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A study on how agents can influence principals in public sector governance

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Introduction

Public sector governance has long been the subject of much attention, both in the media and academically (e.g. Almquist et al., 2013; Atkinson & Fulton, 2013), much like corporate governance (see Shleifer & Vishny, 1997 for an overview), which La Porta et al. (2000) describe as "[...] to a large extent, a set of mechanisms through which outside investors protect themselves against expropriation by the insiders." (pp. 4). Principal-agent theory, or just agency theory, is a well-established theory of corporate governance (e.g. Daily, Dalton & Cannella, 2003; Jensen & Meckling, 1976; Shleifer & Vishny, 1997), explicitly focusing on the relationship between the owner, in this case referred to as the principal, and the management, referred to as the agent. Agency theorists argue that since an agent could have other interests than those of the principal, while a state of information asymmetry also tends to exist between them, the principal can observe the outcome but not the action of the agent (Jensen & Meckling, 1976; Miller, 2005). This asymmetry, in turn, does not prevent the unmonitored agent from acting in line with his or her own preferences rather than those of the principal, which is related to the concept of moral hazard (Miller, 2005). However, many have criticised agency theory on the basis of its underlying assumptions, particularly that of self-serving managers and an oversimplification of managerial behaviour. (e.g. Wiseman, Cuevas-Rodríguez, & Gomez-Mejia, 2012) Similarly, Hambrick, Werder and Zajac (2008), criticise extant literature on corporate governance for being limited by its reliance on viewing it as a principal-agent problem, which calls for a broader scope. While cognitive theory contributes through the inclusion of bounded rationality, as well as the acknowledgement that agents can also act in the interest of others towards whom they feel loyalty (Atkinson & Fulton, 2013), it still fails to account for the mechanisms deciding where such loyalty is directed. Furthermore, it altogether falls short of providing an explanation to how these utterances of self-serving behaviour may be affected by an environment of conflicting and ambiguous demands.

The shortcomings of agency theory are particularly notable in studies of public sector governance (see Peters & Pierre, 1998, for a review). Public sector governance is characterised by the long distance and many layers between the principals, generally considered to be the taxpayers, and the agents, namely those responsible for delivering services to the public (György, 2012), as well as complex incentive structures providing little incentive for innovation and efficiency (Shleifer, 1998). Atkinson and Fulton (2013) present previous research on ethics in the public sector using an agency theory perspective as predicting that conflicting interests, self-serving behaviour and information asymmetry may lead to the undermining the interests of the principal and, ultimately, corruption. Nevertheless, few studies have attempted to form an understanding of how, and indeed if, the self-serving behaviours predicted by agency theory actually transpire in public sector organisations, resulting in a scientific blind spot regarding how self-serving behaviour on the part of agents in the public sector plays out in practice.

In order to fully understand the actions of public sector managers, as well as the larger context of public sector governance, this study seeks to combine the theoretical frameworks of agency theory and institutional theory, primarily in the form of selective coupling, decoupling and institutional logics. Defined by Greenwood et al. (2010, pp. 521) as *master principles of society*, guiding social action, the framework of institutional logics was introduced by Friedland and Alford (1991) and has since been applied to many different empirical settings. Of particular interest to this study are applications where the coexistence and interaction of multiple institutional logics is examined, situations termed by Greenwood et al. (2011) as *institutional complexity*. Suchlike studies have covered a vast array of organisational settings (see Greenwood et al., 2011, for an overview) and appear particularly suitable for the analysis of public sector organisations affected by multiple conflicting logics (e.g. Reay & Hinings, 2009; Binder, 2007; Meyer & Hammerschmid, 2006).

Through the study of a public sector organisation characterised by weak governance, conflicting institutional prescriptions and an environment of uncertainty, this study aims to investigate how the managers of a public sector company can actively influence the political governance enacted upon them. Drawing on a theoretical framework combining various elements of institutional theory, primarily in the form of decoupling, selective coupling and institutional logics, the findings suggest that extant theoretical frameworks of agency theory and cognitive theory are insufficient for the purpose of explaining the behaviour of organisations simultaneously affected by a complex array of different prescriptions and motivations. While organisations operating at the crossroads of the public and private spheres have been the objects of several studies of institutional logics and hybridity (e.g. Meyer & Hammerschmid, 2006; Jay, 2013; Emery & Giauque, 2014; Skelcher & Smith, 2015), the object of this study is particularly interesting due to the unpredictable and ambiguous nature of its environment and the institutional pressures affecting it, exemplified by the long-term absence of clear directives from the owner, the constant political uncertainty regarding its future and its financial difficulties. The ongoing restructuring of public sector governance (e.g. Ruiter, 2005) is another reason to why a study of the factors affecting such an organisation is of interest.

The article consists of five main sections. Starting with a brief review of previous research on agency theory, as well as the development of cognitive theory, the theoretical framework used in the analysis is then presented, after which a description of the research setting and methodology follows. The empirical findings are subsequently presented and discussed, after which the paper ends with some concluding remarks regarding the implications of the study, as well as limitations and suggestions for future research.

Previous research on agency theory

Agency theory

While agency theory has traditionally been associated with studies of corporate governance in the context of the relationship between managers and shareholders (e.g. Shleifer & Vishny, 1997; Daily, Dalton & Cannella, 2003), Wiseman, Cuevas-Rodríguez, and Gomez-Mejia (2012) suggest that its applicability is broader than this and that the incorporation of an institutional perspective will facilitate an increased understanding of situations wherein moral hazard arises. The authors present a highly critical view of extant research in the field of agency theory, suggesting that it oversimplifies the reality of individual behaviour and:

[...] focuses on the most pejorative view of human nature, which many management scholars find as repugnant and some see as promoting a self-fulfilling egotistical economic logic in business school training that is detrimental to organizational citizenship and incompatible with the values of collectivist societies (see, for instance, Ferraro, Pfeffer & Sutton, 2005). (pp. 217)

As pointed out in this excerpt from Wiseman, Cuevas-Rodríguez, and Gomez-Mejia (2012), Ferraro, Pfeffer and Sutton (2005) speculate that this kind of assumption of self-serving behaviour on the part of managers creates a risk of a self-fulfilling prophecy, wherein it actually creates that very kind of behaviour.

