appoints board of directors in fully owned enterprises. Usually the relevant ministry also is involved in authorization of financing and review of business plans. While the guidelines attempts at establishing independence and accountability of the enterprise, there are few formal restrictions to political interventions. The institutions of corporate governance will restrict the political incentives of excessive control, such as the requirement of formal consultations and procedures with the board and the CEO. We study whether characteristics of the political system, notably political disagreement about the goals of the enterprise, have consequences for the management of the enterprise.

We have analyzed the relationship between political conflict with respect to an enterprise and the role of internal and external interest groups, in particular the strength of the trade union and local political interests in blocking economic restructuring. The main variable studied in this respect is the degree of party agreement/controversy about the enterprise as assessed by representatives of the enterprise. This variable has been related to strength of the trade unions and local political interests in obstructing reallocations, again as assessed by representatives of the enterprise. The estimates show a positive relationship between assessment of political conflict and internal and external interest groups as obstacles to restructuring. Interest group influence also is shown to increase with media attention and government funding. In an extension of the analysis we show that media attention implies that board members are held more accountable.

Since the whole population owns government enterprises, one would expect their elected representatives fight over the policy objectives. The empirical results imply that such conflicts reduce the management's capacity to reform organizational structures and strategies. Conflict between political parties in parliament facilitates the ability of local interest groups and trade unions to block organizational changes. Conflict does not weaken the accountability of enterprise boards. We are likely to observe two types of state owned companies: In "the quiet

type”, political conflict is low, decision-making capacity is not severely constrained by interest groups, and boards are kept accountable. The “quiet type” appears to be prevalent among traditional government agencies and a significant fraction of government enterprises. The enterprise is subjected to democratic ownership control. In the “noisy type”, conflicts reduce the enterprises capacity to implement reforms, and board accountability may be lower. We see much more of the noisy type among not-for-profit enterprises and in particular in the health sector. In these cases, state ownership represents weak corporate governance.

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## Appendix: Description of data

In the questionnaire the CEOs and the board members are asked to assess different aspects of corporate governance (see below) and the responses are combined with structural data describing government financing and market competition.

### **Agreement between political parties:**

Which of these statements do best describe the degree of political agreement in parliament about organizational objectives? *Response alternatives:* There is a high degree of agreement between the parties (coded 1); It is quite a large degree of agreement between the parties (coded 0.67); It is quite a large degree of disagreement between the parties (coded 0.33); There is a high degree of disagreement between the parties (coded 0). The variable has been calculated as the average scores for all members of the board and the CEO, *exclusive* the current respondents.

### **Local political influence:**

To what extent do you agree with the following statement on how the surroundings affect organizational adaptability in recent years? Local political interests have considerable influence, and reduce managements' capacity to implement demanding organizational reforms. *Response alternatives:* Completely agree (coded 1); Partially agree (coded 0.75); Neither agree nor disagree (coded 0.5); Partially disagree (coded 0.25); Completely disagree (coded 0).

### **Union influence:**

To what extent do you agree with the following statement on how the surroundings affect organizational adaptability in recent years? Union members have considerable influence, and reduce managements' capacity to implement demanding organizational reforms. *Response alternatives:* Completely agree (coded 1); Partially agree (coded 0.75); Neither agree nor disagree (coded 0.5); Partially disagree (coded 0.25); Completely disagree (coded 0).

### **Characteristics of goals:**

*Significance of sector-specific policy goals:* How important do you think the enterprise's business goals is compared with its sector policy objectives? *Response alternatives:* Business goals obviously most important (coded 0); Business goals are most important, given that the sector policy objectives are met (coded 0.25); Sector policy objectives and business goals are equally important (coded 0.5); Sector policy objectives are important, given that business goals are met (coded 0.75); Sector policy objectives are obviously most important (coded 1).

*Trade-offs between sector-specific policy goals:* To what extent does the organization make trade-offs between conflicting sector policy objectives? *Response alternatives:* To a very large degree (coded 1); To quite a large degree (coded 0.67); To a small degree (coded 0.33); Not at all (coded 0).

***Degree of competition:***

Number of competitors:  $A_1$ : The number of competitors offering goods or services on the same product market (None = 0, Few = 0.5, Many = 1).  $A_2$ : The number of competitors offering close substitutes for the enterprise's products (None = 0, Few = 0.5, Many = 1).