Chung and Luo (2008) present corporate governance models as institutional logics, arguing that they “[...] matter not only because they affect the approach to monitoring and its effectiveness, but also because they shape beliefs about legitimate and efficient corporate strategies” (pp. 769). The authors further argue that suchlike institutionalised beliefs about corporate governance can have an effect on a national level, causing organisations in a certain country to adopt similar corporate governance structures as a result. In discussing agency theory and neo-institutionalism, they present the former as assuming that principals and agents have divergent interest and, consequently, different preferred strategies, whereas the latter assumes that collectively held values and assumptions constitute the driving force behind strategic decision making. Interestingly, extending their conception of the diverging interests of agents and principals, they argue that:

[...] Agents are risk averse because of their nondiversified employment risk, and their goal is to build an empire for themselves (Jensen & Meckling, 1976). From the principals' point of view, extensive unrelated diversification leads to the growth of a firm beyond the point that maximizes shareholder return because of the limits to managerial competencies and economies of scale and scope, and it also provides potential for managers to misuse corporate

resources and avoid monitoring. From the agents' point of view, unrelated diversification provides personal benefits such as minimizing employment risks and increasing income and power. In the absence of effective corporate governance and given free cash flow, agents engage in unrelated acquisitions and incur agency costs (e.g., the funds that are invested in unrelated industries and bring sub optimal returns could be distributed to shareholders) (Jensen 1986).(pp. 768).

Consequently, one might assume that a lack of governance from the principal would allow for the agent to pursue its empire building activities without intervention, with the reduction of the employment risk as one of the main motives and the emergence of a massive, widely diversified, empire of operations as a result, further complicating the transparency of the organisation.

Agency theory has also been used in studies of public sector organisations (e.g. Atkinson & Fulton, 2013; György, 2012). According to György (2012), principal-agent relationships in the public sector are more complex than those of the private sector, with there being a large number of different suchlike relationships. Fundamentally, the citizen is the ultimate principal, paying tax and voting, while politicians, government agencies and the people employed in them form the agents. Thus, the complexity of principal-agent relationships in the public sector are, to a large extent, derived from the many layers between the principals and those responsible of acting on their behalf, as well as the wide range of individuals and bodies responsible for suchlike action.

In their work about corporate governance and ethics in the public sector, Atkinson and Fulton (2013) compare the classic agency theory with an alternative or supplement to this theory, which they call “cognitive theory”. While classic, standard, agency theory assumes that the agent acts in its own interests and that the decision maker is fully rational, the cognitive theory instead takes another approach as it takes psychology into account and furthermore suggests that the decision maker is just boundedly rational.

Furthermore, cognitive theorists do not necessarily share the view that the actions of the agent are the result of his or her own interest, but the presumption is still that the behaviour is egocentric and that the decisions are made in line with individual needs. Atkinson and Fulton (2013) put it like this:

Decision makers may act in their own self-interest, as in agency theory, or they may elect to privilege the interests of others, including groups to which agents feel attachment or loyalty. This latter situation may be of particular relevance for the public sector, where monetary incentives are typically smaller and where people operate on the basis of a broader set of objectives and affiliations. (Atkinson & Fulton, 2013, pp. 395)

This practically implies that self-serving behaviour on behalf of the agent can take place in public sector governance, even without monetary incentives, as the self-serving behaviour could be directed towards people which the agent feel loyalty to and not necessarily just towards the agent itself.

Moreover, while standard agency theory does not explicitly focus on post hoc rationalisation, this is instead a significant part of cognitive theory. Post hoc rationalisation practically means that the decision makers apply different psychological tactics in order to manipulate their own perception of the behaviour (Kramer & Messick, 1996), which in practice could take the form of the agent, after having made a decision, arguing that “rules do not apply to me”, “this was done as higher values are being served” or by establishing some form of reference point from where the decision could be seen as legitimate or logical (Atkinson & Fulton, 2013).

Theoretical framework

Institutional logics

Ever since Meyer and Rowan (1977) presented their seminal article, the focus of neoinstitutionalism has been legitimacy (e.g. Kraatz & Block, 2008). DiMaggio and Powell (1983) contributed further by describing different forms of isomorphism, through which organisations become more similar to each other. When laying the foundation for the field of institutional logics, Friedland and Alford (1991) concluded that “[...] the major institutions of contemporary society are interdependent and yet also contradictory.” (pp. 256) and that people “[...] are artful in the mobilization of different institutional logics to serve their purposes.” (pp. 254). The concept of institutional logics refers to the different societal institutions that shape individual and organisational interests and preferences and which furthermore shape the behaviour of the actors within an organisational field (Friedland & Alford, 1991). In their study, these authors have also identified and pinpointed five different institutions influencing and shaping the organisational field in the capitalist west: bureaucratic state, democracy, capitalist market, nuclear family and the Christian religion. The field of institutional logics has since been extended by works such as Thornton and Ocasio (1999), who added a sixth type of logic - the professional logic and Goodrick and Reay (2011), who described how various logics may interact and coexist.

Thornton and Ocasio (2008) define that the theory of institutional logics originates from the neoinstitutional field, although it is mainly characterised by its emphasis on how different institutional logics affect the behaviour of individuals and organisations, rather than how isomorphism causes them to adopt similar forms.

Greenwood et al. (2010) (pp. 521) define the concept as *master principles of society* guiding social action and institutional logics have been an increasingly popular tool in management research. As such, it is perhaps only natural that the coexistence and interaction of two or multiple institutional logics has received a great deal of scientific interest, as exemplified by studies of fields such as healthcare (Dunn & Jones, 2010; Reay & Hinings, 2005; Reay & Hinings, 2009), banking and finance (Lounsbury, 2007; Marquis & Lounsbury, 2007) as well as field-level discourse (Meyer & Höllerer, 2010).

Decoupling

Meyer and Rowan (1977) introduced the concept of decoupling in their work about organisations and how they adapt to the institutional and complex environment they tend to face in the modern society. In their work, Meyer and Rowan (1977) describe institutionalisation as the social process between humans where for example social processes are reproduced and are transformed to “take on a rulelike status in social thought and action” (Meyer & Rowan, 1977, pp. 341) and mention the institutionalised “rule” of the social status of a doctor managing illness as an example.

Accordingly, while the modern society and state tend to be characterised by institutions and institutionalised rules, formal organisations nowadays often face pressure to be rational (Meyer & Rowan, 1977; Tilcisk, 2010). Moreover, in line with this pressure for rationality, external pressures from the society driven by for example legal aspects have pushed organisations to form their practices and policies towards conformity to evaluation (Bromley & Powell, 2012).

Meyer and Rowan (1977) argue that institutional rules may have significant impact on organisations and their formal structures. According to them, a way to manage this kind of pressure in this complex context is to adopt different formal myths, for example in terms of practices, procedures or policies, that seem to be rational and are in line with the institutionalised environment and to practically incorporate them as an external, formal structure. This while the internal structure and the ongoing day-to-day activities as such in fact are not changed and thus *decoupled* and different from the visual structure shown to external stakeholders, i.e. there is a gap between the formal and actual organisational structure (Meyer & Rowan, 1977), which could be seen as a kind of ceremonial window dressing in order to achieve legitimacy (Bromley & Powell, 2012). Practically, this could for example take place since formal decisions are not implemented in practice or through difficulties with the evaluation of formulated objectives (Meyer & Rowan, 1977).

By adopting certain formal structures as myths and thus implementing a formal structure reflecting institutional norms, this kind of decoupled structure could be an intentional way to manage the pressure from the society characterised by institutional structures and rationality.

Therefore, this is a way to maintain and achieve legitimacy as an organisation towards external stakeholders. Consequently, legitimacy in the eyes of the society and stakeholders turn could be vital in order to maintain and maximise stability and for the survival of the organisation in question as such (Meyer & Rowan, 1977).

Furthermore, Bromley and Powell (2012) suggest that decoupling also allows an organisation to adopt several different, even potentially conflicting, policies or myths in order to manage different external pressure and appear as legitimate in relation to all of them.

Selective coupling

The concept of *selective coupling* is, like decoupling, related to achieving legitimacy and was introduced by Pache and Santos (2013) to describe how organisations faced with conflicting institutional prescriptions from different logics would react. As such, the term refers to “[...] the purposeful enactment of selected practices among a pool of competing alternatives.” (Pache & Santos, 2013, pp. 994). In contrast to decoupling, introduced by Meyer and Rowan (1977), selective coupling rather places a higher degree of emphasis on the active work of the organisation itself, while also differing in the account of myths in the former theory. Basically, rather than adopting formal myths, selective coupling is used by the organisation in the sense of identifying the institutional logic which is appropriate in a certain case and tries to legitimise the organisation in the light of that logic.

Another important finding from Pache and Santos (2013) is a phenomenon which the authors named *trojan horse*, which relates to how organisations from different institutional origins react to the studied environment of conflicting institutional prescriptions. The field in question, that of French work integration enterprises, was found to be characterised by both a social welfare logic and a commercial logic, with the former being dominant. Related to this, organisations entering the field with a commercial background, in the form of organisations founded by prominent commercial actors, were found to compensate for this by adopting a greater amount of the institutional prescriptions of the social welfare logic than did organisations founded by prominent social actors. This phenomenon could have noteworthy implications for predictions regarding how the origin of an organisation might affect its response an environment of conflicting institutional prescriptions.

Methodology

Setting

The object of this study is an internal leasing corporation owned and operated by the municipality of one of Sweden’s largest cities, hereafter referred to as Company C, created through the merger of what used to be two different internal companies, Company A and Company B.

While Company A was founded in 1992, its operations can trace their roots back much further than this. In 1863, the city municipality placed the responsibilities of managing and maintaining transportation, roads, parks and sewers in the hands of a newly formed administration. In 1971, the administration reached its peak of more than 1500 employees. Gradually, the role of the administration diminished, as many of its various responsibilities were either assigned to other administrations or faced competition from private actors. Paired with the toilsome early 1990's recession, the organisation went through a period of significant downsizing and redundancies. At the same time, the city municipality decided to convert the administration to a company, as mentioned above. This meant that the organisation had to adapt to operating on competitive terms as a company rather than an administration, while restructuring its operations from practical road maintenance and construction to a role described as more along the lines of service provision. In 2010, an investigation by the city authorities, prompted by changes in the applicable competition legislation, resulted in the decision to divest large parts of Company A's operations, as it was determined that they would no longer be profitable when new EU-imposed legislation would prevent Company A from delivering services to customers outside the city administration of the city. Eventually, all that remained was the technical service operation, which previously constituted the smallest business area.

Company B, a small internal leasing company since its conception in 1992, has experienced a much less turbulent past. Having had between two and six employees throughout its existence, it was founded with the sole purpose of reducing tax expenses and facilitating economies of scale in procurement on behalf of the city. As such, its operations mostly consisted of the management of a computerised leasing system, with little actual contact with people from the outside world.

In 2011, the city council decided to conduct a review of all companies owned by the city, as a result of a motion from all political parties represented, based on which a decision on a new structure and new corporate governance directives was made in 2013. On the 5th of June 2014, another decision was taken by the council, this time to the effect of launching investigations of individual companies, through which an investigation of the prospect of operating various parts of Company A's operations as administrations was conducted. In addition to this, an intention to liquidate the remaining parts of the company was expressed. However, the investigation also examined the prospect of merging different companies, where Company A was one of those examined. Finally, the investigation found that a merger between Company A and the city's internal leasing corporation, Company B, would be conducive to a more efficient structure and provide improvements in risk management regarding key competencies and financial stability. It consequently recommended that the council investigate the conditions for and general prospect of such a merger further. The final decision to proceed with the merger was taken on the 3rd of December 2015. At the time of the merger, Company A had around 70 employees and Company B had only six. At the same

time as Company A was merged with Company B , the new company was also renamed (and the new company is hereafter referred to as Company C). Since Company C mainly consists of the organisation that used to be Company A, with the much smaller Company B added as a separate organisational unit, the main focus of this study is on Company A and its organisational remnants in Company C. This choice is further motivated by the fact that Company A has experienced a much more turbulent history of lax governance and organisational change, while Company B has always operated under more or less the same premises.

As a municipally owned company, the organisation operates under an intriguing mix of public and market influences, while its history of political governance, a lack of formal directives and a wide range of different business activities suggest that its governance may have been somewhat indecisive and vague, potentially giving room for a high level of managerial discretion to engage in self-serving behaviour. Furthermore, since the organisation has a history of size reductions and the threat of a shutdown, its employees and managers can be expected to experience a threat to their employment, potentially providing incentives for the managers, as agents, to act in the interest of ensuring the organisation's survival, and thereby also that of their own employments (e.g. Chung & Luo, 2008; Jensen, 1986).

Data collection

In order to gain a deeper understanding of the details and understand the context of the study, a total of 25 qualitative interviews of an average length of approximately 30 minutes were conducted with workers at the company, all of its managers, several politically-appointed board members, the local leader of the largest opposition party, the external consultant who acted as project leader during the merger, and all of the trade union representatives at the company. Generally, the interviewees were told to reflect upon their own perceptions of the organisation, its history and the situation of its employees, all under the assurance of anonymity and the explicit agreement with the use of the interview data for the purpose of this study. The interviews were recorded, with the consent of the interviewees, and subsequently transcribed.