Price versus quality competition:  $P_1$ : The extent to which it competes on price (No price competition = 0, Some price competition = 0.5, Strong price competition = 1).  $P_2$ : The extent to which it competes on quality (No quality competition = 0, Some quality competition = 0.5, Strong quality competition = 1).

We assume that the traditional price competition is more important than quality competition at the prices and that competition by substitutes implies a weaker competition than when multiple providers have the same product. The degree of competition is measured by an index that is calculated as follows:

$$\text{Competition index} = (A_1 + 0.5 \cdot A_2) \cdot (P_1 + 0.5 \cdot P_2)$$

The competition index can take values from 0 to 2.25.

***Board accountability:***

(Answers from board members only.)

There may be different opinions about on the board's responsibility for reaching organizational objectives. Do you agree or disagree with the following statements?

*Not reappointed*: If organizational objectives are not achieved, the board will not be reappointed. *Response alternatives*: Fully agree (coded 1); Partially agree (coded 0.75); Neither agree nor disagree (coded 0.5); Partially disagree (coded 0.25); Fully disagree (coded 0).

*Thrown out of office*: If organizational objectives are not achieved, the board will be replaced immediately. *Response alternatives*: Fully agree (coded 1); Partially agree (coded 0.75); Neither agree nor disagree (coded 0.5); Partially disagree (coded 0.25); Fully disagree (coded 0).

*Liability*: If organizational objectives are not achieved, the board will face a trial for the damages. *Response alternatives*: Fully agree (coded 1); Partially agree (coded 0.75); Neither agree nor disagree (coded 0.5); Partially disagree (coded 0.25); Fully disagree (coded 0).

The index is calculated as the average score of the responses to these three statements.

**Table 1. Perceived significance of sector-specific objectives, trade-offs between sector-specific goals, measurement of sector-specific goal-attainment, and degree of agreement between political parties.**

**Means. (Standard deviations based on company/agency-level data in parentheses.)**

Organizational type	Degree of political party agreement	Local interest group (incl. Local politicians) influence	Trade union influence	Significance of sector-specific goals	Trade offs between sector-specific goals	N (n)
For profit company	0.552 (0,131)	0.224 (0,2105)	0.250 (0,152)	0.260 (0,185)	0.409 (0,183)	51 (11)
Not-for profit company	0.558 (0,184)	0.393 (0,237)	0.351 (0,176)	0.615 (0,149)	0.574 (0,135)	339 (55)
Agency (non-profit)	0.740 (0,164)	0.168 (0,131)	0.283 (0,174)	0.720 (0,203)	0.547 (0,203)	86 (19)
All	0.605 (0,187)	0.327 (0,233)	0.321 (0,179)	0.587 (0,220)	0.549 (0,170)	476 (85)

N (n): Number of respondents (number of companies/agencies)

**Table 2. Number of news stories, share of state grants, product market competition and board accountability in state-owned companies and agencies.**

**Means. (Standard deviations based on company/agency-level data in parentheses.)**

Organizational type	Number of news stories	Share of revenues from state grants	Index of product-market competition	Board accountability	(N)
For profit company	96.3 (137.1)	0.042 (0,107)	1.139 (0,371)	0.288 (0,082)	51 (11)
Not-for profit company	214.5 (403.1)	0.653 (0,403)	0.246 (0,278)	0.315 (0,110)	339 (55)
Agency (non-profit)	255.4 (366.6)	0.725 (0,312)	0.255 (0,317)	0.282 (0,175)	86 (19)
All	195 (355.1)	0.598 (0,413)	0.384 (0,469)	0.302 (0,123)	476 (85)

N (n): Number of respondents (number of companies/agencies)

**Table 3A. Local interest influence**

**Response variable is an index measuring the influence of local interest groups on managements capacity to implement challenging reforms**

Linear probability model (Clustered standard errors/ sandwich estimator for models I-IV).

	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.
	I			II			III			IV			V			VI		
Intercept	<b>0.535</b>	6.62	***	<b>0.712</b>	6.77	***	<b>0.301</b>	2.15	*	0.155	1.11		<b>0.459</b>	3.68	***	0.194	1.19	
Party agreement (est. as the average response of the 'other' board members)				<b>-0.642</b>	-5.13	***	<b>-0.462</b>	-3.41	***	<b>-0.285</b>	-2.04	*	<b>-0.582</b>	-4.62	***	<b>-0.386</b>	-2.50	*
Party agreement (individual level response)	<b>-0.337</b>	-5.36	***															
Media exposure {log(number of news stories)}																<b>0.036</b>	2.48	*
Share government grants							<b>0.177</b>	2.76	**	<b>0.193</b>	2.33	*	<b>0.155</b>	2.62	*	0.090	1.28	
Competition (index)							<b>0.139</b>	1.84	*	0.055	0.87		0.098	1.48		0.052	0.78	
Classification of companies /agencies	For profit						-0.045	-0.33		0.085	0.67		-0.031	-0.30		0.057	0.54	
	Not-for profit						<b>0.183</b>	3.92	***	<b>0.179</b>	3.1	**	<b>0.134</b>	2.67	*	<b>0.149</b>	2.54	*
	Agency						Ref.			Ref.			Ref.			Ref.		
Type of respondent:	CEO	0.004	0.05		0.031	0.08		0.064	0.91		0.044	0.57						
	Employee	0.010	0.15		0.024	0.07		0.043	0.66		0.082	1.13						
	Ministry	0.013	0.19		-0.002	0.07		0.023	0.39		0.059	0.85						
	Chairperson	Ref.			Ref.			Ref.			Ref.							
Interaction terms:	Party agreement*Share gov. grants																	
	Media exposure*Share gov. grants																	
<i>Test statistics:</i>																		
Covariance parameter for residual (std.error)	0,112 (0,007)			0,108 (0,007)			0,097 (0,007)			0,088 (0,007)			0,0300			0,0256		
Type III F-test, company classification, F (DF)							<b>7,61 (2,71)</b>			***			<b>4,86 (2,46)</b>			*		
Type III F-test, Type of resp., F (DF)	0,02 (3,128)			0,25 (3,128)			0,40 (3,126)						0,46 (3,85)					
Number of respondents (Number of companies)	437 (80)			433 (76)			433 (76)			276 (51)			79			51		

\*: <0.05 Ref.: Reference category

Significance levels: \*\*: <0.01

\*\*\*:<0.001

**Table 3B. Local influence cont.**

**Response variable is an index measuring the influence of local interest groups on managements capacity to implement challenging reforms**

Linear probability model (Clustered standard errors, sandwich estimator). Models with interaction terms are estimated with variables centered at the mean.

		Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.			
		VII			VIII			IX			X			XI			XII		
Intercept		0.080	0.54		<b>0.327</b>	2.51	*	-0.030	-0.19		0.060	0.68		0.057	0.66		0.057	0.65	
Party agreement (est. as the average response of the 'other' board members)		<b>-0.276</b>	-1.84	*	<b>-0.408</b>	-2.57	*	-0.232	-1.62		-0.232	-1.62							
Party agreement (individual level response)														-0.126	-1.71		-0.126	-1.71	
Media exposure {log(number of news stories)}		<b>0.048</b>	4.12	***	<b>0.030</b>	1.95	*	<b>0.044</b>	3.32	**	<b>0.043</b>	3.29	**	<b>0.044</b>	3.38	**	<b>0.044</b>	3.40	**
Share government grants					0.053	0.67		0.106	1.28		0.105	1.23		0.122	1.52		0.122	1.53	
Competition (index)					0.005	0.11		0.093	1.49		0.093	1.49		0.086	1.39		0.086	1.39	
Classification of companies /agencies	For profit	0.074	1.16					0.049	0.39		0.048	0.39		0.092	0.73		0.092	0.73	
	Not-for profit	<b>0.178</b>	3.08	**				<b>0.211</b>	3.47	**	<b>0.213</b>	3.19	**	<b>0.229</b>	3.44	**	<b>0.228</b>	3.59	**
	Agency	Ref.						Ref.			Ref.			Ref.			Ref.		
Type of respondent:	CEO	0.033	0.42		0.021	0.26		0.030	0.39		0.030	0.39		0.011	0.14		0.011	0.14	
	Employee	0.063	0.86		0.045	0.63		0.064	0.89		0.065	0.88		0.051	0.71		0.050	0.71	
	Ministry	0.053	0.75		0.050	0.72		0.052	0.73		0.052	0.73		0.039	0.54		0.039	0.55	
	Chairperson	Ref.			Ref.			Ref.			Ref.			Ref.			Ref.		
Interaction terms:	Party agreement*Share gov. grants										0.024	0.07		-0.018	-0.11		-0.018	-0.12	
	Media exposure*Share gov. grants										-0.003	-0.11		-0.001	-0.05				
<i>Test statistics:</i>																			
Covariance parameter for residual (std.error)		0.084 (0.07)			0.090 (0.08)			0.084 (0.07)			0.084 (0.07)			0.084 (0.07)			0.084 (0.07)		
Type III F-test, company classification, F (DF)		4.80 (2,47)						6.32 (2,47)			5.97 (2,47)			5.97 (2,47)			6.54 (2,47)		
Type III F-test, Type of resp., F (DF)		0.29 (3,85)			0.24 (3,85)			0.31 (3,85)			0.26 (3,85)			0.26 (3,85)			0.26 (3,85)		
Number of respondents (Number of companies)		276 (51)			276 (51)			276 (51)			276 (51)			276 (51)			276 (51)		