Position	Number of interviews
Company management	9
Trade union representatives	4
Board members	3
Non-board politicians	1
External consultants	1
Parent company worker	1
Workers	6

Additionally, secondary data was gathered in the form of the collection of documents related to political inquiries, decisions as well as guidelines concerning the companies themselves, their implementation of the fusion and the strategic visions for the new, merged company. In contrast to the more practical capturing of data provided through interviews and observations, documents of this type were used as a tool for collecting more formal data.

In total, the data collected amounted to nearly 200 pages of interview transcripts and hundreds of pages of secondary data, mostly in the form of public inquiries conducted by the municipal administration.

Data analysis

Each of the 25 interviews was completely and carefully transcribed. Once the data, consisting of both interview transcripts and secondary data, had been collected and structured, it was repeatedly read and coded in an iterative process, until a collection of themes was identified. These themes were then compared to various theories within organisational research, after which neoinstitutional theory was chosen as a suitable analytical framework. The data was consequently analysed through the methodology of pattern matching, as described by Reay and Jones (2016). This analysis framework is based on the identification of “ideal types” of institutional logics from previous studies and literature. Thus, the themes identified in the data was compared and matched with the “ideal types” of logics established in prior studies, such as those presented by Friedland and Alford (1991), in order to identify which institutional logics were present.

During this analysis, the market logic prevailed, in most regards in a form very similar to that described by Friedland and Alford (1991). However, the pattern matching analysis did not

yield a uniform label for another set of institutional prescriptions influencing the company. Thus, the pattern inducing methodology described by Reay and Jones (2016) was also used. This analytical tool is based around a grounded, inductive approach, where patterns are identified independently from previous research, and consequently facilitates the identification of localised nuances to a greater degree than a pattern matching approach (Reay & Jones, 2016). In practice, these patterns were related to things such as political legitimacy, environmental friendliness, social responsibility and the responsible use of taxpayers' money. Additionally, as the municipality has been looking to reduce the number of companies in its ownership, this has become a substantial part of what the logic practically entails to the companies in question. While similar to both the democratic and state logics described by Friedland and Alford (1991), neither one of these logics fully encompasses the set of institutional prescriptions in question. As such, the label *public logic* was adopted instead.

For the purpose of this study, the two logics which are used analytically are consequently the public logic and the market logic. In general, they can be said to be related to two different organisational forms: that of a public administration and that of a private company, where the former is connected to a public logic and the latter to a market logic. Thus, public logic utterances are identified in phenomena such as references to political goals, which can be related to Friedland and Alford's (1991) reference to Orloff and Skocpol's (1984) use of the term "climate of opinion". As the current political climate of opinion within the city municipality favours things such as environmental friendliness, equality and social integration, these topics are consequently indicative of the public logic. Furthermore, the aforementioned political goal of reducing the amount of companies owned by the city municipality also forms a part of the public logic. Private logic utterances are seen in the form of cost-cutting rationale, competition and general market vernacular.

After these two logics had been identified, the interview transcripts were analysed more closely and noteworthy excerpts of utterances of the two logics were selected for further analysis and discussion, structured on the basis of their relation to the various mechanisms described in the theoretical framework of analysis. Even though the theoretical framework used to analyse the findings in this paper consists of three main mechanisms, it became early clear that the institutional logics are combined with and apparent in relation to the mechanisms of decoupling and selective coupling, rather than one separate mechanism on its own. Therefore, the findings were analysed and discussed through the combination of decoupling and institutional logics as well as the combination of selective coupling and institutional logics.

The empirical data was firstly analysed through the lenses of the three abovementioned mechanisms of this paper's theoretical framework and it was consequently discussed how these findings could be connected to an agent's self-serving behaviour. Thereafter, the findings were discussed in the light of how this framework may contribute to the traditional agency theory.

Findings

Predictions of agency theory

According to agency theory, the agents, in this case the managers of company C, would be expected to act in a self-serving way, potentially conflicting the goals of the principals, in this case the municipal politicians, and, ultimately, the taxpayers (Jensen & Meckling, 1976; Miller, 2005). In practice, this would take the form of attempts to increase the general benefits of their own employment (Jensen & Meckling, 1976), their power and the safety of their employment by making the company larger and more diverse (Jensen, 1986; Chung & Luo, 2008). However, agency theory does not provide an answer to how this would play out in practice in a situation where an organisation is dependent upon its legitimacy in the eyes of the principal in order to ensure its continued survival. Thus, a different approach is needed.

Decoupling combined with institutional logics

The idea behind the merger

The entire ground for the fusion as such is related to the fact that the city has a history of owning a great amount of public companies, especially in relation to other cities in Sweden. Moreover, there has not always been clear for the city which role each of the the different public companies should have in relation to the city and how they are contributing to the public welfare of the municipality. In an attempt to clear up this issue, the city decided to appoint an inspection of all the companies owned by the municipality with the objective to decrease the amount of companies as well as clarify which role each company should have.

The merger between Company A and Company B, which formed a substantial part of the setting and context of this study, appears to have been positively viewed by an overwhelming majority of the employees. Fundamentally, as it took place in conjunction with the ownership restructuring and the issuing of the owner directive, it was widely regarded by the interviewees as a token of the politicians' acceptance of Company A's existence and a decision to allow it to proceed with its operations, thereby securing the future of the company. An exception from this is a woman who used to work for Company B prior to the merger. Initially, most of the interviewees dismissed her opposition to the merger as simply related to the physical location of Company A, in a rather timeworn industrial area, compared to that of Company B, which previously occupied lavish premises in a business park located in a forested area. However, it soon became clear that the rationale of her opposition ran somewhat deeper, having considered the merger a way of tying the politically controversial Company A to the stable and politically non-questioned Company B, thereby making it more difficult to close down Company A. This view is similar to that expressed by the local leader of the largest right-wing party, Moderaterna, who also felt that the merger was primarily a way of securing the future of Company A.

The merger was officially and externally communicated as the result of an inquiry conducted by the politicians governing the city as the official main argument for the merger was that there would be beneficial synergies from merging two companies both working with leasing, after which the politicians decided to proceed with the idea. A worker within Company C puts it like this:

Eventually, it became obvious that we would take that direction. Then, it felt natural, since there were only two leasing operations then.

However, other interviews with workers within Company C tell a rather different story. In their view, the merger was originally the brainchild of their CEO, who, by his own account, heard that the CEO of Company B was about to retire and actively suggested that he could be the new CEO even in this company before he furthermore also suggested to the politicians in charge that the companies could be merged. As such, the CEO confirms during the interviews that the idea of the merger between the two companies was initiated and suggested by himself. Moreover, some interviewees point out that Company A was not commonly described as a leasing company prior to the merger and that this label was rather something that was brought up during the time of discussions for the eventual merger.

Then, we did perhaps not label ourselves as a “leasing company” before [the CEO] brought the word on the agenda, to put it like that.

Discussion

Initially, it appeared as though the merger was initiated by the municipality administration and that the merger was a step towards the political goal of reducing the amount of companies owned by the municipality. Therefore, it was seen and communicated as both rational and aligned with the public institutional logic that the city should have only one leasing company and, consequently, it was natural to merge both of the “leasing” companies within the city.

However, the label of being a leasing company was brought up on the agenda just in time while the discussions of the eventual merger with Company B were being conceived of. This is a clear example of how the formal structure, in this case in the form of labelling Company A as a “leasing company”, was decoupled from the actual internal structure and the on-going day to day activities, as discussed by Meyer and Rowan (1977). By adopting this guise of being a leasing company as some kind of window-dressing (Bromley & Powell, 2012), this label encouraged and facilitated the merger between the two companies in that sense that it was seen as natural to merge Company A with Company B as both were leasing companies. As mentioned, the idea of the merger was initially initiated by the CEO of Company A, who was then appointed as the CEO of Company B as well, rather than by a political process. This

could be related to the field of institutional logics (Friedland & Alford, 1991), since the CEO basically understood what was in line with the public logic such as that the city has a desire to decrease the number of companies.

By adopting the formal structure of a leasing company and, subsequently, identifying the institutional prescriptions aligned with the public logic, the main logic influencing the principals, the organisation paves the way for the merger. Consequently, the merger ensures the continued existence of the company and, thus, the continued employment of its employees.

Through the mechanism of decoupling, as well as an understanding of the institutional logic influencing the principals, the agent not only manages to attain the self-serving objective of the survival of the organisation, but also actively to influence the principals and their governance.

Company C - the new “internal company” and the implications

Throughout its complex history, Company A has operated within a rather unique environment, since there has more or less always been politicians lobbying for either privatising or liquidating the company, an agenda which has especially been driven by right-wing politicians. This group of political parties has, in particular, questioned the purpose and benefit for the city of the kind of operations and business Company A has provided, also arguing that the company is competing with other private firms, which is appropriate for a public company according to several interviewees. Even though the company has survived (except for the divestiture mentioned above), the organisation has been living in a quite special context where it constantly has been under political pressure and questioned regarding both the entire existence of the company as such as well as to which extent Company A has contributed to the public welfare of the city. As a result of this, the municipality has during a 20 year period never provided the company with any real, clear objectives or directives regarding what the purpose of the company from the city’s perspective is and the interest for the company from the municipality throughout the history has been perceived as very low. However, as the city decided to merge Company A with Company B, the formal directives from the city are now more apparent. Having a history much in line with acting like a private company, for example through maximising profits, proactive marketing work and competing with private firms, Company A, together with Company B under the new name Company C, is now supposed to engage in work more or less in opposite to that since the owner directive contains these guidelines in order to benefit and serve the municipality of the city:

- Contribute to a clean and safe city by delivering environmentally suitable vehicles and transport solutions.
- Generate a financial result on a level facilitating continuous competence development.
- Offer a price level which is competitive over a business cycle and in relation to inflation and interest rates.
- Recruit, develop and retain competent and engaged leaders and workers.
- Be characterised by a balanced view of business risks.
- Cooperate with city administrations and companies in order to achieve the goals of the city's 2015 budget.
- Work in cooperation with other city administrations and companies to develop and work in accordance with five decisions taken by the city council.

Moreover, the label of the new company is the “internal company” of the city and Company C is supposed to only do business with organisations or companies owned by the city municipality (and not those of the suburban area of the city as it has done before). Moreover, to not make any substantial profits any longer is of great importance, which has been one of the main objectives of the company before. Rather, it should just achieve the budget targets and try to lower the prices as much as possible, since all of its customers are owned by the city municipality and, as a publicly owned internal company, the formal objective is to benefit the municipality as much as possible.

However, this adaptation does not come easy according to several workers and managers within the former Company A since the history of the company has been greatly influenced by the objective of making profits. The new guidelines that Company C should follow implies that several people within the organisation perceive this as cultural clash since they rather now should focus on lower prices and no profits. Moreover, the CEO openly admits that this certain cultural change is not implemented yet, even though the merger took place in the autumn of 2016 and the company therefore has been the “internal leasing company” with the following owner directive for almost a year now. He puts it like this:

Secondly, I can say that it is far more difficult, when it comes to the economy, because I am raised, and have raised all of my colleagues, that we should always make profits. And now, it becomes a dead stop. Now we are not going to make any profits. And that is a cultural change which is not implemented yet. But I have to raise it on every meeting. And question. But, you know, it is a varying success.

But, you know, that cultural change is not easy. That I can say. Everybody is focused on making money. But then, one has to say that no, we shall not, we should only have enough to live on. So the profit should be minimal. You know, ten million on 690 million of revenue, that is not much. That is almost negligible.

Even though Company A formally has been merged with Company B, many interviewees admit that the implications concerning the business and operations in relation to what Company A was in the past and prior to the merger are quite limited. Company B and the few workers earlier employed by that company are now part of the organisation and have moved to the common locations where Company A has been located. However, Company B has just been integrated as one, new separate business unit, added to five business units of the former Company A and in addition to that, the former workers of Company B are placed in a separate building (even though the plan is to change that in the future). Moreover, even though Company A has one business unit called “operational leasing”, this unit is not merged with the financial leasing unit (i.e. the business of former Company B) and there is therefore no entire “leasing business unit” and limited collaboration between them except for both being managed by the same economic manager.

Apart from that, the implications of the merger for the other units of the former Company A are strictly limited and the majority of the people interviewed in this study claim that they are more or less not affected at all by the merger. In spite of this, this process is really labelled as a merger and Company C is referred to as a “new company”, even though the collaboration between the two former companies is limited and the former organisations are working on their own to a wide extent like they did prior to the merger.