\*: <0.05 Ref.: Reference category

Significance levels: \*\*: <0.01

\*\*\*:<0.001

**Table 4A. Union influence**

**Response variable is an index measuring the trade unions' influence on managements capacity to implement challenging reforms**

Linear probability model (Clustered standard errors/ sandwich estimator for models I-IV).

	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.
	I			II			III			IV			V			VI		
Intercept	<b>0.487</b>	7.51	**	<b>0.641</b>	7.07	**	<b>0.503</b>	4.71	***	<b>0.296</b>	2.47	*	0.387	3.64	**	0.213	1.43	
Party agreement (est. as the average response of the 'other' board members)				<b>-0.453</b>	-3.82	***	<b>-0.429</b>	-3.71	***	<b>-0.286</b>	-2.13	*	<b>-0.350</b>	-3.21	**	<b>-0.297</b>	-2.02	*
Party agreement (individual level response)	<b>-0.198</b>	-3.72	***															
Media exposure {log(number of news stories)}																0.024	1.80	
Share government grants							<b>0.152</b>	2.94	**	<b>0.190</b>	3.26	**	<b>0.161</b>	3.18	**	<b>0.177</b>	2.73	**
Competition (index)							0.076	1.43		0.078	1.17		0.058	1.03		0.083	1.33	
Classification of companies /agencies	For profit						-0.087	-0.89		-0.035	-0.31		-0.053	-0.57		-0.021	-0.21	
	Not-for profit						0.014	0.32		0.050	1.04		0.042	0.95		0.095	1.72	
	Agency						Ref.			Ref.			Ref.			Ref.		
Type of respondent:	CEO	0.015	0.22		0.032	0.45		0.042	0.62		0.074	1.01						
	Employee	<b>-0.131</b>	-2.14	*	<b>-0.127</b>	-1.99		<b>-0.131</b>	-2.00	*	-0.010	-0.13						
	Ministry	0.008	0.15		-0.005	-0.09		0.009	0.17		0.073	1.27						
	Chairperson	Ref.			Ref.			Ref.			Ref.							
Interaction terms:	Party agreement*Share gov. grants																	
	Media exposure*Share gov. grants																	
<i>Test statistics:</i>																		
Covariance parameter for residual (std.error)	0.096 (0.0075)			0.093 (0.006)			0.090 (0.006)			0.086 (0.006)			0.022			0.022		
Type III F-test, company classification, F (DF)							0.54 (2,71)			0.66 (2,71)								
Type III F-test, Type of resp., F (DF)	<b>5,12 (3,86)</b>			<b>4,44 (3,86)</b>			<b>5,46 (3,86)</b>			<b>1,77 (3,86)</b>								
Number of respondents (Number of companies)	433 (76)			433 (76)			433 (76)			282 (51)			76			51		

\*: <0.05 Ref.: Reference category

Significance levels: \*\*: <0.01

\*\*\*:<0.001

**Table 4B. Union influence cont.**

**Response variable is an index measuring the trade unions' influence on managements capacity to implement challenging reforms**

Linear probability model (Clustered standard errors, sandwich estimator). Models with interaction terms are estimated with variables centered at the mean.