Moreover, even though the directive and the marketing of the company revolves around being the internal company and the contribution to the welfare of the municipality, the business unit involving courier businesses, which has been part of Company A since 1995 and which is competing with other, private companies, is still part of the new organisation in Company C. Therefore, Company C is still also competing with private alternatives on the free market, even though the owner directive from the owners rather suggests the opposite. The existence of the courier business competing with private alternatives and also the fact that Company A throughout the history has been used to make profits have not been appreciated by the right-wing political parties. The local leader for the right-wing party, Moderaterna, insists that they have suggested that Company A should be privatised but as Moderaternas did not succeed with this proposal, they rather tried to lobby for privatising the courier business unit as such.

Discussion

In relation to these findings, decoupling, as described by Meyer and Rowan (1977), can be observed in two separate manners.

First and foremost, the new company, Company C, is seen and labelled as a new company after the official merger between the two former companies, Company A and Company B. As discussed before, the act of merging them into one single company is a step towards

decreasing the amount of municipality-owned companies within the city, and therefore in line with the desire of the principals. However, these findings also provide evidence to suggest that the changes to the two former companies in relation to their daily operations before and after the merger are, in fact, quite limited. Practically, by claiming to be *one new* company, and adopting such a formal structure, the managers act in line with political goals and, thus, the public institutional logic, in order to gain legitimacy towards principals. On the other hand, the internal structure and daily operations of Company A and Company B are, to a wide extent, kept as prior to the merger and are in many regards still operating as two separate companies. Thus, this appears to be a clear example of decoupling (Meyer & Rowan, 1977).

Secondly, these findings could be interpreted as evidence of decoupling also in light of the new “brand” of Company C. By having a history clearly influenced by acting much in line with how private companies work, for example by maximising profits and focusing on sales, the new owner directive and the brand of being an internal company for the city are more or less in opposite to what Company A has been in the past. While the history of Company A is characterised by the institutional logic of the market, as defined by Friedland and Alford (1991), the principal has a desire for all of the municipality-owned companies to be more aligned with the public logic. Therefore, Company C labels itself as the new “internal company” and has received new guidelines in form of the owner directive.

However, even though the company is using this brand, there are still several areas where the internal structure is different and decoupled from the formal one and the new label could be interpreted as some kind of window-dressing (Bromley & Powell, 2012). The perhaps most substantial one considers the fact that Company C is supposed to make no profits and rather try to lower the prices as much as possible in order to benefit the municipality. As described by the CEO, this is going to be a cultural clash and the effort to change the mindset is perceived as being of varying success. Moreover, this cultural change is, according to the CEO, *not* implemented yet, even though the merger took place during the autumn of 2016 and Company C now has been supposed to follow the owner directive for more than half a year. The history of acting like a private company and in line with the market logic (Friedland & Alford, 1991) has been a thorn in the side of right-wing politicians. In order to gain more legitimacy towards these parties, the company is now making an appearance of being strictly an internal company, thus taking a step towards the public logic.

Selective coupling combined with institutional logics

Company C - an integration workplace

One of Company C’s six business areas is a courier business, providing transportation services. One member of this business area explains that the organisation labels itself as an “integration workplace” and that this label is something that the employees and managers are

very proud of. In more practical terms, being a “integration workplace” implies that the company is employing people not performing in such way that the economic results would be maximised, such as the long-term unemployed people, immigrants or persons with disabilities.

Moreover, the organisation is officially labelled by an administration working to increase the amount of adults into the labour market as a “integration workplace” since half of the employees to some extent are “integration employees”. This group of employees contains for example refugees that recently arrived in Sweden or men or women that have been long-term unemployed. Furthermore, the interviewee argues that workers with significant problems who have gotten the chance to work within the company have transformed into really successful workers and that it is a win-win situation since the company is able to get these kind of people into work life while they at the same time is contributing to the success of Company C. The employee describes it like this:

[The courier business] is a well functioning integration workplace in [the city]. The unit is assigned by [an employment administration] as an integration workplace. Here, half of the employees are some form of “integration persons”. We have trainees, that is those who, refugees. We have employees who have been on sick leave for several years and are able to get back to work, several examples here of people who have gotten on track and are still here after many years, who have gotten here with such problems. Hopeless cases who are now very useful workers. An that is basically just win-win. Because the more you can get into employment, the better it is for everyone. Simple logic.

Furthermore, this was not just described during the interviews, but has also been formally used and described in a PowerPoint presentation made by the company when trying to convince the municipality that the organisation benefits the city. By being publicly owned and therefore under no pressure, in clear contrast to private companies, to achieve excellent economic results or maximising profits, the organisation is able to take this kind of social responsibility and contribute to this form of social benefit, according to the interviewee.

Discussion

Labelling Company C as a successful integration workplace is another way of achieving legitimacy, which in turn could maximise the stability and the chances of the survival of the organisation (Meyer & Rowan, 1977).

The mechanism of selective coupling (Pache & Santos, 2013) is practically observed here as Company C is extremely proud of and keen on communicating that, for example, half of the

employees are some kind of integration workers and that the company has been officially certified as being an “integration workplace” by an employment administration. This is done both during the interviews and in formal PowerPoint presentations used when communicating with the owners. Analysing this further, this work is clearly aligned with the fundamental political goal of preventing long-term unemployment and integrating immigrants on the labour market. In practice, the work takes the form of having a significant amount of employees originating from a socially challenged group, such as the long-term unemployed, immigrants and others. Such political goals are fundamental for the state and municipality, which practically implies and means that Company C once again has identified the characteristics of the public institutional logic. In essence, mechanism of selective coupling can be observed in how the managers of Company C are emphasising its status integration workplace in line with the public institutional logic, which it is using as a tool in order to achieve legitimacy.

By showing that the company is contributing to the social welfare, in a way reminiscent of selective coupling (Pache & Santos, 2013) to the public institutional logic, the managers of Company C are able to convince and also steer the principals, in the form of the municipality, to the end of ensuring the continued existence of the company.

Company C – a sustainable and innovative company

One of the most significant features of Company C and its business in relation to the municipality is the recurring focus and proactive work regarding environmental issues and solutions. The work is extensive and includes for instance choosing the best and most environmentally friendly fuels and tires, as well as detergents for the company’s car wash.

Further, this environmentally friendly strive is not just in line with or fulfilling the environmental targets of the municipality. Rather, Company C actively works beyond these targets and exceeds them, trying to be a pioneer and a front-runner for this kind of work and social responsibility. A descriptive example concerns how the municipality set the target that there should be at least 100 electric cars in operation in 2015, a goal which was already achieved by the company in 2013.

This recurrent strive for being sustainable and a pioneer in regard to such topics have been one of the main objectives for the company as such. Moreover, this is also something that the company is really proud of and this innovation culture and sustainability focus are now also something that the company is trying to use as marketing and as a brand. Both the CEO of the company, as well as another employee, openly admit that there certainly is a positive marketing and legitimising dimension of working with environmental focus and targets towards different stakeholders and that this is a conscious strategy from the company.

An employee at the courier business:

That is also a good, you know, when it comes to selling our services it is very good marketing, this environmental thinking. You know, if there are others interested in the environment, and caring for it, then it is natural that they are choosing us. That is one of our strengths here, you know. And that have we been doing for many years.

The CEO of the company:

You know, the environment is of great importance to the citizens of the city. And that is a good marketing tool.

The courier business has also been certified as a good environmental choice by the “Swedish Society for Nature Conservation” and the label is used as a marketing tool since the company is really proud of it. This is done through making the certification symbol visible on all of the vehicles in operation:

We have received, here at the courier business, we are one of three, but the only one in [the city], who has the certification of being a proper environmental choice by the Swedish Society for Nature Conservation. And that is something to be proud of. We are also displaying that label on our vehicles.

Moreover, in addition to the abovementioned, the company is also involved in the innovative development of an induction charging system for the electric busses used in the municipality. Another example is the fact that it, completely on its own and as an idea from the people inside the organisation, has invented the idea of creating a “machine pool” for all of the machines and tools that are being used within the public sector in the city, such as chainsaws and other heavy tools. This pool is basically equivalent to an ordinary car pool, with machines rather than cars, and the idea emerged as the CEO of the company realised that it is neither efficient nor economically beneficial for all different municipal administrations and companies to have their own power tools and machines. Thus, this machine pool could be an efficient solution to that problem, which the municipality has agreed upon, while ensuring that the ownership of and control over the machines in question is in the hands of Company C.

The overall environmental work of the company is perceived by city politicians as “innovative” and, to some, one of the main reasons for allowing its continued existence.

Politically appointed board member, when asked about why he believes the company is working so actively with environmental matter:

Well, that is actually one hell of a good question, because I do not think that it has so much to do with political governance. There is a bunch of innovative

people who want very, very much. Who do not give up, and [the CEO] is very proud of the suggestion box that they have. You know, it almost sounds silly, but in the great scheme of things, that is what drives innovation. And it is very difficult to find a municipal company which is so full of commitment and motivation in such matters.

Discussion

As the findings suggest, both in the form of what actually has been said throughout the interviews, as well as what the owner directive contains, environmental sustainability is of great interest for the municipality. Concurrently, Company C has been extremely involved in such issues, for example through new, sustainable innovations, both for the entire city as well as for the company itself, constantly trying to be a frontrunner for the most environmentally friendly fuels and types of vehicles. Moreover, the company is, according to multiple interviewees, known within the city for its innovation culture and strive for sustainability solutions.

This, seemingly, is another example of how Company C has identified the objectives of the principal and what is appropriate within the public institutional logic and not. Having identified sustainability issues as being of great interest to the municipality, the company has involved itself heavily in such issues and is thereby trying to capitalise on the brand of a clearly sustainability driven company through what appears to be the mechanism of selective coupling, as described by Pache and Santos (2013). The story of how Company A (before it was merged and renamed to Company C) was assigned the goal of having 100 electric cars in operation by 2013 and accomplished this two years ahead of time could be seen as another example of selective coupling (Pache & Santos, 2013), since the target is not just achieved, but rather overwhelmingly exceeded, which generates legitimacy in the eyes of left-wing politicians adhering to the public logic outlined previously.

Additionally, the CEO openly admits that environmental friendliness is a good marketing tool in relation to and towards the municipality and the taxpayers in the city, which could be seen as further evidence of how Company C is using selective coupling in order to achieve legitimacy. This has progressed to the point where environmental friendliness has become a fundamental part of the company's identity and, through using this selective coupling and pinpointing this brand, the company has found another way of convincing the principals that the company is contributing to the public welfare and should be kept in the current form.

Company C – the efficient company

When asked about what the new company is providing and how it is contributing to the municipality, some different arguments, apart from those discussed above, were mentioned. One recurrent kind of theme was the fact that Company C, according to interviewees, is a

very efficient company providing all kinds of services and help in relation to vehicles for the customers from of the municipality. A worker within Company C describes the benefit with the company in relation to the municipality:

That is that we have just this complete solution with our fleet of vehicles. We are managing, you know the administrations and companies do not need to procure any cars themselves. If the city had not had us, then every administration and company would have had to do their own procurement of Toyota cars or whatever kind of vehicle it may be but instead everything is here with us. They do not need to own the cars or anything like that. Instead we are managing service and replacing vehicles at a central location in the city, you could also say.

Moreover, the efficiency of the company has been mentioned throughout the interviews and this is also done in the connection to stressing the economic benefits of keeping this kind of company within the public sector, rather than privatising it. Such examples concerns how the interviewees are speaking about economy of scales and saving taxpayers' money since they are able to offer low prices since Company C take care of so many vehicles, in contrast to letting the other public administrations and companies take care of such activities on their own. However, the interviewees also admit that the organisation, and historically Company A, has been far from profitable. In addition to charging its customers, namely city administrations, prices above those available on the private market, it has also been dependent on financial support from the city to survive. Overall, this casts the efficiency argument in a different light.

Discussion

While the aforementioned examples of arguments and selective coupling and decoupling are in line with the public logic and serve to legitimise the organisation as a public organisation, there is also a substantial amount of political pressure for rationalisations in the public sector to be dealt with. In this regard, the company is also trying to legitimise its operations towards right-wing politicians, which it does through selective coupling in the form of using rational economic arguments rather in line with the market logic as introduced by Friedland and Alford (1991). Examples of this are the arguments concerning the complete package of services provided through the operational leasing service; the claimed cost savings for the municipality and the efficiency of the company's operations.

Basically, while trying to achieve and maintain legitimacy in the eyes of especially left-wing politicians through using selective coupling to the public institutional logic, the company is flexible in its use of selective coupling and institutional logics, as the company also tries to legitimate itself towards right-wing politicians through portraying its operations and targets as aligned with the institutional market logic. By doing so, the managers (agent) could

influence the owners (principal) regarding which approach they should have to the company and its future.

Selective parlance – shifting between public and market language

The language used by the managers and employees within the organisation differs from time to time and depending on what kind of question is asked. Sometimes the words chosen and the kind of language spoken are characterised by a kind of market language and on the other hand, the people inside the company sometimes instead use a language strongly reminiscent of public welfare and being a public authority.