	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.
	VII			VIII			IX			X			XI			XII		
Intercept	<b>0.336</b>	2.26	**	<b>0.295</b>	3.00	**	0.196	1.48		<b>0.226</b>	2.71	**	<b>0.227</b>	2.56	*	0.226	2.58	
Party agreement (est. as the average response of the 'other' board members)	<b>-0.326</b>	-2.23	**	<b>-0.289</b>	-2.20	*	<b>-0.258</b>	-2.01	*	<b>-0.267</b>	-2.08	*						
Party agreement (individual level response)													<b>-0.203</b>	-2.96	*	<b>-0.204</b>	-3.11	*
Media exposure {log(number of news stories)}	<b>0.033</b>	3.47	***	0.020	1.75		<b>0.026</b>	2.16	*	<b>0.023</b>	2.08	*	<b>0.023</b>	2.01	*	<b>0.025</b>	2.17	*
Share government grants				<b>0.133</b>	1.99	*	<b>0.136</b>	1.96	*	<b>0.142</b>	2.26	*	<b>0.150</b>	2.34		<b>0.152</b>	2.27	*
Competition (index)				0.032	0.93		0.098	1.52		0.102	1.66		0.095	1.56		0.093	1.47	
Classification of companies /agencies	For profit	-0.048	-0.77				-0.056	-0.50		-0.049	-0.48		-0.022	-0.21		-0.024	-0.22	
	Not-for profit	0.024	0.42				0.067	1.23		0.066	1.18		0.079	1.40		0.064	1.17	
	Agency	Ref.					Ref.			Ref.			Ref.			Ref.		
Type of respondent:	CEO	0.064	0.82		0.060	0.79	0.063	0.85		0.058	0.77		0.044	0.58		0.045	0.61	
	Employee	-0.028	-0.34		-0.027	-0.35	-0.024	-0.31		-0.021	-0.26		-0.031	-0.39		-0.037	-0.47	
	Ministry	0.064	1.02		0.063	1.06	0.066	1.11		0.069	1.15		0.058	0.96		0.055	0.93	
	Chairperson	Ref.			Ref.		Ref.			Ref.			Ref.			Ref.		
Interaction terms:	Party agreement*Share gov. grants									-0.317	-1.01		-0.264	-1.76		<b>-0.275</b>	-1.98	*
	Media exposure*Share gov. grants									-0.039	-1.47		-0.040	-1.53				
<i>Test statistics:</i>																		
Covariance parameter for residual (std.error)	0.087 (0.0075)			0.086 (0.0075)			0.085 (0.0073)			0.085 (0.0073)			0.084 (0.0072)			0.084 (0.0072)		
Type III F-test, company classification, F (DF)	1.08 (2,47)						1.11 (2,47)			1.09 (2,47)			1.15 (2,47)			0.84 (2,47)		
Type III F-test, Type of resp., F (DF)	1,62 (3,86)			1,63 (3,86)			1,76 (3,86)			1,75 (3,86)			1,58 (3,86)			1,67 (3,86)		
Number of respondents (Number of companies)	282 (51)			282 (51)			282 (51)			282 (51)			282 (51)			282 (51)		

\*: <0.05 Ref.: Reference category

Significance levels: \*\*: <0.01

\*\*\*:<0.001

**Table 5A. The impact of political (dis-)agreement on board accountability**

**Response variable is additive index measuring whether board members believe that they will be held accountable for not achieving organizational goals**

Linear probability model (Clustered standard errors, sandwich estimator for models I-IV)

	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.						
	I			II			III			IV			V			VI								
Intercept	0.504	12.03		0.415	8.18		0.069	2.83		0.305	3.70		0.289	3.24		0.261	2.04							
Party agreement (est. as the average response of the 'other' board members)				0.062	0.89		<b>0.067</b>	3.32	**	0.130	1.46		0.121	1.38		0.081	0.68							
Party agreement (individual level response)	-0.072	-1.65																						
Media exposure {log(number of news stories)}																<b>0.027</b>	2.32	*						
Share government grants							0.028	1.85		0.015	0.43		0.000	0.01		<b>-0.114</b>	-1.97	*						
Competition (index)							0.037	0.91		0.043	1.03		0.014	0.30		0.041	0.77							
Classification of companies /agencies	For profit						0.052	1.48		0.021	0.38		0.022	0.29		-0.046	-0.53							
	Not-for profit						<b>0.030</b>	2.93	**	<b>0.067</b>	1.99		0.052	1.40		0.044	0.92							
	Agency						Ref.			Ref.														
Type of respondent:	CEO																							
	Employee	<b>-0.094</b>	-2.77	**	<b>-0.081</b>	-2.40	<b>0.033</b>	-2.14	*	-0.110	-2.89													
	Ministry	-0.012	-0.41		-0.007	-0.24	0.028	-0.29		-0.015	-0.40													
	Chairperson	Ref.			Ref.		Ref.			Ref.														
Interaction terms:	Party agreement*Share gov. grants																							
	Media exposure*Share gov. grants																							
<i>Test statistics:</i>																								
Covariance parameter for residual (std.error)	0.045 (0.003)						0.075 (0.003)			0.046 (0.004)			0.014			0.015								
Type III F-test, company classification, F (DF)							4.32 (2,69)			*			2.08 (2,44)											
Type III F-test, Type of resp., F (DF)	6.02 (2,89)			**			4.89 (2,89)			**			3.90 (2,89)			*			7.42 (2,56)			**		
Number of respondents (Number of companies)	402 (80)			402 (80)			391 (76)			250 (51)			74			49								

\*: <0.05 Ref.: Reference category

Significance levels: \*\*: <0.01

\*\*\*: <0.001

**Table 5B. The impact of political (dis-)agreement on board accountability**

**Response variable is additive index measuring whether board members believe that they will be held accountable for not achieving organizational goals**

Linear probability model (Clustered standard errors, sandwich estimator)

		Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.	Estimate	T-val.	Sig.
		VII			VIII			IX			X			XI			XII		
Intercept		<b>0.195</b>	2.58	*	<b>0.342</b>	4.86	***	<b>0.079</b>	2.75	*	<b>0.377</b>	9.71	***	<b>0.422</b>	10.72	***	<b>0.282</b>	5.43	***
Party agreement (est. as the average response of the 'other' board members)		<b>0.192</b>	2.48	*	0.099	1.17		0.084	1.76		0.143	1.71		<b>-0.107</b>	-2.14	*	0.148	1.76	
Party agreement (individual level response)																			
Media exposure {log(number of news stories)}		<b>0.019</b>	2.95	**	<b>0.018</b>	2.81	**	<b>0.007</b>	3.39	***	<b>0.024</b>	3.38	***	<b>0.022</b>	2.76	**	<b>0.024</b>	3.39	**
Share government grants					-0.053	-1.65		-0.036	-1.16		0.007	0.11		-0.014	-0.23		-0.040	-1.17	
Competition (index)					0.018	1.16		0.034	1.91		0.065	1.91		<b>0.078</b>	2.65	*	<b>0.065</b>	1.98	*
Classification of companies /agencies	For profit	<b>0.093</b>	2.86	**				0.052	-0.14		-0.010	-0.18		-0.096	-1.82		-0.006	-0.11	
	Not-for profit	<b>0.090</b>	2.87	**				<b>0.032</b>	2.58	*	<b>0.087</b>	2.65	*	0.047	1.28		<b>0.081</b>	2.45	*
	Agency	Ref.						Ref.			Ref.			Ref.			Ref.		
Type of respondent:	CEO																		
	Employee	<b>-0.116</b>	-3.15	***	<b>-0.125</b>	-3.45	***	<b>0.035</b>	-3.46	***	<b>-0.121</b>	-3.35	***	<b>-0.140</b>	-3.93	***	<b>-0.123</b>	-3.49	**
	Ministry	-0.022	-0.63		-0.020	-0.57		0.035	-0.63		-0.020	-0.57		-0.024	-0.70		-0.022	-0.63	
	Chairperson	Ref.			Ref.			Ref.			Ref.			Ref.			Ref.		
Interaction terms:	Party agreement*Share gov. grants										-0.011	-0.05		-0.071	-0.60		-0.045	-0.22	
	Media exposure*Share gov. grants										-0.013	-0.83		-0.017	-1.01				
<i>Test statistics:</i>																			
Covariance parameter for residual (std.error)		0.045 (0.004)			0.046 (0.004)			0.045 (0.004)			0.045 (0.004)			0.045 (0.004)			0.045 (0.004)		
Type III F-test, company classification, F (DF)		4.74 (2,44)						4.37 (2,43)			4.53 (2,43)			5.36 (2,43)			3.91 (2,43)		
Type III F-test, Type of resp., F (DF)		7.70 (2,56)			9.41 (2,56)			9.32 (2,56)			9.25 (2,56)			11.34 (2,56)			9.53 (2,56)		
Number of respondents (Number of companies)		250 (51)			250 (51)			250 (51)			250 (51)			250 (51)			250 (51)		