For example, even if the only users of the services and products that Company C is providing are other public authorities and publicly owned companies, the members of the organisation refers to those as the “customers”, while the service desk at the entrance to the building is called the “customer reception”. Moreover, the interviewed employees are convinced that the “service” the company is providing is crucial and contributing to the success of the firm. Other examples within this theme and the usage of “market language” is for example how some employees within the organisation label their job title as “sellers” and another example concerns how they are discussing the importance of “market shares” on the “market” and so on. Further strengthening this impression, several interviewees have outright affirmed that they consider themselves, as well as others in the organisation, to be trained and working as salesmen.

On the other hand, when asked about the reasons for the municipality for keeping the organisation in this current form and how it is contributing to the welfare of the city, the use of language shifts rapidly, with those earlier referred to as “customers” instead being called “our municipality colleagues”. Similarly, the usefulness of the organisation is expressed in political terms, such as the provision of jobs for the long-term unemployed and environmentally friendly services.

Discussion

A very telling manifestation of how selective coupling is used is found in the language used during the interviews, where the company is actually using both kinds of institutional logics. When one set of arguments, such as those concerning the company’s market-like competitiveness, is questioned from a different logic-related standpoint, such as that of the institutional public logic, the interviewees swiftly switch from one vernacular to another. This makes it very clear that the interviewees are accustomed to actively using the different kinds of language associated with the two different logics, as well as actively shifting between them in order to be seen as legitimate in a specific context.

Discussion: the findings in the light of agency theory

Overall, it is clear that the merger, while fully accomplished and highly relevant in official documentation, has not had much of an effect in practice. While this is a clear example of decoupling (Meyer & Rowan, 1977), it is also interesting to note how this kind of behaviour extends beyond the predictions of agency theory. Although it may be seen as the kind of empire building predicted by Jensen and Meckling, 1976), and thereby within the predictions of agency theory, the actual methods by which it is performed are not captured by agency theory. In a private setting, suchlike empire building would take the form of acquisitions and related business ventures (Jensen, 1986). However, in a public sector organisation, suchlike decisions have to be made on a political level, which forces the agent to gain the permission of the principal to perform them. To this end, it is necessary for the agent to portray the action in question, in this case the merger, as legitimate from the principal's perspective, which is why institutional theory facilitates a deeper understanding. Furthermore, the excerpts consequently illustrate how the managers, as agents, through acts of selective coupling (Pache & Santos, 2013) manage to gain legitimacy towards the politicians, its principals, by making an appearance of acting in line with the public logic. In doing so, the politicians become less critical of the organisation's continued existence and the self-serving objective of keeping the organisation alive (Chung & Luo, 2008; Jensen, 1986) is attained.

In sum, these findings illustrate how the agents, namely the managers of Company C, act in an egocentric way, rather than in the interest of the principals, namely the taxpayers and their political representatives. While it is clear that the findings illustrate behaviours identifiable through agency theory (e.g. Jensen & Meckling, 1976) as self-serving, as they serve to further the interests of the employees and their continued employment, they are justified as being aligned with the interests of the principal. For example, as the CEO justifies all the environmental work and innovations by stating that the environment is very important to the citizens of the city. This is a clear example of post hoc rationalisation in cognitive theory, as discussed by Atkinson and Fulton (2013). Furthermore, as exemplified by the machine pool and the inductive charging, this post-hoc rationalisation is so effective that Company C, as an agent, manages to convince the municipal politicians, serving as representatives for the principals, that the environment is indeed very important and that the activities in question, consequently, are so as well. Connecting this to institutional logics and Pache and Santos' (2013) concept of selective coupling, it can be argued that the post-hoc rationalisation process directly relates to the institutional logics providing the agent with legitimacy towards the principal, and that the active role of the agent serves to influence the logics in question to such an extent that the agent controls the governance enacted by the principal.

Conclusions, limitations and implications

The purpose of this study was to investigate how the managers of a public sector company, as agents, can influence the politicians', as principals, governance. In order to address this purpose, a case study of a public sector company in one of Sweden's largest cities was conducted. While traditional agency theory suggests that agents are inclined to act in their own interest (e.g. Jensen & Meckling, 1976), and the addition of cognitive theory argues that this self-interest in the public sector also can be directed towards groups of people that the agent feels loyalty to (Atkinson & Fulton, 2013), this case study of a public sector company has shown an example of how this could unfold in practice on a micro level. Drawing on a theoretical framework combining agency theory and institutional theory, it was found that legitimacy plays a significant role in this process. Legitimacy in the eyes of the principals is in this case achieved by the agent through actions identifiable as aligned with the theoretical concepts of selective coupling and decoupling, specifically in relation to sets of beliefs and prescriptions identifiable as institutional logics. These observations of decoupling and selective coupling are found in the application of formal structures and stressing of actions aligned with different institutional logics. By doing so, the managers, in the role of agents, are able to convince the politicians, in the role of principals, of the company's contributions to the public welfare of the municipality, which in turn shows that the managers have influenced the politicians, while also illustrating how self-serving behaviour can take form in practice on a micro-level in a public sector organisation.

The contributions of this study are threefold. First and foremost, the study contributes to the traditional scholar of agency theory. While classical agency theory suggests that there may be an information asymmetry between the agent and the principal and that it could lead to the agent acting in its own interest (e.g. Jensen & Meckling; 1976, Miller, 2005), agency theory lacks the ability to explain how such behaviour actually plays out in practice and at a micro-level. Thus, this case study could hopefully provide a solution to such a gap. Secondly, this study also contributes to studies about the public sector and how public sector governance is managed in an environment characterised by vague and complex directives, as well as constantly ongoing change. Lastly, this paper also extends research on institutional theory and more especially how the concepts of decoupling, selective coupling and institutional logics could be applied in a new and different context.

One limitation of the study concerns the fact that this study has just investigated one specific public sector company in one city and one country. Thus, the findings and implications of this study may not necessarily be applicable for all kinds of public sector corporate governance. Moreover, the case and context of this case are rather complex in terms of the history of the company involving for example lack of directions from the owners and lax governance from the board. The findings and implications of this study are therefore not per definition applicable to all public sector companies and especially not when the directives from the principal are of different kind than in this certain case.

Consequently, there is room for further research pertaining to how agents could influence the principals in public sector governance, particularly through the use of mechanisms such as decoupling, selective coupling and institutional logics. Specifically, this could relate to situations wherein the agents have been given more explicit directives and governance from the principals. Such research could thus examine the applicability of the findings of this study to a wider context. Similarly, future research could also examine whether similar observations can be made in private sector organisations.

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