\*: <0.05 Ref.: Reference category

Significance levels: \*\*: <0.01

\*\*\*:<0.001

Figure 1. A veto-player model for state-owned companies with two partisan veto players

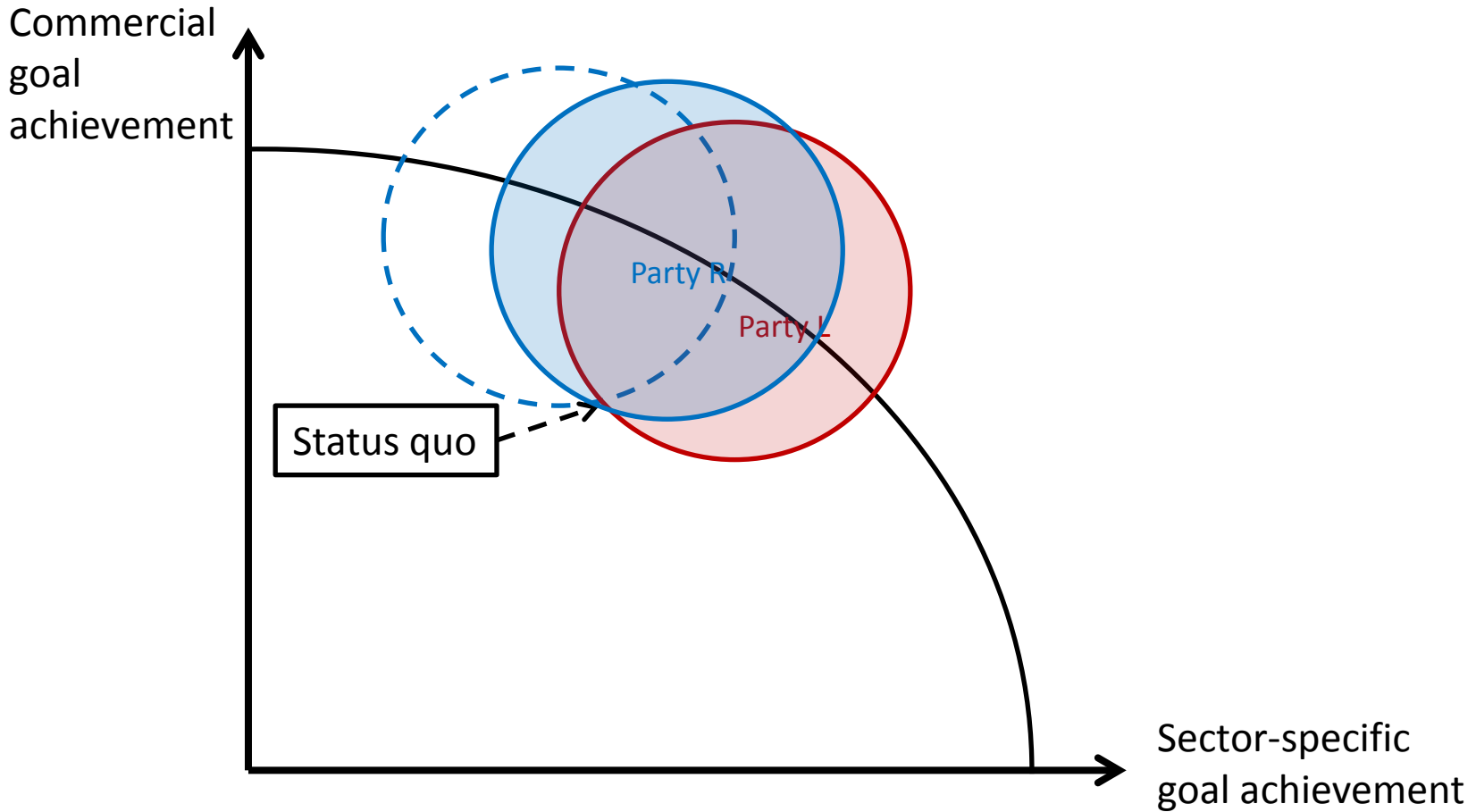


Figure 2. A veto player model for state-owned companies with interest group and two partisan veto players

